



TelekomSlovenije

ANNUAL REPORT 2016

Telekom Slovenije Group
and Telekom Slovenije, d. d.

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WELL
ALL YEAR**



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ANNUAL REPORT 2016

Telekom Slovenije Group
and Telekom Slovenije, d. d.

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services.



1. THE TELEKOM SLOVENIJE GROUP IN 2016

1.1 ABOUT THE TELEKOM SLOVENIJE GROUP

1.1.1 The Telekom Slovenije Group is the leading operator in Slovenia and one of the most comprehensive communications service providers in the region.¹

Telekom Slovenije is the leading Slovenian telecommunications operator, and is recognised as the leader in the introduction and connection of the most advanced and comprehensive telecommunications services in the best (fixed and mobile) network in Slovenia. The Telekom Slovenije Group is one of the most comprehensive communication service providers in South-Eastern Europe, where it operates through its subsidiaries in Kosovo, Bosnia and Herzegovina, Macedonia, Croatia, Serbia and Montenegro.

We inspire our 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.

The activities of the Telekom Slovenije Group comprise:

- fixed and mobile communication services,
- digital and TV content and services,
- multimedia services and digital advertising,
- system integration and cloud computing services,
- the development and implementation of solutions for managing business content and relations, and tools for managing and monitoring operations,
- the construction and maintenance of telecommunication networks, and
- the preservation of natural and cultural heritage in the Sečovelje Salina Nature Park

The shares of Telekom Slovenije, d. d. are listed on the prime securities market of the Ljubljana Stock Exchange. See section 1.14 Share trading and ownership structure for more information.

Telekom Slovenije Group companies

See point 4.1 for more information

Contact for investors

Information is available to investors, shareholders and other interested parties at the following email addresses: ir@telekom.si, skupscina@telekom.si and dividenda@telekom.si.

Contact for information regarding the annual report and sustainable development report²

Telekom Slovenije, d. d., Cigaletova ulica 15, 1000 Ljubljana, Public Relations Department
pr@telekom.si

Company: Telekom Slovenije, d. d.

Registered office: Ljubljana

Address: Cigaletova 15, 1000 Ljubljana

Registration number: 5014018000

VAT ID number: SI98511734

Entry in the companies register:
1/24624/00, Ljubljana District Court

Number of shares: 6,535,478

Ticker symbol of no-par-value shares: TLSG

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Fax: + 386 1 231 47 36

Website: <http://www.telekom.si/en>

Email: info@telekom.si

Twitter: @TelekomSlo

Facebook:
<https://www.facebook.com/TelekomSlovenije/>

LinkedIn
<https://www.linkedin.com/company/telekom-slovenije>

1 GRI GS 102-1, GS 102-3

2 GRI GS 102-53

1.2 HIGHLIGHTS OF THE TELEKOM SLOVENIJE GROUP IN 2016³

The Telekom Slovenije Group achieved the following results in 2016:

- In 2016 Telekom Slovenije achieved the objectives set out in its strategy aimed at the Company's leap forward to 2020. Telekom Slovenije maintained its leading market shares in all segments in 2016, and halted the decline in the number of fixed broadband connections. It expanded its operations to new areas, such as ICT and electricity services, and continued to develop services in other areas and to implement activities aimed at establishing a lean and agile organisation.
- The Telekom Slovenije Group generated EBITDA of EUR 199.3 million, which is higher than planned.
- The Telekom Slovenije Group's net sales revenue was down 4% on 2015, to stand at EUR 701.7 million. It should be noted, however, that the Macedonian company One was included in consolidation in 2015 until 31 July. Excluding One, the net revenues generated during 2016 were EUR 5.7 million or 1% higher than those generated in 2015.
- The Telekom Slovenije Group generated a net profit of EUR 39.9 million in 2016, which is EUR 16% higher than planned, but is not comparable to the net profit achieved in the previous year due to the one-off effect of the exclusion of One in 2015.

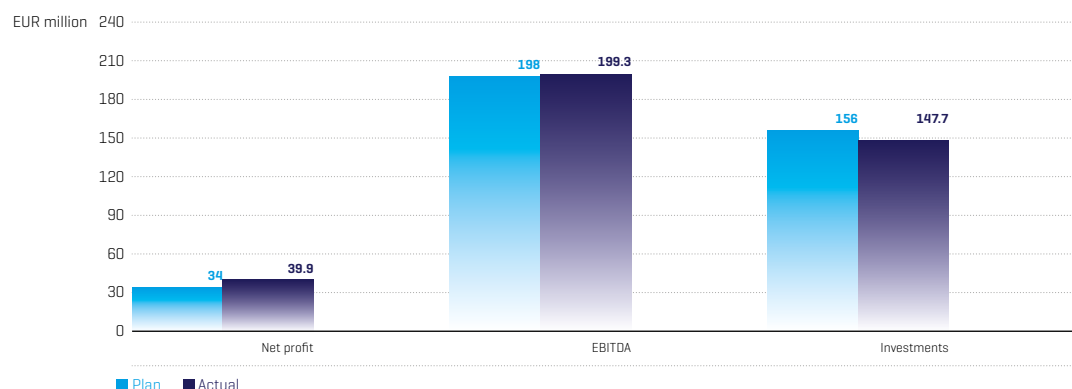
Plans for 2016 and the main conditions that affect the Group's operations are presented below in section 1.8 Development strategy and plans.

Financial indicators*

in EUR thousand and %	2016	2015 restated	2014	Index 16/15
Net sales revenue	701,748	728,279	756,454	96
Other operating revenues	9,433	17,663	8,442	53
Total operating revenues	711,181	745,942	764,896	95
EBITDA	199,264	206,380	170,051	97
EBITDA margin = EBITDA / net sales revenue	28.4%	28.3%	22.5%	100
EBIT	36,122	50,825	11,418	71
Return on sales = EBIT / net sales revenue	5.1%	7.0%	1.5%	74
Net profit	39,940	68,559	1,506	58
Assets	1,367,419	1,321,567	1,346,586	103
Capital	705,862	701,727	697,528	101
Return on assets (ROA)	3.0%	5.1%	0.1%	58
Return on equity (ROE)	5.7%	9.8%	0.2%	58
Equity ratio	51.6%	53.1%	51.8%	97
Net financial debt	244,501	277,008	344,221	89
NFD/EBITDA	1.2	1.3	2.0	92

* Pursuant to the requirements of IAS 1 and IAS 8, the financial statements for the comparative period presented in all tables and graphs below have been restated for a change to an accounting policy. More information can be found in the Financial Report beginning on page 154.

Fulfilment of business expectations in 2016



Other economic performance indicators

in EUR thousand	2016	2015 restated	2014	Index 16/15
Distributed economic value	550,516	608,203	665,084	91
Value added	181,461	221,165	162,014	82
Value added per employee (in EUR)	48,597	53,720	35,935	90
Gross value added per employee (in EUR)	86,035	88,508	69,722	97
Investment in property, plant and equipment (CAPEX)	147,737	119,896	111,941	123
EBITDA – CAPEX	51,527	86,485	58,110	60
Ratio of (EBITDA – CAPEX) to EBITDA (cash margin)	25.9%	41.9%	34.2%	62
Labour costs	116,053	130,215	138,887	89
Corporate income tax and deferred taxes	6,072	3,586	1,126	169
Payments to owners – dividends	32,527	65,055	65,055	50

Social indicators – employees

in EUR thousand	2016	2015 restated	2014	Index 16/15
Number of employees*	3,665	3,803	4,431	96
Employee turnover	7.3%	7.6%	6.5%	96
Number of training hours per employee	26.1	23.7	23.0	110
Direct training costs in EUR thousand	1,611	1,426	1,386	113

*Includes employees in Macedonia in 2014

Social indicators – community

Connections*	2016	2015	2014	Index 16/15
Mobile telephony	1,769,385	1,802,126	1,753,935	98
Fixed voice telephony	558,233	572,920	582,019	97
Retail broadband	346,238	327,498	314,466	106
Funds earmarked for sponsorships and donations as a proportion of operating revenues	0.3%	0.4%	0.4%	75

* Excluding companies in Macedonia in 2014.

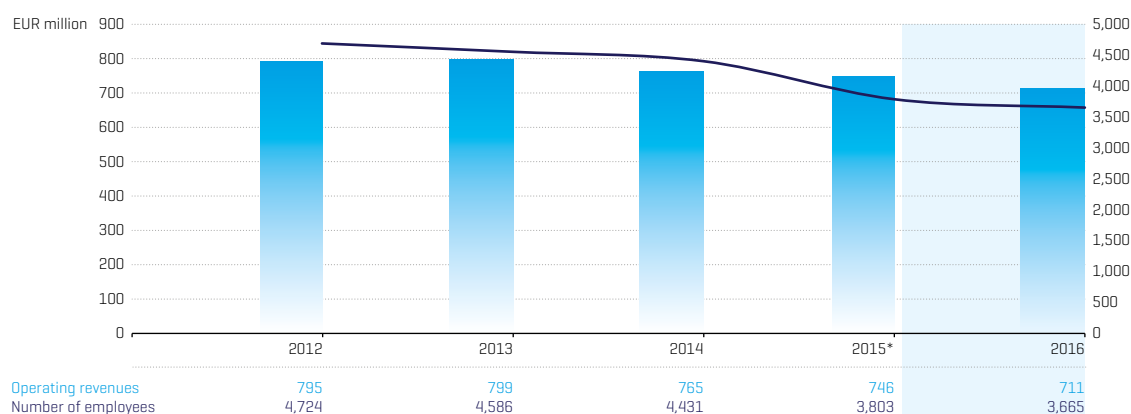
Energy and environmental indicators [Telekom Slovenije]

	2016	2015	2014	Index 16/15
Electricity consumption [in million kWh]*	77.3	77.9	78.3	99
Direct environmental costs** [in million EUR]	9.95	10.4	10.3	96

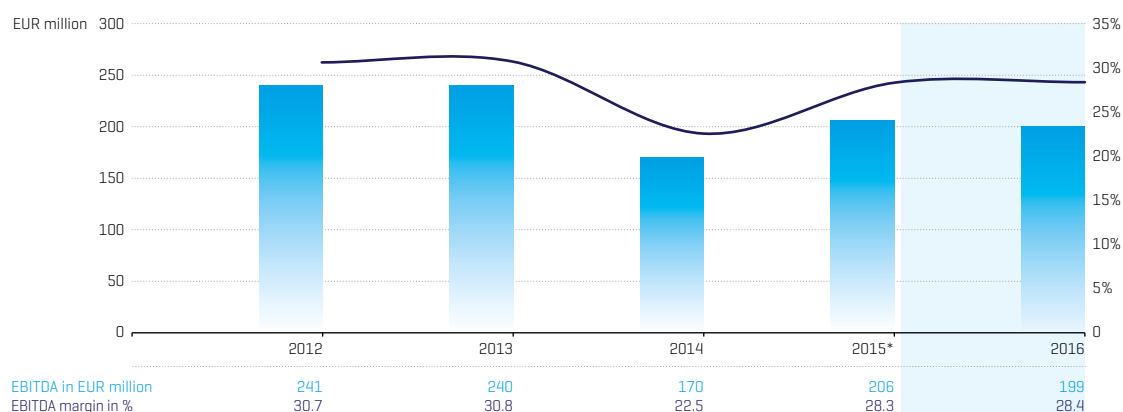
* Includes the consumption of electricity by Telekom Slovenije, TSmedia, Avtenta and RTV locations.

** Telekom Slovenije's direct environmental costs include the costs of electricity and fuel for the car fleet and heating, and the costs of remediation and municipal services.

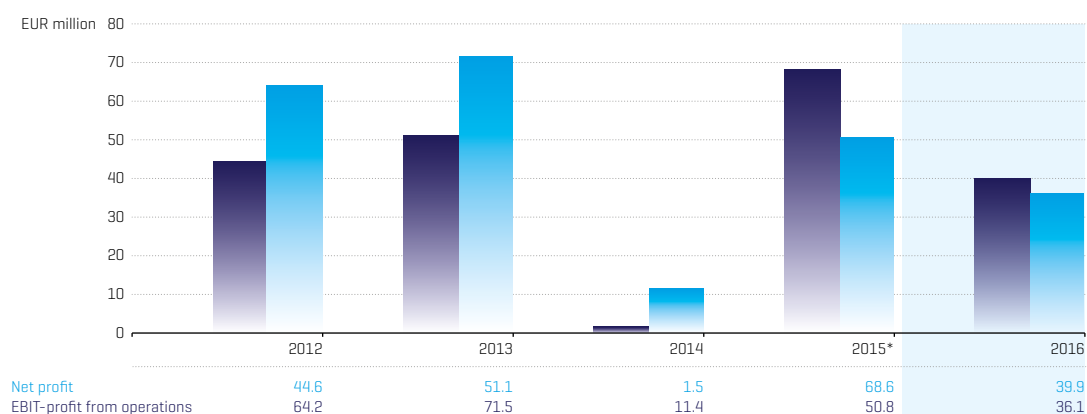
Operating revenues [in EUR million] and number of employees in the Telekom Slovenije Group



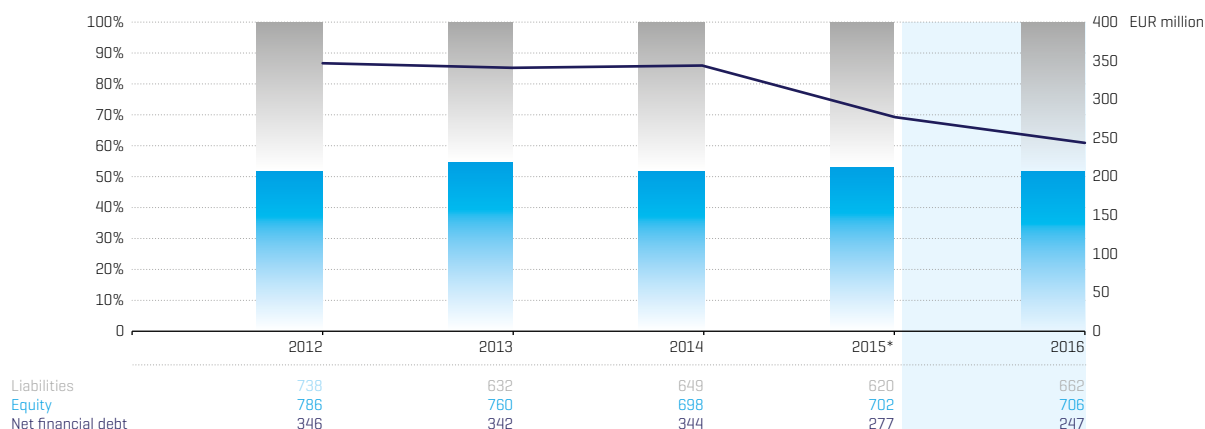
EBITDA [in EUR million] and EBITDA margin [as a percentage of net sales revenue] of the Telekom Slovenije Group



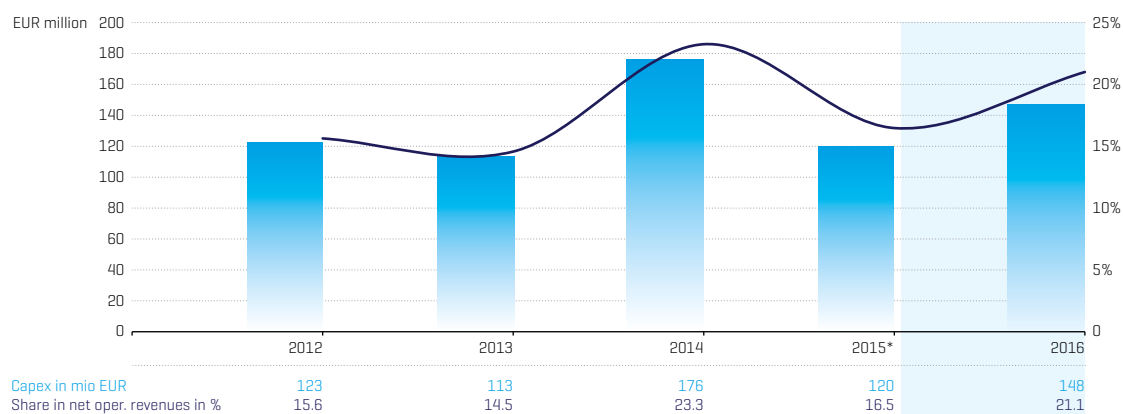
EBIT and net profit of the Telekom Slovenije Group [in EUR million]



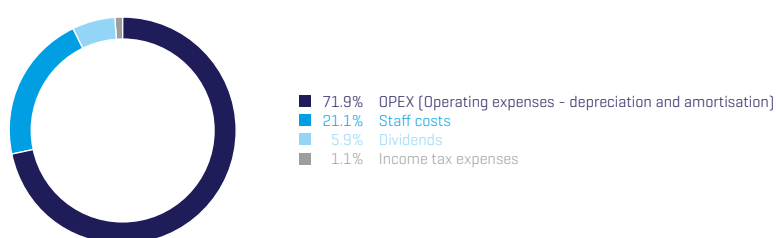
Structure of the Telekom Slovenije Group's equity and liabilities and net debt (in EUR million)



Investments in property, plant and equipment (CAPEX, in EUR million), and as a proportion of net sales revenue



Composition of distributed economic value⁴



4 GRI GS 201-1

1.3 LETTER FROM THE PRESIDENT OF THE MANAGEMENT BOARD⁵

Dear shareholders, investors, business partners and co-workers,

We at Telekom Slovenije believe that just as we view the world, we can also change it. We therefore began to implement our new five-year strategy in 2016. That strategy is based on transformation, at the core of which are digitalisation, the simplification of our operations, transformation into a lean and agile operator, the development of new services and solutions, the strengthening of our core activity and of course the generation of value for owners.

During the first year of that strategy, we focused on activities to maintain market shares from our core activity, on increasing added value for our users, on the implementation of strategic projects, and on the expansion and upgrading of the network. As we forecast, we entered into a new investment cycle in 2016, in which the Telekom Slovenije Group earmarked EUR 147.7 million for investments, an increase of 23% relative to 2015. A total of EUR 130.8 million of the aforementioned amount was earmarked for investments by Telekom Slovenije. The majority of investments were made in the modernisation and development of broadband fibre optic networks and fourth-generation mobile networks, while activities will continue in 2017. In this way, we are creating a platform for the development and launch of new services, as 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.

During the first year of the implementation of the Group's strategy, investments in the expansion and upgrading of the network resulted in an increase in the number of broadband and IPTV connections, which is one of our key strategic policies. The number of broadband connections was up by 2%, while the number of IPTV connections was up by 5%. The number of broadband connections was also up on the markets of South-Eastern Europe by 12%. The LTE/4G mobile network in Slovenia thus covers 97% of the population, while the network in Kosovo covers nearly 85% of the population.

We achieved or exceeded our core financial objectives for 2016 through the successful implementation of the activities set out in the Group's strategy, the careful monitoring of operations and a rapid response to changes. The Telekom Slovenije Group generated EBITDA of EUR 199.3 million, which is higher than planned, and a net profit of EUR 39.9 million, which is 16% higher than planned. The Telekom Slovenije Group generated net sales revenue of EUR 701.7 million, which is 1% or EUR 8.3 million above the planned value. The Macedonian company One was included in the consolidation of the Telekom Slovenije Group until July 2015, meaning the results achieved in 2016 are not directly comparable due to the exclusion of the aforementioned company. A comparison of revenues generated in 2015 excluding One indicates that the net revenues generated by the Telekom Slovenije Group in 2016 were EUR 5.7 million higher than those generated in 2015. The net sales revenue generated by Telekom Slovenije was also up on 2015, by 1% or EUR 5.4 million, to stand at EUR 639.5 million. Telekom Slovenije generated EUR 28 million in revenues from ICT services in 2016, which was 6% higher than in 2015, when revenues in this area doubled relative to the preceding period.

Our core mission is to generate value for owners, and to ensure the long-term value of investments through successful operations. Dividends for 2015 were paid in 2016 in the amount of EUR 5.0 per share.

The Telekom Slovenije Group is planning to generate operating revenues of EUR 717.8 million, a net profit of EUR 41.3 million and EBITDA of EUR 206.8 million in 2017.



5 GRI GS 102-14, GRI GS 103-1, 103-2, 103-3

We are aware that motivated and satisfied employees are vital for the successful achievement of established objectives. We are therefore upgrading our management by objectives system, identifying and remunerating the most successful employees and implementing an extensive education and training programme. The implementation of strategic policies includes personnel restructuring activities, through which we will ensure the optimal number of employees, taking into account the needs of the work process at individual companies. The Telekom Slovenije Group reduced labour costs accordingly in 2016, by 11% relative to 2015. Telekom Slovenije also began preparations in 2016 for the new organisational structure and revised job classification system, both of which went into effect on 1 March 2017.

The Telekom Slovenije Group's understanding of sustainable operations is broad and reaches far beyond the management of our impacts on the environment. Despite that fact, Telekom Slovenije improved its results in the area of energy efficiency for the seventh year in a row. Telekom Slovenije recorded a 4% decrease in its direct energy and environmental costs, which include the costs of electricity and fuel for the car fleet and heating, and the costs of remediation and municipal services. We are expanding the network taking into account our responsibility to local communities, and striving to ensure that even those in less populated regions have access to the most advanced communication services.

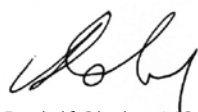
Ever increasing access to digital technologies and social networks brings the possibility of abuse and the spread of intolerance. We thus take special care in this area and work with non-profit organisations to promote the appropriate use of mobile devices and respectful forms of peer communication among the most vulnerable group of the population: children and adolescents.

We strive in all areas of our operations to ensure the quality that the users of our services expect. Important achievements in this area in 2016 include the ISO 22301 certificate that we received for our business continuity management system, making us the first in Slovenia to receive the aforementioned certificate. All existing quality management systems were also successfully recertified.

Our operations follow the highest standards of corporate governance, which apply to all Group companies. We strive for the systematic implementation of activities and the establishment of a system that ensures the compliance of our operations with the law, regulations and internal acts. To that end, we appointed a compliance and integrity officer in 2016, and defined additional measures in specific areas. The revised Code of Ethics of the Telekom Slovenije Group entered into force in February 2017 and sets out the guiding principles of our operations and the Telekom Slovenije Group's responsibilities in its mutual internal relationships, and in relationships with the users of our services, shareholders, the social and natural environment in which we operate and all other stakeholders who establish relationships of various forms with the Group.

We believe that sound and strong partnerships bring the best results. Together with our partners, we continuously develop new services and demonstrate that only the best succeed in the face of stiff market competition. We therefore continue to start off every year and every day well, of course in the best network in Slovenia.

On behalf of the Management Board of Telekom Slovenije, thank you for your cooperation and confidence.



Rudolf Skobe, MSc,
President of the Management Board

1.4 STATEMENT OF RESPONSIBILITY OF THE MANAGEMENT BOARD

The members of the Management Board of Telekom Slovenije, d. d., responsible for compiling the annual report of the Telekom Slovenije Group and Telekom Slovenije, d. d. for 2016, hereby declare that, to the best of our knowledge, the annual report and all its constituent parts, including the corporate governance statement, have been compiled and published in accordance with the International Financial Reporting Standards as adopted by the EU [Financial Report] and the Companies Act [Business Report].

The accounting report of the Telekom Slovenije Group and Telekom Slovenije, d. d., including the financial statements and notes, presents a true and fair picture of the assets and liabilities, financial position and operating results of Telekom Slovenije, d. d. and the Telekom Slovenije Group, and includes a fair view of information on major transactions with related parties in accordance with applicable regulations.

The Management Board also declares that the financial statements of the Group and the Company have been compiled on a going-concern basis, that the chosen accounting policies have been consistently applied and that any changes have been disclosed.

The Management Board is responsible for taking measures to prevent and detect fraud and irregularities, and for securing the value of the assets of Telekom Slovenije, d. d. and the Telekom Slovenije Group.

Management Board of Telekom Slovenije, d. d.

Aleš Aberšek,
Member of the
Management
Board

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

Rudolf Skobe, MSc,
President of the
Management Board

Vesna Lednik,
Member of the
Management Board
and Workers Director

Ranko Jelača,
Member of the
Management
Board



1.5 REPORT OF THE SUPERVISORY BOARD

Telekom Slovenije's Supervisory Board comprises nine members. The composition of the aforementioned body changed on 13 May 2016, when the General Meeting of Shareholders was briefed on the resignation of Matej Golob Matzele and elected Dimitrij Marjanović to a four-year term of office. I, Borut Jamnik, have served as President, and Adolf Zupan and Dean Žigon have served as my Vice-Presidents of the Supervisory Board since the latter's constitutive session.

The composition of the Supervisory Board is quite diverse in terms of education, work experience and personal traits, which facilitates the effective exchange of opinions at sessions. The work of the Supervisory Board and its committees was professional and focused on the effective performance of their function. The Supervisory Board held 20 sessions in 2016, 12 of which were ordinary sessions, while eight were correspondence sessions. Sessions were held at the Company's registered office, while the assessment of the Supervisory Board's effectiveness was performed outside the Company's business premises.

Most important topics of sessions of the Supervisory board in 2016

At its first session in 2016, the Supervisory Board adopted the Company's strategy for the period 2016 to 2020 and reorganised Telekom Slovenije's Management Board. The sitting President of the Management Board Rudolf Skobe was appointed to a new four-year term of office, effective 1 September 2016. Zoran Janko left his position on the Management Board following the expiration of his term of office. The Supervisory Board and Mateja Božič agreed on the latter's recall. The Supervisory Board therefore appointed two new members to the Management Board for a four-year term of office. Aleš Aberšek will be responsible for finance and economics, while Ranko Jelača will be responsible for the market. Both members' terms of office began on 15 March 2016.

The most important topics at sessions of the Supervisory Board for the remainder of 2016 were linked to the monitoring of the ordinary operations of the Company and Group, the supervision of the implementation of Telekom Slovenije's strategy, the management of business risks and the assessment of the Management Board's work.

The efficiency of the Supervisory Board was assessed in October 2016 based on the manual governing the assessment of the efficiency of work of supervisory boards. That assessment was carried out using a self-assessment matrix developed by the Slovenian Directors' Association for conditions in Slovenia. Following analysis and discussion, an action plan was then drawn up to further improve the Supervisory Board's work in the future.

Towards the end of 2016, the Supervisory Board discussed and approved the Company's revised strategy for the period 2017 to 2021, and approved an increase in the capital of TSmedia and the appointment of new management at Antenna TV SL.

The Supervisory Board continuously monitored the existence of potential conflicts of interest between its members. No such circumstances arose in 2016 with respect to Supervisory Board members.

Work of Supervisory Board committees

The Supervisory Board had five committees in 2016. Those committees discussed topics related to the Supervisory Board's work and advised the latter in important matters. This contributed significantly to improving the work and effectiveness of the Supervisory Board.

In addition to the Audit Committee, HR Committee, Technical Committee and Committee to Monitor Strategic Projects and the Drafting of the Strategic Plan, the Supervisory Board also appointed the Nomination Committee in 2016. The latter was appointed to assist in the drafting of proposed criteria and candidates for membership on the Supervisory Board.



The Supervisory Board continuously monitored the work of its committees and the implementation of their resolutions. As part of the assessment of its own effectiveness, the Supervisory Board gave its committees the highest possible assessment. The work of committees is described in detail in the section Corporate governance in the Business Report section of the annual report.

Assessment of the work of the Management Board and Supervisory Board

Members are fully liable for the performance of their supervisory function and make their decisions independently. Members prepare themselves adequately for topics discussed at individual sessions, and put forward constructive proposals and comments. Based on written and oral information received from the Management Board, they make decisions in accordance with their respective competences, the Company's acts and legal powers. The Supervisory Board and Management Board have built mutual trust through open dialogue and cooperation.

On the basis of the aforementioned continuous monitoring and supervision of the management of Telekom Slovenije and Group companies during the 2016 financial year and based on the consolidated annual report of the Telekom Slovenije Group for 2016, compiled and submitted by the Management Board, the Supervisory Board assesses that the annual report and disclosures contained therein reflect the actual situation and position of the Telekom Slovenije Group.

The Supervisory Board assesses that the Management Board of Telekom Slovenije successfully managed the Company's transactions during the 2016 financial year and achieved established objectives.

Approval of the annual report and the proposed use of the distributable profit for 2016

The Supervisory Board thoroughly reviewed the annual report of Telekom Slovenije, d. d. and the Telekom Slovenije Group for 2016 by the legally prescribed deadline. The Supervisory Board finds that the Telekom Slovenije Group operated in accordance with established objectives during the 2016 financial year.

The Supervisory Board was briefed on and discussed the audit report, in which the certified auditors of KPMG, d. o. o. find that the financial statements, which are an integral part of the annual report, present a true and fair picture of the financial position of the Company and the Group, their operating and financial results and changes in equity. The Supervisory Board had no comments or reservations regarding the audit report that would prevent the adoption of a decision to approve the annual report and consolidated annual report.

Pursuant to Article 282 of the Companies Act, the Supervisory Board hereby approves the annual report of Telekom Slovenije, d. d. and the consolidated annual report of the Telekom Slovenije Group, with the accompanying audit report for 2016.



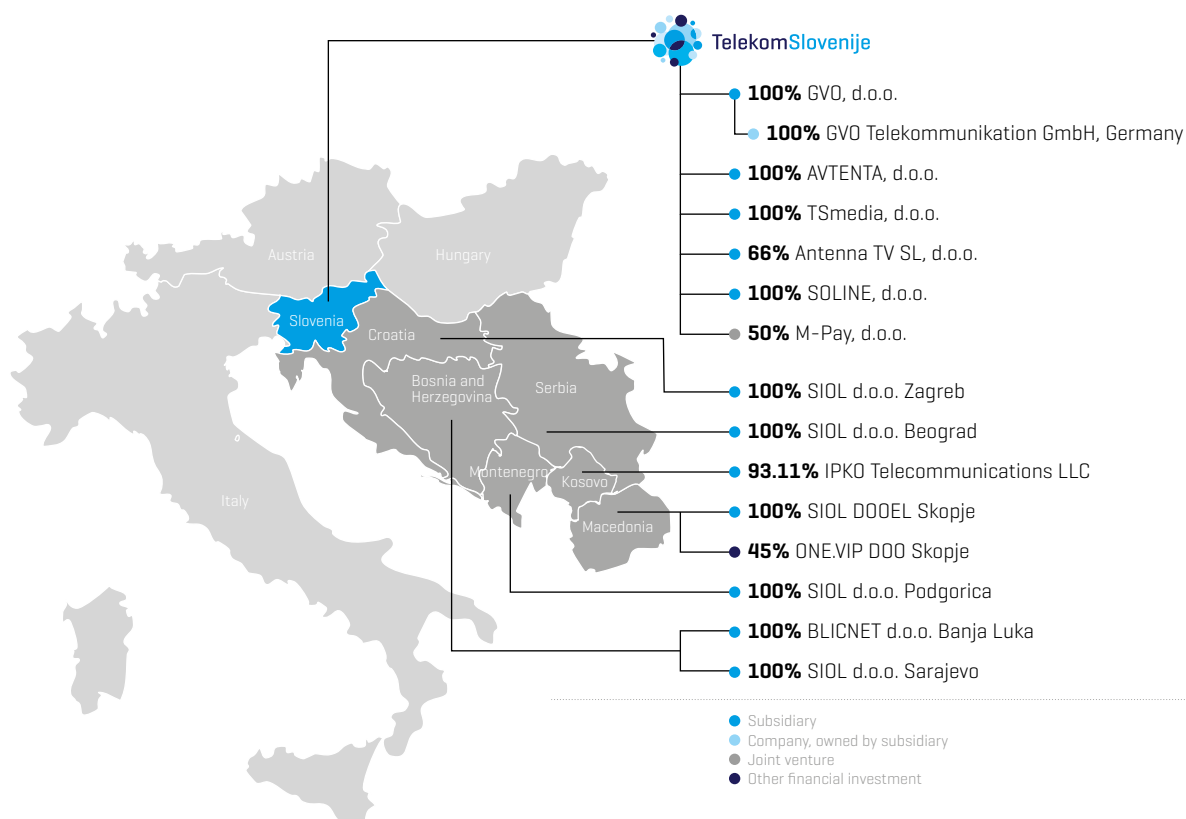
Borut Jamnik,
President of the Supervisory Board of Telekom Slovenije, d. d.

1.6 MARKETS AND COMPANIES⁶

The Telekom Slovenije Group comprises the parent company Telekom Slovenije, d. d. [hereinafter: Telekom Slovenije] and the subsidiaries and joint ventures shown in the figure below with corresponding participating interests.

Situation as at 31 December 2016

The detailed composition of the Telekom Slovenije Group is presented at <http://www.telekom.si/en/company/telekom-slovenije-group>.



Changes in the composition of the Group⁷

- On 22 January 2016 Telekom Slovenije and its subsidiary Debitel telekomunikacije, d. d. signed a merger agreement, based on which Debitel telekomunikacije, d. d. was merged with Telekom Slovenije on 1 June 2016. As universal legal successor, Telekom Slovenije entered into all legal relationships in which Debitel telekomunikacije, d. d. was the subject.
- On 16 December 2016 the subsidiary TSmedia, medijske vsebine in storitve, d. o. o. increased the capital of Antenna TV SL, televizijska dejavnost, d. o. o. with a new cash contribution, thereby increasing its participating interest to become the owner of a 50.1% stake in the aforementioned company. On 21 December 2016 TSmedia, d. o. o. transferred its stake to Telekom Slovenije. At the general meeting of Antenna TV SL, d. o. o., the company's partners adopted a decision to increase its capital, such that Telekom Slovenije became a partner with a 66% participating interest in Antenna TV SL, d. o. o.
- Based on an agreement concluded with DEPOS, družba za informacijske storitve in svetovanje, d. o. o. and following the fulfilment of a suspensive condition, Telekom Slovenije sold its 36% stake in SETCCE, družba za e-poslovanje, d. o. o. in December 2016.

6 GRIGS 102-4, 102-4, 102-6

7 GRIGS 102-10

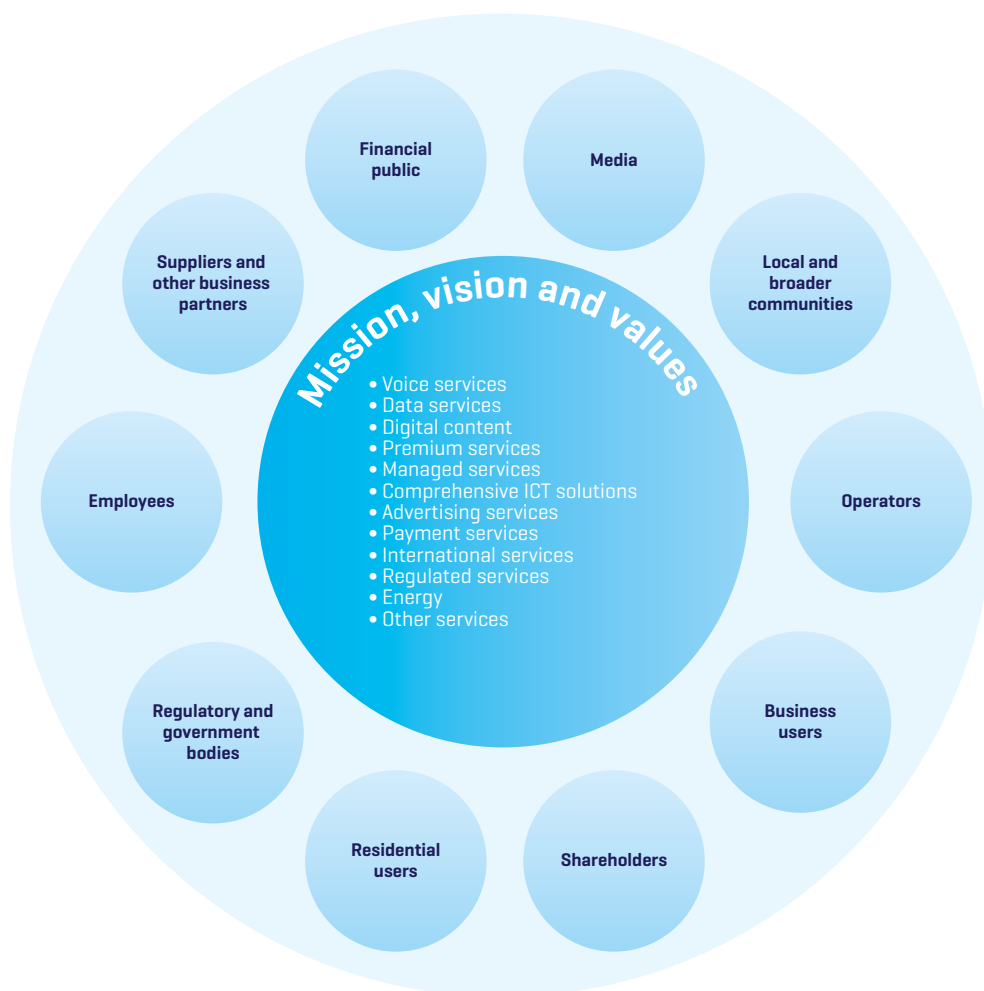
1.7 COMMITMENTS AND MEMBERSHIP IN ASSOCIATIONS⁸

The Telekom Slovenije Group and its employees are members of numerous professional organisations and associations, both as a corporation and as individuals. Through a proactive approach, we build successful business links, create development opportunities and ensure the flow of professional information. Our employees are active members of their respective management boards, expert and strategic councils, and other bodies as follows:

Slovenia (Telekom Slovenije)	Membership in international organisations
<ul style="list-style-type: none"> • Marketing Society of Slovenia: annual partners of the society (also TSmedia), • Electrotechnical Association of Slovenia, • Slovenian Chamber of Commerce and Industry: participant in the general meeting and member of the management board of the Information Technology and Telecommunications Association, • INIS – Institute for Non-Ionising Radiation: participant in the Forum EMS project, • Institute for Corporate Security Studies, • Institute for Labour Law at the Faculty of Law in Ljubljana, • Institute for Labour Relations and Social Security at the Faculty of Law in Maribor, • Commercial Law Institute, • Slovenian Chamber of Engineers (also GVO), • Chamber of Craft of Slovenia (also TSmedia), • Slovenian Advertising Chamber: membership on the management board, membership on the council of members, executive board and expert committee of the council of members of MOSS (measurement of visits to Slovenian websites) (also TSmedia), • Slovenian Institute for Standardisation: chair of the expert council and member of working groups, • Slovenian Advertising Association, which functions under the auspices of the Slovenian Advertising Chamber, • Slovenian Public Relations Association, • Slovenian Project Management Association, • Slovenian Association of Risk Management and Insurance Management: membership on the board of directors, • Interactive Advertising Bureau – IAB, • IPv6 Institute – go6, • Chamber for the Development of Slovenian Private Security, • Association of Employers of Slovenia, • Cable Operators Association of Slovenia, • Purchasing Association of Slovenia, • Slovenian Directors' Association, • Managers' Association of Slovenia, (also TSmedia and Avtenta) • Association of Slovenian Digital Television Operators: vice-chair, and • Slovenian Association of Works Councils. 	<ul style="list-style-type: none"> • American Chamber of Commerce, • Broadband Forum (also TSmedia and Avtenta), • European Telecommunications Network Operators' Association (ETNO): inclusion in numerous new working groups (RESI: Research and Innovation) and renewal of membership in existing groups, • European Telecommunications Standards Institute (ETSI), • GSM Association: membership in working groups, • UMTS Forum: chair of the management board, • Institute of Electrical and Electronics Engineers (IEEE, Slovenian Section): membership in working groups, and • Search and Information Industry Association (SIINDA) (TSmedia).
Bosnia and Herzegovina – Blicnet <ul style="list-style-type: none"> • AKOP BIH – cable operators association, • KTO – association of competing telecommunications operators, • FIC – Foreign Investors Council, • Chamber of Commerce of Republika Srpska, • Institute for standardisation: membership on the telecommunications committee, and • UUPRS – union of workers' associations of Republika Srpska. 	Kosovo – IPKO <ul style="list-style-type: none"> • Chamber of Commerce, • American Chamber of Commerce, and • European Investors Council.

Social, environmental and economic initiatives in which Telekom Slovenije and Group companies are included:

- the Family-Friendly Company certificate,
- signatories of the European Framework for Safer Mobile Use by Younger Teenagers and Children,
- United Nations Association of Slovenia for Sustainable Development,
- support of activities for safer internet use – SAFE.SI (Telekom Slovenije and TSmedia),
- a code for regulating hate speech on websites (Siol.net digital media),
- Sinergija – network of socio-commercial benefit, and
- signatories of the Slovenian corporate integrity guidelines.



1.8 DEVELOPMENT STRATEGY AND PLANS

We successfully implemented the previous strategy covering the period until 2020 and adopted the updated Strategic Business Plan of the Telekom Slovenije Group for the period 2017 to 2021. Implementation of that strategy continues in the scope of strategic projects

1.8.1 Vision, mission and values⁹

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.

The key strategic policies of the Telekom Slovenije Group for the period 2017 to 2021 are presented below in point 1.8.3.

.....
9 GRI GS 102-16

1.8.2 Achievement of planned objectives by the Telekom Slovenije Group in 2016

The Telekom Slovenije Group actively and successfully achieved the objectives for 2016 set out in the Strategic Business Plan for the period 2016 to 2020.

Strategic objectives from the strategic plan and their realisation in 2016

Strategic objective	Steps and achievements in 2016
Consolidation on individual markets <ul style="list-style-type: none"> Monitor activities on the domestic and foreign markets, and continue consolidation in the future, either through expansion or divestment on specific markets. 	<ul style="list-style-type: none"> In Slovenia, Debitel was merged with the parent company, and the latter's 36% stake in SETCCE sold. The capital of Antenna TV SL was increased, with the parent company becoming the aforementioned company's majority owner.
Expansion of the fibre optic access network <ul style="list-style-type: none"> Facilitate high-speed internet access and access to broadband content through the expansion of the network. Modernise the fibre optic access network where the highest penetration rate is expected. 	<ul style="list-style-type: none"> We made intensive efforts to upgrade and develop the fibre optic access network with GPON technology in Slovenia in 2016. We facilitated connections to the GPON network for 33,268 households at the end of the year, and connected 9,875 users to that network. We thus significantly exceeded our plan to connect 6,000 users in 2016.
Growth in the number of broadband in IPTV connections <ul style="list-style-type: none"> Increase the number of users and share of the broadband and IPTV connection market through the accelerated construction of fibre optic access networks. 	<ul style="list-style-type: none"> We maintained the highest market share in all segments in Slovenia. We increased our share of the fibre optic broadband internet access market by 0.8 percentage points (AKOS, Q3 2016). We increased the number of fixed broadband connections by 2% in Slovenia in 2016 and by 12% on the markets of South-Eastern Europe. We increased the number of IPTV connections in Slovenia by 5.0% and achieved a market share of 50.4% in the third quarter of 2016. At 49.2%, Ipko maintained its leading share of the fixed broadband connection market. Blicnet in Bosnia and Herzegovina holds a 4% share of the broadband access market.
New revenue sources <ul style="list-style-type: none"> Develop new services and expand Telekom Slovenije's offer to new areas that will provide new revenue sources. Provide the most advanced ICT solutions and services. 	<ul style="list-style-type: none"> We offered users electricity services at the end of the year, making them the first in Slovenia with the option of ordering those services through their TV or set-top box. To complement Moneta, we began introducing additional financial services in the form of eHealth services. Together with our partners, we were selected as contractor on the project to deploy an electronic toll collection system for freight vehicles, and began implementing activities in 2016. We connected 283 new base stations as part of effort to upgrade the broadband mobile network with LTE/4G technology in Slovenia. There were a total of 1,003 of such base stations at the end of the year, meaning that we already cover more than 97% of the population with LTE/4G technology. Ipko in Kosovo increased its coverage of the population with 3G technology from 87% to 90%, and its coverage of the population with LTE/4G technology from 81.7% to 84.4%. The regional fibre optic network, which is fully owned by Telekom Slovenije, represents a key strategic advantage of the Telekom Slovenije Group and the main link between the parent company and its subsidiaries. The aforementioned network represents the greatest potential for growth in revenues from international wholesale services.
Optimisation of processes and the IT infrastructure <ul style="list-style-type: none"> Transform into a lean and agile company through the optimisation of business processes and the IT infrastructure. 	<ul style="list-style-type: none"> We carried out a strategic project to upgrade business support systems (BSS). We also simplified our offer of subscriber packages and services.
Restructuring of personnel <ul style="list-style-type: none"> Optimise the employee structure and labour costs. Develop employee competences. 	<ul style="list-style-type: none"> We developed and began implementing activities linked to the new organisational structure, and to an upgraded and flexible system of jobs. The new organisational structure and job systematisation took effect on 1 March 2017. We carried out interviews with employees and reassignments within the Company, and facilitated the termination of employment contracts for business reasons. The number of employees in Slovenia was reduced by 4.4%, and by 3.6% in the Group as a whole relative to 2015. The Group's labour costs were down by 11%. Some 14% of employees were recognised as key personnel with development potential. The number of training hours was up by 6%.
Quality and social responsibility <ul style="list-style-type: none"> Ensure the quality of services through development and a comprehensive portfolio of the most advanced services and solutions. Maintain and upgrade quality management systems. Follow sustainable development guidelines, and responsibly manage the economic, social and environmental impacts of our operations 	<ul style="list-style-type: none"> We successfully obtained the ISO 22301 certificate for our business continuity management system. The parent company and subsidiaries passed re-certification and regular audit of compliance with the requirements of SIST EN ISO/IEC standards, without incidents of non-compliance. With the ISO 50001 standard and through energy management, we achieve significant savings in terms of energy and the environment. We developed a methodology for assessing the carbon footprint of Telekom Slovenije. In cooperation with the Slovenian Friends of Youth Association, we carried out the Kar poveš, je zares (What You Say Is True) communication campaign aimed at raising awareness about the effects of offensive statements and posts on social networks on the lives of individuals. Funds originally intended for holiday greeting cards were donated to the Botrstvo v Sloveniji child sponsorship project. We earmarked EUR 2.4 million or 0.3% of the Telekom Slovenije Group's operating revenues for sponsorships and donations.

Fulfilment of the business expectations of the Telekom Slovenije Group for 2016

	Planned in 2016	Achieved in 2016
Capex	up to EUR 156 million	EUR 148.7 million
EBITDA	up to EUR 198 million	EUR 199.3 million
Net profit or loss	EUR 34 million	EUR 39.9 million

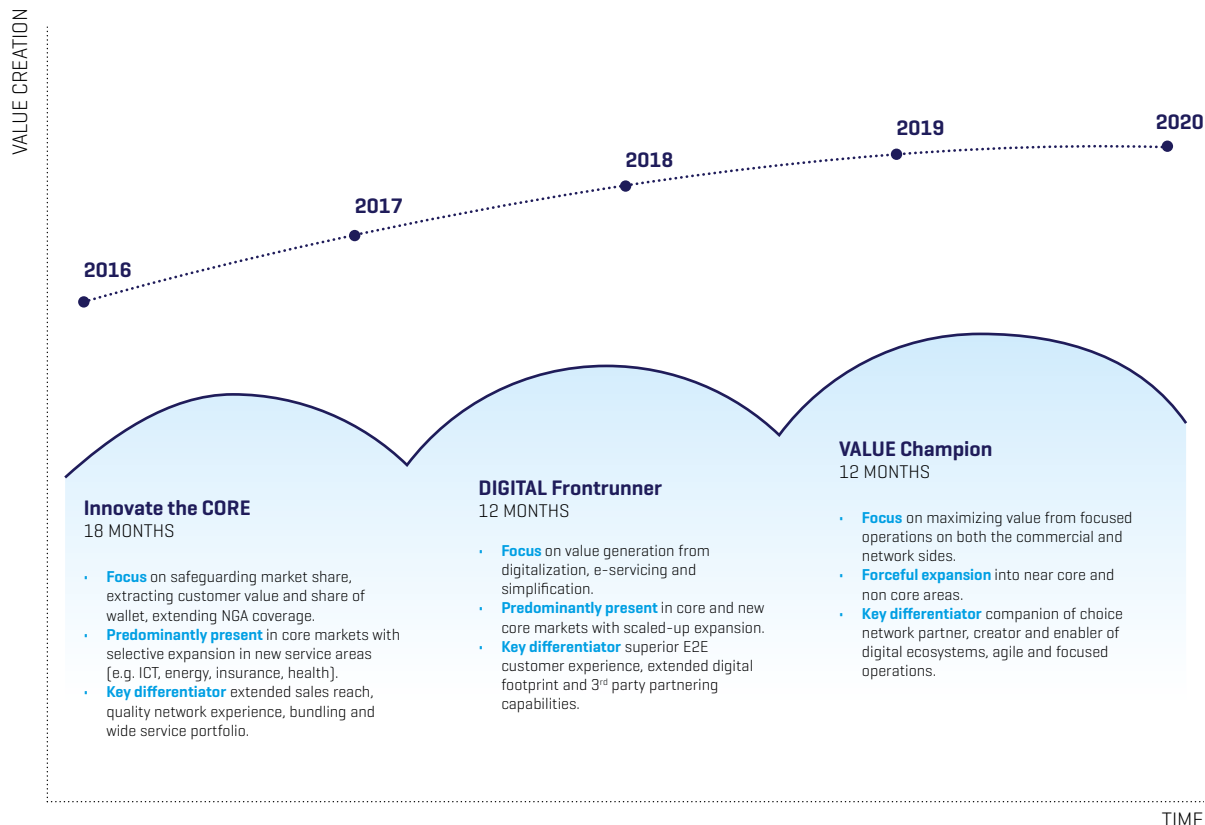
1.8.3 Strategic Business Plan of the Telekom Slovenije Group for the period 2017 to 2021

The Slovenian telecommunications market is comparable to the most developed markets of Western Europe, where analysts are predicting a decline in incumbent operators' revenues and market shares. The telecommunications markets of South-Eastern Europe on which TSG operates as an alternative operator are also reaching maturity, which is already being seen as a decline in revenues. The Telekom Slovenije Group will counter the aforementioned trends by focusing on its key strategic policies set out in the Strategic Business Plan for the period 2016 to 2020, which was updated in 2016 for the period 2017 to 2021. Telekom Slovenije will implement its strategy over a five-year period, which began in 2016, in three phases. Each phase represents a leap forward in our operations. During the first phase, we will focus on the re-innovation of Telekom Slovenije's core activity. The focus of the second phase will be on digitalisation, while the aim of the third phase is to generate value from the activities carried out in the first two phases.

We will thus transform into a lean and agile company through the implementation of that strategy. We will adapt dynamically to user requirements through solutions that are easy to understand and simple. We will offer users the most advanced services and solutions via effective processes and through open access to networks of the next generations of fixed and mobile services.

Telekom Slovenije's strategy aimed at leaping forward to 2020 is illustrated in the graph below.

Strategy aimed at leaping forward to 2020 and the path to achievement



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

Consolidation on individual markets

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

Expansion of the fibre optic access network

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

Growth in the number of broadband in IPTV connections

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

New revenue sources

With the expansion of its offer to new areas and services that are important to our users, including outside the core telecommunications activity, Telekom Slovenije will strengthen its core activity on the one hand, and increase its share of household and corporate budgets on the other. Telekom Slovenije will provide its users a wide selection of the most advanced services and solutions in one place, while 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, all in the context of an increase in revenues from ICT services.

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.

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.

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

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

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

1.8.4 Strategic projects

Implementation of Telekom Slovenije's strategy

The implementation of Telekom Slovenije's strategy is based on digital transformation, the expansion to new areas and transformation into a lean and agile operator. In this way, we will offer users higher-quality, more advanced and simpler services. Projects deemed part of the implementation of Telekom Slovenije's strategy include:

Creation of an "all-in-one-place" product portfolio

The aim of creating an all-in-one-place portfolio is to provide users the best possible user experience, while becoming the market leader in services for the home and business. In accordance with Telekom Slovenije's strategy, we expanded our portfolio of home services in November by adding **electricity services** to existing internet, TV and telephony services. In the area of **eHealth**, we successfully applied to a tender for smart specialisation/smart cities/ecosmart programme. Together with other partners, we will strive for the inclusion of developed telemedicine services among the rights of compulsory health insurance. In 2016 we began the gradual introduction of additional **financial services** that link the financial and telecommunications sectors through innovative approaches, and began to introduce the processing of **big data** in accordance with digital transformation activities. As part of the **single sales channel** initiative, we began developing a platform that will link various sales channels and provide users a comprehensive shopping experience. The aforementioned project is already bringing results, as we significantly increased the number of purchases via the telekom.si website through various sales promotions in the online store.

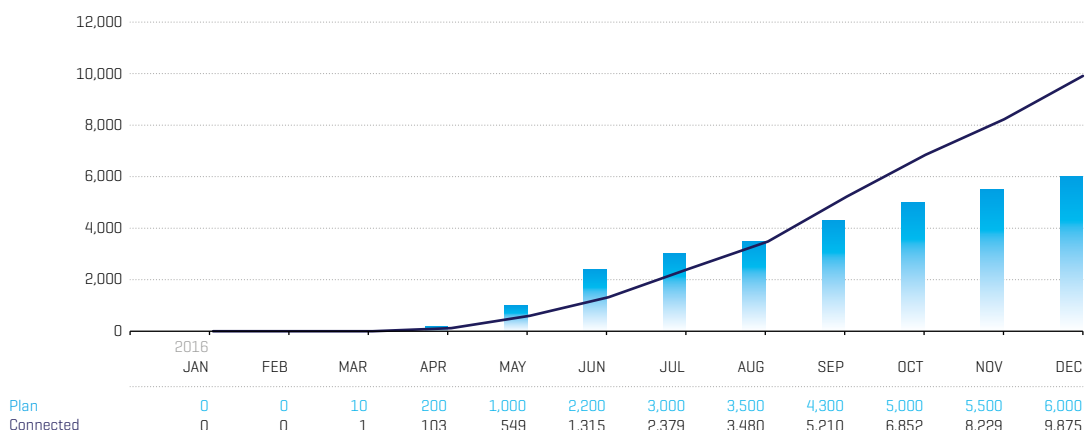
Excellence of the user experience

With regard to the excellence of the user experience, we identified all contact points where we encounter the users of our services. To that end, we are identifying best practices and transferring them to other areas of our operations, and thus addressing challenges in this area as they arise. For that purpose, we also developed the Telekom Slovenije Sales Academy, where employees receive additional training and education. We will continue with the aforementioned academy in 2017.

Smart infrastructure¹⁰

Telekom Slovenije is working intensively to upgrade and expand the GPON. A gigabit passive optical network [GPON] allows several users (i.e. in a multi-family dwelling or apartment block) to share a single fibre, from active devices to optical splitters. By building such a network, we are laying the infrastructure foundations for the future of the telecommunications activity. We facilitated connections to the fibre optic access infrastructure for 33,268 households at the end of the year, and actually connected 9,875 users to that infrastructure.

Number of subscriber connections to the fibre optic network



10 GRI GS 103-1, 103-2, 103-3

B2B ICT – development of business solutions

Telekom Slovenije's objective is to become the leading provider of comprehensive ICT solutions for the most demanding business users. In 2016 we defined the composition of the product portfolio, which includes six categories [illustrated in the picture below]. We also defined the target portfolio until 2020 for each of those categories.

1	2	3	4	5	6
Voice and data	Business networks	Security	Infrastructure	Data centre	Applications
Managed telephony and broadband connections	Managed WAN network	Data security	Managed mobility	Colocation	Application management
				IaaS	
			Managed office and IT equipment	PaaS	Application development
Managed telephony systems	Managed LAN network	Information security	Merchandise sales	SaaS	
				DCaaS	

Human resource management

Telekom Slovenije is building an **organisational culture** that is based on a focus on the user, the development of services and business excellence. We will implement measures and activities aimed at creating a pervasive, dynamic, innovation-oriented, open and cooperative culture that will allow us to remain a step ahead of the competition in the future.

Radical simplification

Our aim is to simplify work in all areas of our operations. We consolidated the portfolio of packages and services in 2016, and will continue those activities in 2017 and 2018. In this way, we will offer our subscribers the most state-of-the-art portfolio. We have also laid out the mechanisms for simplifying processes.

Upgrading of BSS

Business support systems (BSS) play a central role in the IT architectures of telecommunication operators. The comprehensive upgrading of Telekom Slovenije's BSS thus continued in 2016. The programme to upgrade BSS includes the consolidation of fixed and mobile service billing, customer relation management (CRM) systems, order management systems (OMS), team resource management (TRM) and the consolidation of product management.

e-toll collection

Telekom Slovenije and its partners were selected in 2016 to implement a project for the deployment and operation of the multi-lane free-flow electronic fee collection system on motorways and dual carriageways. We began activities for the successful implementation of the aforementioned project following the signing of the relevant agreement with the Motorway Company of the Republic of Slovenia (DARS).

Evolution of mobile data services (EMDS)

The aim of the EMDS project is to establish a long-term business model for the marketing of the LTE/4G mobile data network and thus ensure that Telekom Slovenije's mobile network is highly competitive. We continued with the expansion of the LTE/4G network, which we will also develop and upgrade in the future with the aim of successfully meeting user requirements on the market.

Increased productivity of Telekom Slovenije

The aim of the project is to achieve procedural and organisational improvements aimed at increasing the productivity of Telekom Slovenije. We have already implemented measures to optimise processes at the Company. In this way, Telekom Slovenije will also transform itself into a lean and agile company that will adapt more quickly and effectively to the requirements of users and changes on the market.

1.9 INCLUSION AND PARTICIPATION OF STAKEHOLDERS¹¹

Stakeholder groups and the strategy for communication with those groups are defined in Telekom Slovenije's Corporate Governance Policy. Stakeholders are included in the Group's activities, and we work with them in various ways. Based on direct and indirect mutual relations (research, data analyses, statistics, etc.), we identify mutual impacts and interests that we take into account in the compilation of the annual report.

The interests of users are measured using migration analyses for the fixed and mobile segments, mystery shopping research, surveys of user satisfaction, statistics regarding website views, etc. With regard to shareholders, we took into account questions posed at the General Meeting of Shareholders and those sent to the contact address (ir@telekom.si), as well as statistics regarding views of web pages for investors at www.telekom.si. The interests of the media are discerned from half-yearly and yearly media analyses, and from daily contact with journalists who posed 350 questions in 2016. The interests of analysts and the financial public are also discerned from media analysis, and from questions submitted to ir@telekom.si and at meetings with investors. The interests of regulatory bodies and government authorities are monitored on the basis of contacts with Slovenski državni holding (SDH), the Agency for Communication Networks and Services of the Republic of Slovenia (AKOS), etc. Permanent dialogue has been established with employees, whose satisfaction is measured through research on the organisational climate and satisfaction, the conducting of annual appraisal interviews, etc. Employees represent a very important stakeholder group. Their interests were therefore monitored in 2016 via questions and initiatives from employee representatives on the Works Council.

The interests of the local and wider community are monitored through donor and sponsor partnerships and other socially responsible projects. We identify content that is important for users based on messages they send to info@telekom.si, via calls to the Help Desk and through direct communication with users on social networks. The general public and journalists also turn to us with requests for information of a public nature via email to ijz@telekom.si. We identify the interests of suppliers in purchasing processes. We also sent 44 suppliers of all sizes (small, medium and large) a questionnaire in 2016, to which we received 18 responses



11 GRI GS 102-40, 102-42, 102-43, 102-44

Stakeholders	What is most important to them?	How are they included?
Shareholders	<ul style="list-style-type: none"> • Relevant, current and timely information regarding operations and TLSG shares. • Operations that facilitate the payment of dividends. • Effective corporate governance. 	<p>Regular, proactive and comprehensive communication with existing and potential shareholders:</p> <ul style="list-style-type: none"> • Investor relations section of the Company's website; • publications for shareholders; • broadcasting of the General Meeting of Shareholders over the internet; • participation in investment conferences at home and abroad; • participation at meetings organised by the Group and other institutions; • regular publication of information in the Ljubljana Stock Exchange's SEDnet system; and • publication of quarterly electronic online TLSG newsletter.
Users	<ul style="list-style-type: none"> • High-quality networks and services that meet their needs and expectations. • The best quality-to-price ratio for services. • The most state-of-the-art and innovative services. • Reliable, stable and far-reaching networks. • Simple and prompt communication with the Group. • The prompt clearance of faults. 	<p>Communication with users regarding new services and technologies:</p> <ul style="list-style-type: none"> • personal contact with professional employees; • web services for users; • advertising of Telekom Slovenije's portfolio in broad reaching media; • regular communication regarding the portfolio of products and services with the help of the Public Relations Department, and communication via other channels (invoices, direct mailing, catalogues, meetings, promotions at events, special events, etc.); • communication via social networks; and • the possibility of selecting a return call option to avoid extended waits for responses to calls to the contact centre.
Employees	<ul style="list-style-type: none"> • Career development opportunities. • Acquisition of additional knowledge. • Professional and effective management. • Information regarding the Company's operations and strategic plans. 	<p>Creating a culture of mutual trust, respect, continuous learning, and efficient and responsible work:</p> <ul style="list-style-type: none"> • briefing of employees on business events at Telekom Slovenije and within the Group via established channels (the TIP and Oglasi se intranet portals, bulletin boards, email, the system of meetings, etc.); • the promotion of innovation via the internal Brihta project; • cooperation with the Works Council and trade unions; and • activities relating to employee health as part of the Modro jabolko [Wise Apple] portal; and • measurement of the organisational climate and annual appraisal-development interviews.
Suppliers and other business partners	<ul style="list-style-type: none"> • Compliance with business agreements. • Consistent settlement of agreed liabilities. • Long-term cooperation. • Clear supplier selection criteria. 	<ul style="list-style-type: none"> • Compliance with the Code of Ethics and Rules on the Procurement of Goods at Telekom Slovenije, and other internal acts. • Regular settlement of liabilities by contractually defined deadlines. • Establishment of long-term relationships and strategic partnerships with suppliers.
Regulatory and government bodies	<ul style="list-style-type: none"> • Compliance with regulations and decisions of the regulatory body. • Provision of high-quality access to telecommunication services. 	<ul style="list-style-type: none"> • Expert responses to decisions of regulatory bodies. Participation in the drafting of legislation, with expert comments.
Analysts and other financial publics	<ul style="list-style-type: none"> • Continuous and comprehensive information regarding current and planned operations. 	<ul style="list-style-type: none"> • Presentations and meetings attended by the President or member of the Management Board responsible for finance (e.g. investor conferences). • Publication of the quarterly electronic online TLSG newsletter. • Live broadcast of the General Meeting of Shareholders. • Regular publication of information in the Ljubljana Stock Exchange's SEDnet system; and
Local and wider community	<ul style="list-style-type: none"> • Sponsorship and donation activities in the areas of sport, culture, science and humanitarian causes. • Access to fixed and mobile services. • Limitation of environmental impacts. • Responsible expansion of the infrastructure (fixed and mobile network). 	<ul style="list-style-type: none"> • Selection of projects with an emphasis on social responsibility and the monitoring of associated effects. • Assessment of environmental impacts as an integral aspect of all development activities. • Support for sporting, cultural, education and humanitarian organisations and projects. We supported the Ljubljana Moste-Polje chapter of the Friends of Youth Association through a donation to the Botrstvo v Sloveniji child sponsorship project. Telekom Slovenije was a sponsor of the 2016 Olympics Games in Rio. • Through the upgrading of networks, we offer users and local communities broad access to the most advanced telecommunication services, even in less populated areas. Investments in fixed assets (CAPEX) totalled EUR 147.7 million in 2016, with the majority of that amount earmarked for the expansion and quality of networks. • The expansion of the LTE/4G network was accompanied by additional measurements of electromagnetic radiation, which we ensure does not exceed the legally prescribed thresholds. We conducted 252 additional measurements in Slovenia and 25 in Kosovo in 2016. Values were below permitted amounts in all cases.
Media	<ul style="list-style-type: none"> • Continuous and current information about the operations of the Telekom Slovenije Group. • Continuous communication about current activities within the Telekom Slovenije Group and the latest news regarding the development of products and services. 	<ul style="list-style-type: none"> • Management of media relations (press conferences, press releases and events for journalists). Communication is proactive, and we regularly answer media questions. • Communication about the latest corporate developments, and new services and products.

Telekom Slovenije's Corporate Governance Policy is accessible on company's website.

1.10 ABOUT THE ANNUAL REPORT

Principles of reporting

Reporting on the operations of the Telekom Slovenije Group and Telekom Slovenije is carried out in accordance with the requirements of national legislation and the International Financial Reporting Standards. Economic, social and environmental impacts are explained in the integrated annual report, in which we include financial and non-financial aspects of operations in each section.

Sustainable aspects of operations – latest standards¹²

We have been reporting on sustainable development and corporate social responsibility in accordance with the international Global Reporting Initiative [GRI] since 2009. We transitioned to the latest generation of recommendations, the GRI Global Standards [GS], in 2016. We also took into account the previous generation of GRI recommendations for the telecommunications sector and the media. This report includes the future requirements set out in the EU's directive on the disclosure of non-financial data and the diversity policies of management bodies.

For the purpose of transitioning to the GRI GS, we performed a technical review of the sustainable impacts of the Telekom Slovenije Group's operations on 22 November 2016. The 42 experts who work together to compile the annual report reviewed previous reporting and the recommendations of the external assurance providers. We addressed the principles set out in the new GRI GS and the EU's requirements regarding non-financial disclosures and the diversity of governance and management bodies. Based on the relevant materials [e.g. stakeholder interests, GRI topics and disclosures and report content] we performed a materiality analysis and defined the scope of GRI GS topics and disclosures (26 topics and 48 disclosures), which are evident from the GRI content index. When defining the scope of the report, we took into account the reporting principles of comprehensiveness, a sustainability framework, the materiality of topics and stakeholder engagement. The latter is described in detail in section 1.9 Inclusion and participation of stakeholders.

Drafting of the report and scope of reporting¹³

Telekom Slovenije's Accounting and Controlling Sector and the Public Relations Department coordinate the compilation and publication of the report. Data and information are captured with the help of structured questionnaires, the content of which is prepared by experts for specific areas from Telekom Slovenije, GVO, TSmedia, Soline, Avtenta, Ipko and Blicnet.

The annual report presents sustainable development indicators for the previous calendar year. The most recent annual report, for 2015, was published on 31 March 2016. The report is primarily intended for shareholders and the financial public, as well as users and employees. Reporting on non-financial indicators relates to the Telekom Slovenije Group. Where standard reporting guidelines are not yet in place for the entire Group, it is specifically stated that the content applies to the parent company Telekom Slovenije or a specific Group company.¹⁴

The Macedonian company One was included in consolidation until 31 July 2015, while Debitel was merged with the parent company in 2016. Thus certain data is not directly comparable with 2015. A separate explanation of the data is provided in such cases. There were no other significant changes to data from previous years, and there were no reporting limitations. In the event of changes in a methodology used to disclose data, those changes and the reasons for those changes are clarified in the accompanying comments.

Verification of non-financial reporting¹⁵

Disclosures of non-financial data and the sustainable development report are submitted for independent external verification, which includes the verification of reporting according to the GRI Standards. The statement regarding external verification of the sustainable development report according to the GRI GS may be found in point 2.15 on page 150.

12 GRI GS 102-46, 102-54

13 GRI GS 102-48, 102-49, 102-50, 102-51, 102-52

14 GRI GS 102-49

15 GRI GS 102-56

1.11 SIGNIFICANT EVENTS AND ACHIEVEMENTS IN 2016

First quarter

January

- The Supervisory Board of Telekom Slovenije approves the Strategic Business Plan of the Telekom Slovenije Group for the period 2016 to 2020, and the Annual Business Plan for 2016. The Supervisory Board also reappoints the President of the Management Board, Rudolf Skobe, MSc, to a new four-year term of office to lead the company. Two new members are appointed to the Management Board for a four year term of office. They are Aleš Aberšek and Ranko Jelača, whose terms of office begin on 15 March 2016.
- GVO begins marketing broadband network services in the Ormož Municipality. The network was built as part of a public-private partnership in 2015 and covers the entire urban settlement of Pavlovci.

February

- Telekom Slovenije receives a decision from the Securities Market Agency lifting the suspension of voting rights attached to TLSSG shares issued by Telekom Slovenije and held by the following parties: Slovenski državni holding, the Republic of Slovenia, Kapitalska družba pokojninskega in invalidskega zavarovanja, Nova Kreditna banka Maribor, Zavarovalnica Triglav and the Fund for the Financing of the Decommissioning of the Krško Nuclear Power Plant (NEK). The prohibition on the exercising of voting rights that was imposed on Telekom Slovenije, d. d. is also lifted with the lifting of the aforementioned suspension of voting rights.
- Telekom Slovenije opens the renovated Kromberk centre in Nova Gorica.

March

- TSmedia redesigns the Siol.net digital medium. The new appearance as well as the new name Siol.net and logo mainly bring a simple and transparent website architecture and a modern design.
- In conjunction with the Company's Management Board, the Supervisory Board drafts a proposal for the General Meeting of Shareholders on the use of distributable profit for 2015. The proposed dividend is EUR 5.00 gross per share.
- Telekom Slovenije signs an agreement with a syndicate of banks, including NLB, SKB and Société Générale as organising banks, on a long-term syndicated loan in the amount of EUR 300 million. In addition to the organising banks, the syndicate comprises Abanka, Banka Koper, SID and UniCredit Banka Slovenija. The syndicated loan is divided into three equal tranches of EUR 100 million as follows: tranche A with a maturity of seven years and the repayment of principal

in 13 equal semi-annual instalments, tranche B with a maturity of five years and a lump-sum repayment of principal and tranche C with a maturity of two years and a lump-sum repayment of principle.

Second quarter

April

- Urbana single city cardholders can now use the Urbana mobile application to pay for bus rides, parking services, rides on the funicular railway to the Ljubljana Castle, BicikeLJ services and the SMS parking service. The Urbana application was developed by Telekom Slovenije, the City of Ljubljana and the Ljubljana Public Transport Company (LPP).
- Telekom Slovenije opens a renovated centre in Lucija.

May

- At a partnership event on the subject of digital transformation, Avtenta presents two new solutions, Bizbox and BusinessConnect, to accelerate the digital transformation process and introduce digital processes and services.

June

- Telekom Slovenije now communicates its portfolio of services for young persons under the umbrella brand. The monthly subscription fee of EUR 16.95 for the new Dogaja package for young people includes 10 GB of data transfer in Telekom Slovenije's network, while calls and messages are charged according to use (EUR 0.02/minute or message), but never exceed EUR 4 per month.
- Telekom Slovenije is the first company in Slovenia to receive the international ISO 22301:2012 certificate. With the aforementioned certificate, the Company demonstrates the reliable functioning of its services and processes, and its rapid and effective response to extraordinary events.
- Telekom Slovenije issues 5-year bonds in the nominal amount of EUR 100 million. TLS1 bonds are issued in dematerialised form on 10 June 2016 with their transfer to the accounts of bond holders at the KDD (Central Securities Clearing Corporation) in Ljubljana.
- The ratings agency Moody's upgrades Telekom Slovenije's outlook rating from "negative" to "stable". The Company's overall rating remains Ba2.
- Telekom Slovenije opens a renovated centre in Trbovlje.

Third quarter

August

- SAP extends Avtenta's title as SAP Gold Partner. As the most prestigious of all SAP Partner titles, it is confirmation that Avtenta implements advanced projects and successfully offers and implements SAP solutions.

September

- A consortium of companies, including Telekom Slovenije and Q-Free ASA, signs an agreement with DARS on the deployment and operation of a multi-lane free-flow electronic toll collection system on motorways and dual carriageways. The total value of contractual works is EUR 90,566,754.08, exclusive of VAT, and includes the deployment of an electronic toll collection system for freight vehicles and the technical functioning of the deployed system for a period of 10 years. Telekom Slovenije and Q-Free ASA will deploy the electronic toll collection system with the help of microwave technology.
- Telekom Slovenije once again offers its users the special Samsung Galaxy A5 2016 Pink Ribbon model in conjunction with Samsung. The two companies donate EUR 10 for each mobile phone sold in October to Europa Donna, the Slovenian Breast Cancer Association.

Fourth quarter

October

- Telekom Slovenije and the Logout organisation develop the Moja prva pogodba [My First Contract] project, aimed at raising awareness about the safe, instructive and constructive use of mobile devices, and at providing information and assistance to parents regarding the upbringing of children in a digital world.
- Together with the Business Intelligence Centre [BIC], TSmedia organises the largest business and networking conference [NetPRO] in Slovenia for the second time. In addition to useful lectures on various topics, the conference's more than 150 attendees are also given an opportunity to network.
- Avtenta organises an informative-training event for its own business partners and the business partners of Telekom Slovenije. They are presented SAP ERP solutions that are cost-effective and require no initial investment

November

- Telekom Slovenije expands its portfolio of services for the home to include electricity services at extremely competitive prices. Switching electricity suppliers is simple: by visiting a Telekom Slovenije point of sale, or from home via the internet or by calling 080 8000. Telekom Slovenije's TV subscribers are the first and only TV subscribers in Slovenia with the option of ordering electricity services through their TV or set-top box.
- Telekom Slovenije opens a renovated centre in Slovenj Gradec.

December

- Telekom Slovenije earmarks funds originally intended for the production or purchase of holiday greeting cards to the Botrstvo v Sloveniji child sponsorship project, and presents the Ljubljana Moste-Polje chapter of the Friends of Youth Association a donation in the amount of EUR 10,000. The funds will go to cover the costs of residence in student dormitories for young people from socially disadvantaged backgrounds.
- The 2017 Slovenian telephone directory is issued. A total of 50,000 printed copies are available free-of-charge at Telekom centres and at major selected Mercator stores throughout Slovenia. The aforementioned directory is also issued on DVD.
- Transfer speeds in the mobile network using the LTE Advanced Pro are tested in December. A speed in excess of 900 Mbit/s is achieved in a laboratory environment, while a data transfer speed of 881 Mbit/s is achieved on a mobile terminal under external conditions.
- GVO begins construction works required for the successful implementation of works in the scope of the e-toll project. The first barrier is set up for the portal on the Grosuplje-Višnja Gora section of the Dolenjska motorway in the scope of the aforementioned construction works.

Recognitions and awards received in 2016:

- Telekom Slovenije received the title of **Trusted Brand 2016** in the categories of mobile services and internet services.
- Telekom Slovenije received the 2015/2016 **Best Buy Award** for its portfolio of services in the category of users aged 15 to 35 years.
- **WebSI 2016**: 1st place to TSmedia in the media category for the comprehensive redesign of the Siol.net digital media and 3rd place to Telekom Slovenije in the mobile application category for its mobile Urbana application.
- **DiGGIT 2016**: grand prize in the digital innovation category and gold medal in the IT and communication category for Telekom Slovenije's Daljinec+ application.
- Slovenian Advertising Chamber: Advertiser of the Year.
- **Slovenian Advertising Festival**: Telekom Slovenije received two grand prizes for the Ne objavi, kar te lahko gnjavi [Don't Post What Can Hurt You Most] campaign and a silver medal for the international travelling exhibition Barbarstvo muk [Barbarism of Torture].
- **Sporto awards 2016**: Telekom Slovenije was a finalist in the best sports sponsorship category for Naj vas nič ne ustavi [Don't Let Anything Stop You] campaign, while TSmedia was the winner in media partnership category for Naj planinska koča 2016 [Best Mountain Hut 2016] project.
- Telekom Slovenije and Avtenta received **SAP Quality Awards** in the category of innovative solutions for the introduction of the SAP Success Factors solution for management by objectives for human resources.

Significant events after the balance sheet date are presented in the Financial Report on pages 225 and 301.



1.12 CORPORATE GOVERNANCE

*The terms of office of two members of Telekom Slovenije's Management Board, Aleš Aberšek and Ranko Jelača, began on 15 March 2016.
Updating of the Code of Ethics and Corporate Governance Policy of Telekom Slovenije.*

1.12.1 Corporate Governance Policy

KCorporate governance within the Telekom Slovenije Group is based on the principles and guidelines of the Corporate Governance Policy of Telekom Slovenije, d. d., valid since December 2011, and updated at the end of 2016 and in force as of February 2017, and the Telekom Slovenije Group's Corporate Governance Rules from 2014.

In performing their tasks, the Management Board and Supervisory Board took into account the interests of stakeholders and forms of mutual cooperation, the policy of linking the parent company and subsidiaries, and the commitments, powers and responsibilities of the two aforementioned bodies. The latter derive from valid legislation and governance codes. They are also defined in Articles of Association of Telekom Slovenije, d. d., and in the rules of procedure of the Management Board and the Supervisory Board.

The Corporate Governance Policy, the rules of procedure of the Management Board and the other documents linked to corporate governance are accessible at the website www.telekom.si/en, on the sub-page Presentation, organisation and governance, under the tab Corporate governance [<http://www.telekom.si/en/company/corporate-governance>].

General Meeting of Shareholders¹⁶

Work of the General Meeting of Shareholders

The Securities Market Agency [SMA] issued a decision on 4 February 2016 lifting the suspension of the voting rights of shareholders who were prohibited from exercising those rights based on the SMA's decision of 25 January 2013.

The shareholders of Telekom Slovenije met at the 27th General Meeting of Shareholders held on 13 May 2016. A total of 5,209,307 shares were represented at the general meeting, representing 80.08% of the total of 6,505,478 shares with voting rights. Due to the aforementioned lifting of the suspension of voting rights, a sufficient number of shares were represented when the General Meeting of Shareholders was initially convened.

Shareholders:

- adopted a resolution amending the Articles of Association of Telekom Slovenije, d. d.;
- approved the proposed use of distributable profit for the 2015 financial year;
- conferred official approval on the Management Board and Supervisory Board for the 2015 financial year;
- appointed the audit firm KPMG Slovenija, d. o. o. to audit Telekom Slovenije's financial statements for the 2015 financial year;
- were briefed on the resignation of Matej Golob Matzele from his position as member of the Supervisory Board, and elected Dimitrij Marjanović to a four-year term of office as new member of the Supervisory Board, effective 13 May 2016.

No challenges were announced.

Exercise of shareholders' rights

The corporate governance system of Telekom Slovenije and its communication strategy for shareholders and the Company's other stakeholders ensure the equal treatment of shareholders and the consistent exercising of their rights, regardless of whether shareholders are legal entities or natural persons, institutional investors, local or foreign shareholders, the State and/or the manager of the State's capital investments. Shareholders exercise their rights via the General Meeting of Shareholders in accordance with the Companies Act [ZGD-1] and Telekom Slovenije, d. d.'s Articles of Association. The convening of the General Meeting of Shareholders and other important matters related thereto are set out in the Articles of Association.

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The convening of the 27th General Meeting of Shareholders was published on the website of Agency of the Republic of Slovenia for Public Legal Records and Related Services, together with comprehensive materials on the Company's website at <http://skupscina.telekom.si/> and on the stock exchange's electronic information system at <http://seonet.ljse.si>. The timely publication of materials for the General Meeting of Shareholders and proper procedures for the convening thereof enabled shareholders to actively exercise their rights. The resolutions of the General Meeting of Shareholders, documentation from previous meetings and recordings of General Meetings of Shareholders, which can also be viewed live, are published on the Company's website [<http://www.telekom.si/o-podjetju/za-vlagatelje/skupscina-delnicarjev>].

Shareholders may address their proposals and suggestions to the Company via the investor relations email at ir@telekom.si.

Supervisory Board

Composition of the Supervisory Board¹⁷

The Supervisory Board is fully liable for the performance of its supervisory function and makes its decisions independently. The aforementioned body comprises nine members, six of whom are shareholder representatives and three of whom are employee representatives. The Supervisory Board adopted a resolution in 2016 regarding the desired composition of that body. With the aim of achieving a heterogeneous and complementary composition, key knowledge and competences and the desired diversity were defined according to several criteria: gender [male/female], experience [international/local] and age [younger/older].

All members of the Supervisory Board submitted statements of compliance with the criteria of independence for 2016 in accordance with the Corporate Governance Code [the statements are published on the Company's website at: <http://www.telekom.si/Documents/izjave-clanov%20-NS-o-neodvisnosti-2016.pdf>].

The Supervisory Board comprised the following members as at 31 December 2016:

Shareholder representatives:

1. Borut Jamnik, President

- Holds a bachelor's degree in mathematical engineering.
- President of the Management Board of Modra zavarovalnica, d. d.
- President of the Management Board of PDP, d. d.
- President of the Slovenian Directors' Association.
- President of the Supervisory Board of Cinkarna Celje, d. d.



2. Adolf Zupan, MSc, Vice-President

- Holds a bachelor's degree in law and a master's degree in legal sciences.

3. Dimitrij Marjanović, member

- Holds a bachelor's degree in economics.
- Director of the Financial Management Department at Slovenski državni holding.
- President of the Board of Directors of Iskra ESV, d.d.

4. Marko Hočevár, PhD, member

- Holds a bachelor's degree and doctorate in economics.
- Full professor of accounting and auditing at the University of Ljubljana's Faculty of Economics.
- Member of the Supervisory Board of the Slovenian Press Agency.

5. Tomaž Berločnik, MSc, member

- Holds a bachelor's degree in mechanical engineering and a master's degree in economics.
- President of the Management Board of Petrol, d. d.
- Supervisor at IGES, d. o. o.
- Member of the Supervisory Board of Geoplin, d. o. o., Ljubljana.

6. Bernarda Babič, MSc, member

- Hold a master's degree in business policy and organisation, with a major in banking.
- Assistant to the Managing Director of Slovenske železnice, d. o. o. and assistant to the Director of SŽ - Železniško gradbeno podjetje Ljubljana, d. d.
- Member of the Supervisory Board of Deželna banka Slovenije.
- Member of the Supervisory Board of Terme Olimia, d. d..

Employee representatives:

1. Dean Žigon, Vice-President

- Sales Manager.
- Employed in the Sales Sector, Sales Department – Business Users.
- President of the SINEKS trade union.
- Member of the Works Council.

2. Samo Podgornik, member

- Electrical and electronic engineer.
- Employed in the Network Access Sector.
- President of the Nova Gorica chapter of Telekom Slovenije's trade union.
- Member of the Works Council.

3. Primož Per, member

- Master's degree in technical security engineering.
- Employed in the Office of the Management Board, Human Resource Department.
- Member of the Works Council.

Work of the Supervisory Board

In the scope of its powers and in line with the principles of corporate governance, the Supervisory Board was regularly briefed on the operations of Telekom Slovenije and the Telekom Slovenije Group. It met at 12 regular sessions and eight correspondence sessions.

The most important topics discussed were the monitoring of the ordinary operations of the Company and the Group, and supervision of the implementation of Telekom Slovenije's strategy and the management of business risks. Members of the Supervisory Board regularly discussed strategically important activities and proposals by the Management Board, and actively responded to those proposals and provided their opinions. The work of the Supervisory Board is presented in more detail in the Report of the Supervisory Board.

Composition and functioning of Supervisory Board committees¹⁸

The Supervisory Board had five committees in 2016 that discussed individual areas of expertise in accordance with their respective competences and tasks defined in the Company's Corporate Governance

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Policy. Presented below are the most important areas addressed by committees, and the composition of committees at the end of 2016.

The **Audit Committee** met at 12 sessions at which the following areas were covered:

- the annual report of the Telekom Slovenije Group for 2015, and quarterly business reports of the Telekom Slovenije Group and Telekom Slovenije and in 2016;
- other quarterly reports (risk management report, report on anonymous notifications and report on the implementation of internal audit recommendations);
- annual and quarterly reports on operations and quarterly risk reports were upgraded to include more comprehensive reporting on financial risks;
- the system of regular quarterly reporting was supplemented with a report on lawsuits and provisions, and a report on activities relating to the development of the compliance function;
- the committee reviewed in detail the system of financing subsidiaries, and upgraded that system through the comprehensive supplementation of internal acts in the aforementioned area and the introduction of ongoing and quarterly reporting to the Supervisory Board;
- the committee discussed the list of assets not vital to business;
- the committee verified the appropriateness of procurement procedures as they relate to the conclusion of consultancy agreements, with an emphasis on ensuring efficiency and on the management of potential conflicts of interest;
- the committee monitored the work of the auditors of the financial statements and met three times with them in that respect;
- the committee adopted guidelines for ensuring the independence of the auditors of the financial statements, and continuously monitored the conclusion of new agreements with audit firms;
- the committee discussed the annual work plan of the Internal Audit Services, and continuously monitored the implementation thereof through the existing reporting system;
- the committee defined the criteria for the selection of a service provider to assess the work of the Internal Audit Services, and was briefed on the results of that assessment; and
- the committee performed a self-assessment of its work, drew up an action plan and reported results to the Supervisory Board.

The Audit Committee performed a self-assessment in July 2016. It drew up an action plan and presented the associated results at a session of the Supervisory Board.

The committee's members were as follows as at 31 December 2016:

- Bernarda Babič, MSc [chairperson],
- Marko Hočevár, PhD
- Dimitrij Marjanović,
- Dean Žigon, and
- Barbara Nose [external committee member].

The **Technical Committee** met a one session in 2016, at which it was briefed on the development of and investments in the network and IT infrastructure.

The committee's members were as follows as at 31 December 2016:

- Tomaž Berločnik, MSc [chairman],
- Borut Jamnik,
- Samo Podgornik.

The **Human Resource Committee** met a seven sessions. Its work at the beginning of the year was primarily focused on the appointment of members to the Management Board and candidates for managerial functions at subsidiaries, and on the drafting of proposed objectives of members of the Management Board for 2016. Over the remainder of the year, the committee conducted interviews with candidates for the external member of the Technical Committee and discussed Telekom Slovenije's HR strategy.

The committee's members were as follows as at 31 December 2016:

- Adolf Zupan, MSc [chairman]
- Borut Jamnik,
- Primož Per.

The **Committee to Monitor Strategic Projects and the Drafting of the Strategic Plan** met at two meetings, where it discussed in detail Telekom Slovenije Group's Strategic Business Plan for the period 2017 to 2021. All members of the Supervisory Board were invited to both sessions.

The committee's members were as follows as at 31 December 2016:

- Adolf Zupan, MSc (chairman)
- Marko Hočevár, PhD
- Dimitrij Marjanović, and
- Dean Žigon.

Nomination Committee

On 30 March 2016 Matej Golob Matzele resigned from his position as member of the Supervisory Board. The Supervisory Board therefore appointed a Nomination Committee to assist in the selection of candidates to serve as member of the Supervisory Board. The committee's members were representatives of the Company's major shareholders. The committee met at three sessions in April 2016 and proposed a candidate, who the Supervisory Board proposed to the General Meeting of Shareholders for appointment. The Nomination Committee was dissolved following the completion of its task.

The Supervisory Board reappointed the Nomination Committee in July and tasked it with drawing up profiles for the Supervisory Board's members. The committee met at three sessions and drew up proposed criteria that the Supervisory Board later approved.

The committee's members were as follows as at 31 December 2016:

- Borut Jamnik (chairman),
- Alenka Stanič, and
- Miha Kerin.

Remuneration of Supervisory Board members

The remuneration of members of the Supervisory Board is defined by a resolution of the General Meeting of Shareholders. Supervisory Board members are entitled to attendance fees, basic payment for performing their functions and additional payments for participation in Supervisory Board committees. Also defined are the maximum annual amounts of and eligibility criteria for the reimbursement of transportation expenses, daily allowances and costs of overnight stays. The amounts of payments made to members of the Supervisory Board are disclosed in the Financial Report.

Management Board¹⁹

Composition of the Management Board

Telekom Slovenije's Management Board comprises five members who are appointed for a four-year term of office. They are appointed by the Company's Supervisory Board, taking into account the relevance of their expertise and managerial competences. Pursuant to the Company's Articles of Association, any person who, in addition to meeting the relevant legal requirements, has a university-level qualification, at least three years of work experience in management positions and the requisite professional, organisational and other skills for performing tasks of great responsibility may be appointed as a member of the Management Board.

Telekom Slovenije was led from 1 January to 15 March 2016 by the Management Board in a limited composition, as the term of office of Zoran Janko expired on 27 October 2015, while member of the Management Board Mateja Božič, MSc was recalled on 12 January 2016 by mutual agreement at her own initiative. The Company has been led by its Management Board, with a full complement of five members since 15 March 2016, in the following composition:

1. Rudolf Skobe, MSc, President

- Born in 1973. Holds a Master's degree in management and organisation, and a university degree in electrical engineering.
- Employed within the Telekom Slovenije Group since 1996. Employed by SiOL in 1998 where he was responsible for sales and marketing. Appointed Director of Sales and Marketing at SiOL in 2004, and Managing Director of the same company (which was later renamed TSmedia) in 2006. Managed the aforementioned company until his appointment as the President of Telekom Slovenije, d. d.'s Management Board.

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- President of the Board of Directors of Ipko, member of the Supervisory Board of One.Vip and member of the Advisory Board of Antenna TV SL.
- Began his first term of office as President of the Management Board on 1 September 2012, and his second term of office on 1 September 2016.

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

- Born in 1972. Holds a bachelor's degree and a master's degree in electrical engineering.
- Employed by Telekom Slovenije in 1997. Became head of the Telecommunications Cable Network Administration Department in 2004 and the Director of the Connection and Fault Elimination Sector in 2006. Served as the Director of the Cable Network and Service Sector from 2009 to 2011, followed by Director of the Network Maintenance and Service Sector and most recently as the Director of the Network Access Sector.
- Member of the Management Board of Ipko.
- Began his term of office on 1 May 2014

3. Aleš Aberšek, member

- Born in 1977. Holds a bachelor's degree in economics.
- Worked as a key accounts analyst at UniCredit Banka from 2002 to 2004. Served as a member of the management board responsible for finance, accounting, internal audit and legal affairs at Sava, where he was employed from 2004. Served as president of Sava's Management Board from December 2015.
- Member of the management boards of Skupna pokojninska družba, Sava Turizem and Gorenjska banka.
- Began his term of office on 15 March 2016.

4. Ranko Jelača, member

- Born in 1977. Holds a bachelor's degree in economics.
- Employed at Atlantic Grupa from 2011 where, as Director of Marketing, he was responsible for key brands on the markets of South-Eastern Europe, Russia, Italy and Austria. Prior to that, served as head of marketing at Kraš, d. d.
- Member of the Supervisory Board of IEDC – Bled Business School.
- Began his term of office on 15 March 2016.

5. Vesna Lednik, member and Workers Director

- Born in 1973. Studied education.
- Most recently served as a coordinator in the Subscriber Relations Department at Telekom Slovenije. Prior to that served as head of the Billing, Reclamation and Invoice Control Department and head of Reclamation Department and Subscriber Centre at Mobitel. Also served as a member and president of Mobitel's Works Council.
- Began her term of office as member of the Management Board and Workers Director on 23 April 2014.

Work of the Management Board

Telekom Slovenije's Management Board manages transactions and represents the Company independently, and is liable for its own actions in that regard. It makes decisions that are in line with the Company's strategic objectives and in the interest of shareholders, taking into account the principles of sustainable development and the interests of other stakeholders.

The Management Board met at 56 regular and 16 correspondence sessions in 2016. It drew up the Strategic Business Plan of the Telekom Slovenije Group for the period 2017 to 2021, and carried out activities to achieve the objectives set out in the current strategic plan. The Management Board ensured the long-term financing of the Telekom Slovenije Group by signing an agreement on a long-term syndicated loan in the amount of EUR 300 million and the issue of 5-year bonds in the nominal amount of EUR 100 million. The merger of Debitel with the parent company was also completed. Significant activities included:

- ensuring development and the achievement of established objectives;
- the expansion of activities to new areas;
- the introduction of new and upgraded services;
- improvement of the user experience;
- the upgrading of the comprehensive portfolio of ICT services; and
- the optimisation of operations.

Remuneration of the Management Board

The composition and amount of earnings of the Management Board are set out in members' employment contracts and are in line with the Act Governing the Earnings of Management Staff at Companies Under the Majority Ownership of the Republic of Slovenia and Self-Governing Local Communities (ZPPOGD).

The Supervisory Board sets objectives for the Management Board for every financial year. The basis for setting those objectives is the approved annual business plan and certain key indicators. The Management Board's objectives comprise quantitative and qualitative objectives, as well as financial and non-financial objectives that are defined for the purpose of monitoring the work of Management Board members. That work focuses on the long-term success of the Company and the Group.

Given the provisions of the Company's Articles of Association, which state that an individual member of the Management Board is tasked with managing the Company's transactions independently and adopting decisions in the area for which they are responsible, at least one objective of the members of the Management Board is defined individually.

The conditions for profit sharing by the Management Board are governed by the Company's Articles of Association. The earnings of the Management Board in 2016 are presented in the Financial Report. The earnings of the Management Board in 2016 are presented in the Financial Report.

Management and governance of subsidiaries²⁰

As parent company, Telekom Slovenije manages and supervises the operations of subsidiaries, defines the strategic policies and objectives of their operations, and monitors the achievement of established objectives. It performs management and supervisory tasks in accordance with Slovenian law, the applicable laws in the home countries of Group companies, and the valid acts of the Company and Group. In all business areas, subsidiaries act in accordance with local legislation, business cooperation agreements with Telekom Slovenije, and with internal rules and instructions adopted by the management of an individual subsidiary or the Management Board of the parent company.

Rules, criteria and mechanisms for managing and supervising Telekom Slovenije Group companies are defined in the Telekom Slovenije Group's Corporate Governance Rules adopted in March 2014. The aforementioned rules are in line with Telekom Slovenije's Corporate Governance Policy. The management and supervision of the operations of Group companies is based on the following core principles:

- links with the Group's strategy;
- governance via management by objectives, where those objectives derive from the Group's strategy;
- clearly defined roles (tasks, competences and responsibilities) of those responsible for the management and supervision of the Group; and
- simplicity and flexibility (the ability to adapt to changes in the organisation and operations of the Group).

The Management Board of Telekom Slovenije actively monitors and supervises the operations of subsidiaries through membership in their supervisory bodies. The following persons may be appointed as members of a supervisory body: Management Board members, sector directors, heads of independent departments within the Office of the Management Board, assistants to the President of the Management Board, and other persons appointed by Telekom Slovenije's Management Board. As a rule, a member of a supervisory body is the member of the Management Board responsible for a specific subsidiary. The supervisory bodies of individual subsidiaries met at least quarterly in 2016. We thus ensured the regular and timely sharing of information between the Management Board of Telekom Slovenije and the management boards of the subsidiaries.

The composition of the management and supervisory bodies of subsidiaries of the Telekom Slovenije Group as at 31 December 2016

Slovenia

GVO, d. o. o.

Managing Director: Borut Radi

AVTENTA, d. o. o.

Managing Director: Miha Praunseis

TSmedia, d. o. o.

Managing Director: Tina Česen, MSc

SOLINE, d. o. o.

Managing Director: Klavdij Godnič

M-Pay, d. o. o.

Managing Director: Janez Stajnko

ANTENNA TV SL d.o.o.

Managing Director: mag. Tina Česen

Directors: Samo Jošt, MSc, Petra Šušteršič in 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: mag. Igor Bohorč

SIOL d. o. o. , Croatia

Managing Director: mag. Igor Rojs

SIOL d.o.o. Podgorica, Montenegro

Managing Director: mag. Igor Rojs

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

Managing Director: mag. Igor Rojs

SIOL DOOEL Skopje, Macedonia

Managing Director: mag. Igor Rojs

SIOL DOO Belgrade, Serbia

Managing Director: mag. Igor Rojs

Communication with stakeholders

Identified stakeholder groups and strategies regarding communication and cooperation with these groups are an integral part of the Telekom Slovenije Group's Corporate Governance Policy. We strive for the effective, proactive and consistent management of communications at all operational levels. Our key guidelines in 2016 included openness, balancing internal and external communication, balancing proactive and reactive communication, and the accuracy, relevance and clarity of messages.

More information regarding stakeholders is reported in the section Inclusion and participation of stakeholders. Telekom Slovenije also reports on its communications with individual groups of stakeholders in sections that comprehensively address responsibility to employees, investors, shareholders, suppliers, business partners, and the local and wider communities.

Information of a public nature

The new Access to Public Information Act [ZDIJZ] entered into force on 17 April 2014 and expanded access to information of a public nature to include companies under the controlling influence of the government. In accordance with the ZDIJZ, we proactively published information and handled requests for access to information, and implemented support activities such as employee training in 2016.

Basic information regarding the remuneration of the Management Board and Supervisory Board, and regarding donation, sponsorship, consultancy and copyright agreements are published on the websites of Telekom Slovenije and Group companies that are bound to publish information in accordance with the ZDIJZ. We also published information regarding payments under the aforementioned agreements until 8 May 2016, when the new ZDIJZ-E entered into force.

Telekom Slovenije has two public information officers, while subsidiaries in Slovenia each have one. Telekom Slovenije employees have an internal portal at their disposal with all relevant information, while we receive and respond electronically to requests for access to information of a public nature via the email address ijz@telekom.si.

Communication with the media²¹

The Telekom Slovenije Group builds an open and professional relationship with the media through quick responses, open communication, and a willingness to cooperate and provide truthful, correct, timely and relevant information. Communication with the media represents a form of support for the Telekom Slovenije Group's operations and for strategic and business objectives, while also strengthening the position and reputation of the Group in the environment in which it operates.

In 2016 we regularly provided the public current information regarding operations and strategic policies, the development of the network and services, the latest products and services, and other relevant activities within the Telekom Slovenije Group. We communicated with journalists at press conferences and ad-hoc events, drafted press releases, and responded to journalists' questions regularly and in a timely manner. Telekom Slovenije responded to around 350 questions from journalists, most frequently with regard to operations, strategy, new products and services, and the expansion and upgrading of the network.

Telekom Slovenije recorded nearly 10,000 media reports in 2016. The majority of articles related to the value of shares, operations, sponsorship activities, the sales portfolio and the privatisation of the Company.

Communication with regulatory and government bodies²²

The telecommunications sector is one of the most regulated economic sectors. The AKOS and other similar bodies in the countries where Group companies are present therefore have a significant impact on our operations. The competent ministries and other government bodies also play an important role, particularly in terms of legislation.

Telekom Slovenije strictly complies with applicable regulations and the recommendations and decisions of regulatory bodies, and responds with sound expert arguments, as necessary. Through expert proposals, the Group also plays an active role in the process of drafting legislation in the field of electronic communications.

21 GRI GS 102-43, 102-44

22 GRI GS 102-43, 102-44

Internal auditing

The Internal Audit Service (IAS) conducts internal auditing for all Telekom Slovenije Group companies. It performs its work in accordance with the International Standards for the Professional Practice of Internal Auditing, as re-confirmed in 2016 by an independent external assessment. That assessment emphasised the IAS's independence and reputation. The IAS included recommendations for further development in its own quality assurance programme.

The areas and the scope of work for 2016 were defined in the IAS's annual work plan, and derive from its multi-year plan for the period 2016 to 2020. Annual and multi-year plans are adopted by the Management Board, and were also reviewed by the Audit Committee and approved by the Supervisory Board. The IAS's objective is to contribute to continuous improvements in the effectiveness of risk management, control procedures and corporate governance at Telekom Slovenije Group companies. It contributes to the achievement of the strategic and business objectives of the Company by issuing recommendations and sharing best practices.

In 2016 the IAS performed audits of compliance, information security, the effectiveness and efficiency of purchasing processes, sales and the fulfilment of services, the quality of data and systems, and the financing of subsidiaries and associates. It issued recommendations for improving internal controls and the more effective management of risks in areas subject to audit. The implementation of the IAS's recommendations is verified regularly. The IAS reports to the Management Board and Supervisory Board's Audit Committee on findings and recommendations, and the implementation thereof. The IAS also serves in an advisory role.

External auditing

At Telekom Slovenije's 27th General Meeting of Shareholders, the audit firm KPMG Slovenija, d. o. o. was appointed to audit the Company's financial statements for the 2016 financial year. Audit costs are disclosed in the Financial Report.

1.13 CORPORATE GOVERNANCE STATEMENT

In accordance with the fifth paragraph of Article 70 of the Companies Act, and the recommendations of the Corporate Governance Code and the Corporate Governance Code for Companies with Capital Assets of the State, Telekom Slovenije, d. d.

hereby declares

- that the governance of Telekom Slovenije, d. d. during the 2016 financial year was in line with valid legislation, the rules and recommendations of the Ljubljana Stock Exchange, the recommendations of Slovenski državni holding, d. d. and the Company's internal acts; and
- that Telekom Slovenije, d. d., as a public interest entity whose securities are traded on the regulated securities market and as a company with capital assets of the State, took into account corporate governance recommendations set out in the following documents to the greatest extent possible in its operations during 2016:
 - the **Corporate Governance Code** adopted on 8 December 2009 by the Ljubljana Stock Exchange, Slovenian Directors' Association and the Managers' Association of Slovenia, and the **Recommendations to Public Companies Regarding Notification** adopted by the Ljubljana Stock Exchange on 28 October 2016. Both documents are publicly accessible on the Ljubljana Stock Exchange's website at www.ljse.si in both Slovene and English; and
 - the **Corporate Governance Code for Companies with Capital Assets of the State**, which was adopted by Slovenski državni holding, d. d. in March 2016, and the Recommendations and Expectations of Slovenski državni holding from February 2016. Both documents are accessible at the website www.sdh.si

In its work and operations during 2016, Telekom Slovenije, d. d. [hereinafter: Telekom Slovenije] also complied with the guidelines set out in the Code of Business Ethics of Telekom Slovenije, d. d. of 27 March 2012 and 5 June 2012, which is published on the Company's website at www.telekom.si/en.

The corporate governance statement is an integral part of the audited annual report of the Telekom Slovenije Group and Telekom Slovenije, d. d. for 2016. It relates to the period 1 January 2016 to 31 December 2016. The corporate governance statement is accessible in electronic form, for a minimum of five years from the date of its publication, on the Company's website at www.telekom.si/en and in the Ljubljana Stock Exchange's electronic information system at <http://seonet.ljse.si>.

Telekom Slovenije provides explanations below of deviations from individual recommendations of 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.

Statement of compliance with the Corporate Governance Code

Relations with shareholders

Recommendation 5.2:

Telekom Slovenije did not organise the collection of powers of attorney for the General Meeting of Shareholders in 2016, nor did it receive from individuals or institutions notification regarding the intended organised collection of powers of attorney for the General Meeting of Shareholders.

Statement of compliance with the Corporate Governance Code for Companies with Capital Assets of the State

Supervisory board

Competence profile for members of a supervisory board – recommendation 6.5.1

Telekom Slovenije deviates in part from this recommendation. In accordance with the aforementioned recommendation, Telekom Slovenije's Supervisory Board formulated criteria and professional profiles for members of the Company's Supervisory Board [competence profile] in July 2016, taking into account the specific nature of the Company. The competence profile was defined as a trade secret by the Supervisory Board, and was therefore not published on the Company's website.

Audit committee – recommendation 6.12.2

Telekom Slovenije deviates in part from this recommendation. Given the current relevance and complexity of individual matters, the Supervisory Board's Audit Committee met at 12 sessions, which exceeds the recommended number.

Management board or senior management

Remuneration of members of a management board – recommendation 7.3

Telekom Slovenije deviates in part from this recommendation, as the Supervisory Board took into account the Act Governing the Earnings of Management Staff at Companies under the Majority Ownership of the Republic of Slovenia and Self-Governing Local Communities [Official Gazette of the Republic of Slovenia, Nos. 21/10 and 8/11] when defining the remuneration of Management Board members.

Transparency of operations and reporting

Disclosure of the remuneration and other rights of individual members of management and supervisory bodies – point 8.3

Telekom Slovenije deviates in part from this recommendation. The Company does not disclose the employment earnings of employee representatives of the Supervisory Board in its annual report because it does not have their consent. Telekom Slovenije and Telekom Slovenije Group companies disclose the earnings of management and supervisory bodies in their annual reports in accordance with the provisions of the Access to Public Information Act.

Statement of compliance with the Recommendations and Expectations of Slovenski državni holding

Three-year business planning of a company/group – point 1

Telekom Slovenije deviates in part from this recommendation, as it treats its annual and strategic business plans as trade secrets. Their disclosure would have an adverse impact on the competitive position of Telekom Slovenije and the Telekom Slovenije Group as a whole. The Company published a summary of the Strategic Business Plan of the Telekom Slovenije Group for the period 2017 to 2021 with highlights from the Annual Business Plan for 2017 in the Ljubljana Stock Exchange's SEOnet system and on its own website.

Quarterly reporting on the performance of a company/group – point 2

Telekom Slovenije deviates in part from this recommendation, as it reports on the performance of the parent company and the Telekom Slovenije Group in accordance with the valid legislation to which it is bound as a joint stock company.

Transparency of procedures of making business deals involving company expenditure (ordering goods and services, donations and sponsorship) – point 3.6

Telekom Slovenije deviates in part from this recommendation. In accordance with the Company's business interests and in order to protect trade secrets arising from contractual relations and information whose disclosure would be detrimental to the competitive position of the Company or could cause damage to Telekom Slovenije, the Company does not publish data regarding a selected tenderer (procurement of goods and services), the type of transaction or the value of the concluded transaction on its website. In accordance with the Access to Public Information Act, the Company regularly publishes information of a public nature on its website (www.telekom.si/o-podjetju/ijz) relating to donation, sponsorship, advisory and other copyright or intellectual services.

Publication of data regarding executed payments – point 4.3

Telekom Slovenije deviates in part from this recommendation, as data regarding labour costs are disclosed in annual reports.

Publication of the text of binding collective agreements and agreements concluded with employee representatives that relate to remuneration for work – point 4.4

Telekom Slovenije deviates from this recommendation. Binding collective agreements and agreements concluded with employee representatives that relate to remuneration for work are not published because the Company does not have the consent of employee representatives for such publication.

Achieving quality and excellence in the operations of companies/groups – point 5

Telekom Slovenije deviates in part from this recommendation, as it carried out a self-assessment of business excellence according to the EFQM model for the parent company in 2016.

Explanations in accordance with the Companies Act

Pursuant to the fifth paragraph of Article 70 of the Companies Act (ZGD-1), Telekom Slovenije hereby issues the following explanations:

A. Main features of the Company's internal control and risk management systems in relation to the financial reporting process:

The internal control system is the sum of various guidelines and policies formulated and adopted by the Management Board with the aim of managing risks associated with financial reporting as well as possible. The purpose of internal controls is to ensure efficiency and effectiveness of operations, the reliability of financial reporting and compliance with valid laws, and other external and internal regulations.

The accuracy, completeness and veracity of financial reporting is ensured through the implementation of the following internal controls:

- control over the accuracy of financial reporting data, which is ensured in different ways, e.g. through the reconciliation of accounting items with customers and suppliers;
- control over the completeness of data capture (e.g. documentation sequencing and numbering);
- control over the segregation of duties and responsibilities (e.g. separate recording and payments);
- control over access restrictions (access rights to accounting records are allocated selectively); and
- control over supervision.

Information support is provided for the accounting process. All of the aforementioned internal controls are therefore linked with controls built into the IT infrastructure, which comprises controls over restrictions on access to the network, data and applications, and controls over the accuracy and completeness of data capture and processing.

B. Information regarding the functioning of the Company's General Meeting of Shareholders and its key competences, and a description of the rights of shareholders and how those rights are exercised:

Shareholders exercise their rights at the General Meeting of Shareholders. The General Meeting of Shareholders is convened when it benefits the Company or whenever required in accordance with the law and Articles of Association, at a minimum once a year.

The competences and functioning of the General Meeting of Shareholders are set out in the Companies Act (ZGD-1), the Articles of Association and the Rules of Procedure of the General Meeting of Shareholders.

Shareholders have the right to participate in the management of the Company, the right to dividends and the right to an appropriate share of residual assets after the Company's liquidation or bankruptcy.

Shareholders exercise their right to information in accordance with the first paragraph of Article 305 of ZGD-1 at the General Meeting of Shareholders. Detailed information regarding shareholders' rights set out in the first paragraph of Article 298, the first paragraph of Article 300, Article 301 and Article 305 of ZGD-1 are available on the Company's website at <http://www.telekom.si/o-podjetju/za-vlagatelje/skupscina-delnicarjev> following publication of the convening of the General Meeting of Shareholders.

Shareholders who are entered in the central register of securities at the KDD [Central Securities Clearing Corporation] at the close of business four days prior to the General Meeting of Shareholders [cut-off day] are entitled to participate and vote at the General Meeting of Shareholders, if they have registered in writing at the Company's registered office at least three days prior to the General Meeting of Shareholders.

The 27th General Meeting of Shareholders of Telekom Slovenije was held on 13 May 2016. The agenda, results of voting, adopted resolutions and other information regarding the course of the General Meeting of Shareholders were published on the website of the Ljubljana Stock Exchange, in the scope of SEOnet electronic notification system.

C. Information regarding the composition and functioning of management and supervisory bodies and their committees:

Management and supervisory bodies, and their committees and work are presented in section 1.12 [Corporate governance] and section 1.5 [Report of the Supervisory Board] of the 2016 annual report of the Telekom Slovenije Group and Telekom Slovenije, d. d.

At the beginning of 2016, every member of the Supervisory Board submitted a statement of compliance with the criteria of independence according to point C.3 of the appendix to the Corporate Governance Code. The new member of the Supervisory Board submitted the same statement when they assumed their function. Statements are accessible on the website at <http://www.telekom.si/o-podjetju/predstavitev/organiziranost-in-upravljanje/upravljanje-druzbe>.

D. Data and explanations related to the Mergers and Acquisitions Act:

- Structure of Telekom Slovenije's share capital
There were no changes to the structure of share capital in 2016. The value of Telekom Slovenije's share capital is EUR 272,720,664.33 and is divided into 6,535,478 ordinary registered no-par-value shares. All shares constitute one class and are issued in dematerialised form. Each share represents the same stake and corresponding amount in share capital, while all shares have been paid up in full. Each share gives the holder the right to one vote at the General Meeting of Shareholders, a proportionate share of profits [payment of dividends] and a proportionate share of residual assets after the liquidation or bankruptcy of the Company. Shares are listed on the prime securities market of the Ljubljana Stock Exchange. Detailed information regarding shares and the ownership structure is presented in section 1.14 [Share trading and ownership structure] of the 2016 annual report of the Telekom Slovenije Group and Telekom Slovenije, d. d.
- Restrictions on the transfer of shares
All shares are freely transferable.
- Qualifying holdings according to the Takeovers Act
There were two holders of a qualifying holding as set out in the Takeovers Act as at 31 December 2016: the Republic of Slovenia with 4,087,569 shares or 62.54% of share capital and Kapitalska družba, d. d. with 365,175 shares or 5.59% of the issuer's share capital.
- Holders of securities that provide special controlling rights
The Company has not issued securities that would provide special controlling rights.
- Share scheme for shareholders
The Company does not have a share scheme for shareholders.

- **Restrictions on voting rights**
In decision no. 0600-50/2010-38 of 4 February 2016, the Securities Market Agency [hereinafter: the Agency] ruled as follows based on point 3 of the first paragraph of Article 63 in connection with point 2 of the third paragraph of the Takeovers Act, and taking into account Article 28 of the Act amending the Takeovers Act and applying point 1 of the second paragraph of Article 498 and the third paragraph of Article 552 of the Financial Instruments Market Act:
 - to lift the suspension of voting rights attached to TLSG shares issued by Telekom Slovenije, d. d., Ljubljana, together with the prohibition on the exercising of voting rights by the following parties:
 1. Slovenski državni holding, d. d.,
 2. the Republic of Slovenia,
 3. Kapitalska družba pokojninskega in invalidskega zavarovanja, d. d.,
 4. Nova Kreditna banka Maribor, d. d.,
 5. Zavarovalnica Triglav, d. d., and
 6. the Fund for the Financing of the Decommissioning of Krško Nuclear Plant [NEK]
 - and to lift the prohibition on the exercising of voting rights that was imposed on Telekom Slovenije, d. d. as the target company in point III of the Agency's decision no. 0600-50/2010-25 of 25 January 2013, with the lifting of the aforementioned suspension of voting rights.
- **Agreements between shareholders that might place any limit on the transfer of securities or voting rights**
Telekom Slovenije is not aware of any such agreements.
- **Rules on the Appointment and Replacement of Members of the Management and Supervisory Bodies**
The Supervisory Board appoints members of the Management Board in accordance with its legal powers and statutory provisions. To that end, it prudently and responsibly assesses the fulfilment of the required qualifications. In accordance with the above, the Supervisory Board also defined the candidate selection process, additional conditions that candidates must meet and procedures for determining the appropriateness of candidates in the Criteria and Procedures for Determining the Appropriateness of Candidates for Members of the Management Board.
The Supervisory Board formulated criteria and professional profiles for members of the Company's Supervisory Board [competence profile] in June 2016, taking into account the specific nature of the Company.
- **Rules on Amendments to the Articles of Association**
Telekom Slovenije does not have any special rules governing changes to its Articles of Association. Changes to the Company's Articles of Association are carried in accordance with the law.
- **Powers of senior management, in particular powers to issue or purchase treasury shares**
At the 24th General Meeting of Shareholders of 1 July 2013, management was authorised to purchase treasury shares. That authorisation expired on 1 July 2016.
- **Special agreements that come into effect, are amended or terminated on the basis of a change in control at the Company as the result of a bid as defined by the act governing mergers and acquisitions**
Telekom Slovenije is not aware of any such agreements.
- **Agreements concluded between a company and the members of its management body or supervisory board or employees that envisage compensation if they resign or are laid off without justification in the event of a bid as set out in the act governing mergers and acquisitions or if their employment is terminated**
The Company has no such agreements in accordance with the Takeovers Act.

Telekom Slovenije constantly strives to improve corporate governance practices in its operations, including proactive corporate communication with various stakeholders. The Company communicates in the manner set out in Telekom Slovenije, d. d.'s Corporate Governance Policy and communications strategy. Both documents are accessible on the Company's website at <http://www.telekom.si/en/company/corporate-governance>.

With the listing of its shares on the prime market of the Ljubljana Stock Exchange, Telekom Slovenije undertook to comply with the relevant reporting standards. The Company once again provided investors with high-quality, timely, relevant and reliable information in 2016.

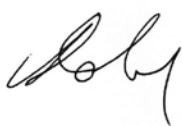
Subsidiaries of Telekom Slovenije comply with the Corporate Governance Code for Companies with Capital Assets of the State and the Recommendations and Expectations of Slovenski državni holding via the Telekom Slovenije Group's Corporate Governance Rules, which are binding for all Telekom Slovenije Group companies. Telekom Slovenije applied the same high standards of corporate governance that apply to the parent company in the management and governance of subsidiaries.

Telekom Slovenije systematically implements activities in the area of corporate governance with the aim of ensuring the compliance of its operations with the law, regulations and internal acts. Telekom Slovenije implements compliance-related activities primarily in the following areas:

- the prevention of corruption and conflicts of interest,
- competition law,
- data protection, and
- the prevention of money laundering.

The compliance management system includes the establishment of bodies for the implementation of the compliance assurance function, the adoption, implementation and maintenance of documents related to compliance and integrity, and the definition of activities to implement the compliance assurance function.

Telekom Slovenije will continue to strive in the future to comply with and introduce the highest standards and best practices in the area of corporate governance, both at the parent company and the other companies of the Telekom Slovenije Group. To that end, it will follow the recommendations of the new Corporate Governance Code of 27 October 2016, which entered into force on 1 January 2017, and the new Recommendations to Public Companies Regarding Notification of 3 February 2017 [both documents are accessible on the Ljubljana Stock Exchange's website at www.ljse.si], as well as the Corporate Governance Code for Companies with Capital Assets of the State and the Recommendations and Expectations of Slovenski državni holding, which are published on the latter's website www.sdh.si/en-us.



Rudolf Skobe, MSc
President of the Management Board



Borut Jamnik,
President of the Supervisory Board

1.14 SHARE TRADING AND OWNERSHIP STRUCTURE²³

The share price fell slightly [by 2.6%] in year-on-year terms.

A dividend yield of 7% was achieved.

There were no significant changes in the ownership structure in terms of category, with the exception of shifts among the largest owners.

General information regarding Telekom Slovenije shares as at 31 December 2016

General information regarding shares	
Ticker symbol	TLSG
ISIN code	SI0031104290
Listing	Ljubljana Stock Exchange, prime market
Share capital [EUR]	272,720,664.33
Number of ordinary registered no-par value shares	6,535,478
Number of shares held in treasury	30,000
Number of shareholders as at 31 December 2016	10,002

Share trading in 2016

The shares of Telekom Slovenije are listed on the prime securities market of the Ljubljana Stock Exchange under the ticker symbol TLSG. The Company's shares are among the blue chip shares included in the SBITOP index, and accounted for a 9.4% of that index at the end of 2016.

The SBI TOP ended the year in positive territory, while the Ljubljana Stock Exchange was characterised by a drop in total turnover and a reduction in the market capitalisation of all shares relative to the previous year. Turnover in Telekom Slovenije shares totalled EUR 18.2 million, or 5.8% of total turnover on the stock exchange.

The price of Telekom Slovenije shares closed at EUR 71.10 on the last trading day of 2016, a year-on-year decline in value of 2.6%. The value of the SBI TOP index was up 3.1% over the same period. The highest share price of EUR 82.90 was achieved on the first trading day of 2016.

The market capitalisation of Telekom Slovenije stood at EUR 464.67 million as at 31 December 2016, accounting for 9.3% of the market capitalisation of all shares on the stock exchange.

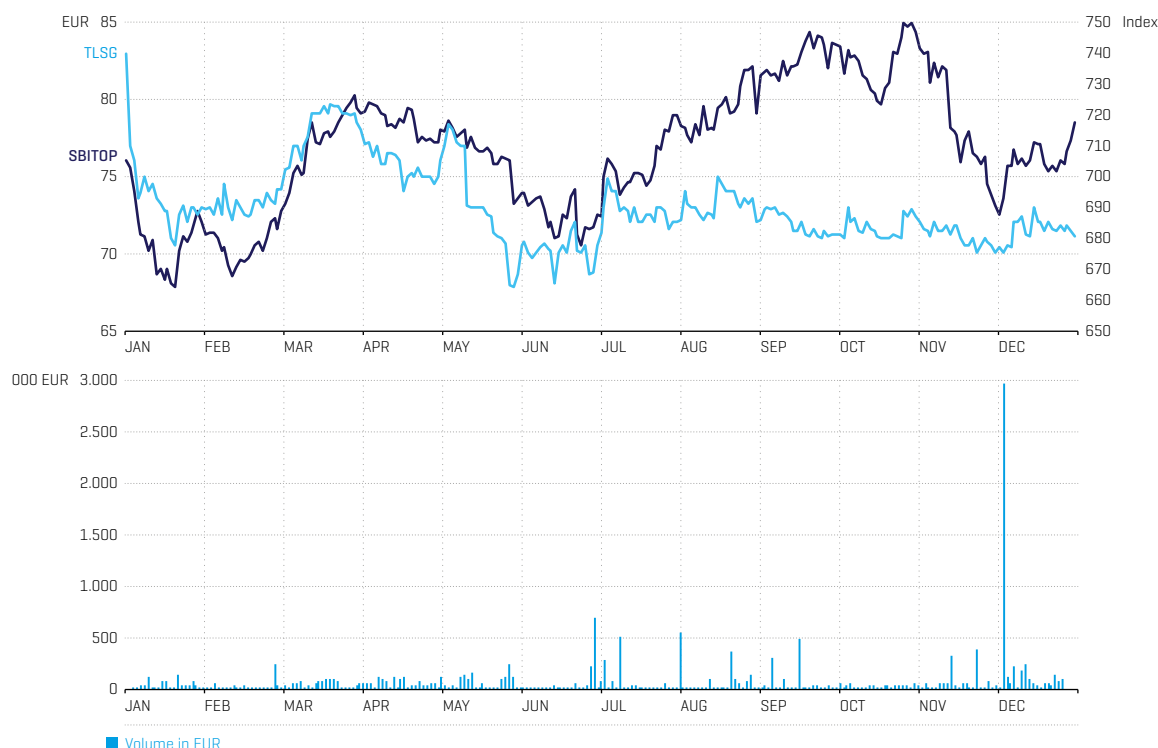
Together with a dividend yield of 7.0%, Telekom Slovenije shares recorded a yield of 4.4% in 2016.

Trading statistics for TLSG shares on the Ljubljana Stock Exchange

Standard price in EUR	2016	2015
Highest daily price	82.90	150.00
Lowest daily price	67.81	71.00
Average daily price	73.01	103.68
Volume in EUR thousand	2016	2015
Total volume for the year	18,174.80	25,475.85
Highest daily volume	2,959.71	1,154.94
Lowest daily volume	0.07	0.24
Average daily volume	72.41	101.50

23 GRI GS 102-5, 102-10

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



Source: Ljubljana Stock Exchange, archive of share prices

Key financial data relating to shares

	31 December 2016	31 December 2015 Restated *
Standard price [P] of one share on the last trading day of the period in EUR	71.10	73.01
Book value [BV] ¹ of one share in EUR	108.00	107.37
Earnings per share [EPS] ² in EUR	6.14	10.54
P/BV	0.66	0.68
Capital return per share during the year ³	-2.62	-49.65 %
Dividend yield ⁴	7.03	13.70

Notes:

* The comparative data from the statement of financial position for 2015 has been restated as at 31 December 2016 to a change in accounting policy.

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

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

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

⁴ Dividend yield is calculated as the ratio of the last paid dividend to the share price on the final trading day of the year

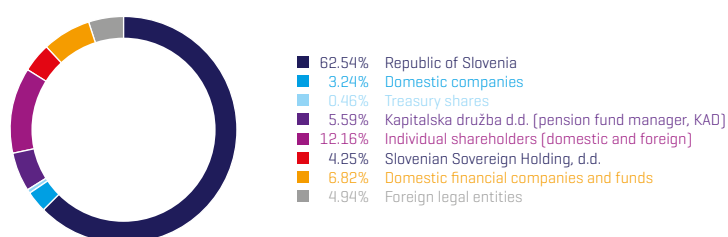
Ownership structure and largest shareholders at the end of 2016

Telekom Slovenije had 10,002 shareholders at the end of 2016, a decrease of 756 on the end of 2015. The most notable decline [of 743] was recorded by the category of individual shareholders.

With a total stake of 95%, domestic investors are predominant in the Company's ownership structure. That stake was down 0.9 percentage points in favour of international investors. The Company's largest shareholder remained the Republic of Slovenia, together with Kapitalska družba, Slovenski državni holding and the First Pension Fund and its guarantee fund in the form of Modra zavarovalnica. Collectively, 74.15% of the Company's shares were directly or indirectly held by the Republic of Slovenia at the end of the year.

Individual shareholders represent the second largest category of owners and increased their stake further in 2016. Foreign corporates increased their ownership stake, while domestic corporates and domestic financial corporations and funds reduced their stake.

Ownership structure as at 31 December 2016



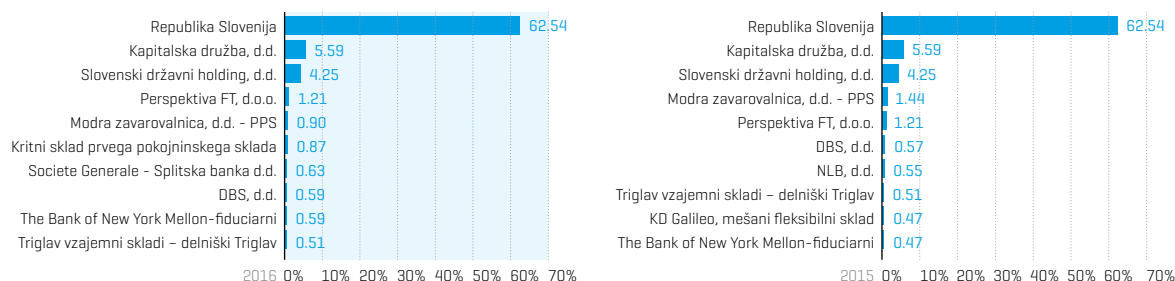
Note: As at 31 December 2016 the Company began classifying shareholders in accordance with the standard classification of institutional sectors.

Changes in the ownership structure by shareholder category

Shareholder	% ownership as at 31 December 2016	% ownership as at 31 December 2015	Annual change in percentage points
Individual shareholders (domestic and foreign)	12.16	11.75	0.41
Slovenian corporate investors	3.24	3.64	-0.41
Slovenian financial corporations and funds	6.82	7.66	-0.84
Foreign corporate investors	4.94	4.10	0.84

Ten largest shareholders

The concentration of ownership, as measured by the ownership stake held by the ten largest shareholders, stood at 77.68% at the end of the year, an increase of 0.08 percentage points in year-on-year terms. The structure of the ten largest shareholders changed. Prvi pokojninski sklad (First Pension Fund) of Modra zavarovalnica transferred its stake in the amount of 0.54% to Kritni sklad prvega pokojninskega sklada (First Pension Fund Guarantee Fund). Soci t  G n rale – Splitska banka became one of the top ten shareholders in 2016, while NLB sold its entire stake.



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

Members of the Management Board and Supervisory Board held 1,542 TLGS shares as at 31 December 2016. The total number of shares held by the Management Board and Supervisory Board was up by 34 relative to the end of 2015, primarily as the result of changes in the composition of the two aforementioned bodies.

Name	Office	Number of shares	% of equity
Management Board			
Rudolf Skobe, MSc	President of the Management Board	300	0.00459
Ale� Aber�ek	Member of the Management Board	50	0.00077
Supervisory Board			
Adolf Zupan, MSc	Vice-President of the Supervisory Board	1,094	0.01674
Samo Podgornik	Member of the Supervisory Board	92	0.00141
Primo� Per	Member of the Supervisory Board	5	0.00008
Dean �igon	Member of the Supervisory Board	1	0.00002
Total		1.542	0.02361

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

Investor relations²⁴

We communicate regularly and comprehensively with existing and potential shareholders, and other interested parties. To that end, we adhere to the principles of equal treatment, transparency, timeliness and the accuracy of information. The transparency of the Telekom Slovenije Group's operations is achieved by complying with the criteria and standards that apply to the issuers of shares on the prime market.

We communicated with interested domestic and foreign investors and analysts at individual meetings and investor conferences, via teleconferences and via the following email addresses: ir@telekom.si, skupscina@telekom.si and dividenda@telekom.si. We also publish answers on the Company's website to shareholders' questions received by email or regular post.

We carried out the following activities in 2016 in the scope of investor relations:

- following the publication of unaudited operating results, we sent a quarterly electronic publication to all registered domestic and foreign recipients. That publication included a selection of the most important news for a specific period, supported by actual data regarding operations;
- prior to the regular General Meeting of Shareholders, we issued the Telekom Shareholder magazine, which provides shareholders key information regarding the General Meeting of Shareholders, operations and current business events in the Group; and
- we organised a General Meeting of Shareholders and broadcast it live over the internet.

The Company regularly publishes price-sensitive and other important information on its website in the Investor relations section and in the Ljubljana Stock Exchange's SEOnet system. A total of 52 press releases were issued in 2016, with simultaneous publication in Slovene and English.

Financial calendar

The financial calendar for 2017 was published in the Ljubljana Stock Exchange's SEOnet system, and is also accessible on the Company's website at <http://www.telekom.si/en/investor-relations/financial-calendar>, where any changes to the financial calendar are also published.

Dividend policy

Telekom Slovenije guarantees long-term stable dividends that pursue the objective of a balance between profits for our owners and the use of free cash flow for the financing of investments, which ensures long-term growth and the maximisation of value for owners.

At the 27th General Meeting of Shareholders held on 13 May 2016, shareholders adopted a resolution on the use of distributable profit for the 2015 financial year. Dividends in the gross amount of EUR 5.00 per share were paid in August 2016 on the basis of that resolution.

Own shares held in treasury

The number of the Company's treasury shares has remained unchanged since their acquisition in 2003. The Company held 30,000 treasury shares as at 31 December 2016, representing 0.46% of equity.

24 GRI GS 102-43



EVERY MOMENT BEGINS WITH GOOD OPPORTUNITIES

Sound and strong partnerships generate
good opportunities for growth.



2. BUSINESS REPORT

2.1 FINANCIAL RESULTS OF THE TELEKOM SLOVENIJE GROUP

The Telekom Slovenije Group generated a net profit of EUR 39.9 million.
And EBITDA of EUR 199.3 million.

Key financial performance indicators of the Telekom Slovenije Group²⁵

in EUR thousand and %	2016	2015 restated	2014	Index 16/15
Net sales revenue	701,748	728,279	756,454	96
Other operating revenues	9,433	17,663	8,442	53
Total operating revenues	711,181	745,942	764,896	95
EBITDA	199,264	206,380	170,051	97
EBITDA margin = EBITDA/net sales revenue	28.4%	28.3%	22.5%	100
EBIT	36,122	50,825	11,418	71
Return on sales: ROS (EBIT/net sales revenue)	5.1%	7.0%	1.5%	74
Net profit	39,940	68,559	1,506	58
Assets	1,367,419	1,321,567	1,346,586	103
Capital	705,862	701,727	697,582	101
Return on assets (ROA)	3.0%	5.1%	0.1%	58
Return on equity (ROE)	5.7%	9.8%	0.2%	58
Equity ratio	51.6%	53.1%	51.8%	97
Net financial debt	246,501	277,008	344,221	89
NFD/EBITDA	1.2	1.3	2.0	92
Investment in property, plant and equipment (CAPEX)	147,737	119,896	176,481	123
EBITDA – CAPEX	51,527	86,485	-6,430	60
Ratio of (EBITDA – CAPEX) to EBITDA [cash margin]	25.9%	41.9%	-3.8%	62

*Data for the comparative period are restated to reflect a change in accounting policy. More information can be found in the Financial Report beginning on page 154

Income statement analysis²⁶

The Telekom Slovenije Group's **operating revenues** totalled EUR 711.2 million in 2016, a decrease of 5% relative to the previous year. The Telekom Slovenije Group's net sales revenue was down 4% on 2015, to stand at EUR 701.7 million. However, the Macedonian company One was included in consolidation in 2015 until 31 July. A comparison of revenues in 2015 excluding One indicates that the net sales revenue generated during 2016 were EUR 5.7 million or 1% higher than those generated in 2015.

Telekom Slovenije's net sales revenue was also up by EUR 5.4 million or 1%, to stand at EUR 639.5 million, primarily due to higher revenues on the wholesale market, which were up 6% on 2015, and higher revenues from broadband and IT services. Telekom Slovenije achieves growth in revenues, 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. Revenues from broadband and unbundled access and from national tracking services are growing on the domestic market, while primarily revenues from international transit traffic are recording growth on the international market.

The Telekom Slovenije Group's **operating expenses** were down 3% relative to 2015 to stand at EUR 675.1 million. Through the consolidation of operations and the optimisation of processes within the Telekom

25 GRI GS 102-7, GS 201-1

26 More information can be found in the Financial Report beginning on page 154.

Slovenije Group, we achieved a reduction in all costs relative to 2015, except the costs of amortisation/depreciation, which were up 5% due to an increase in fixed assets, and other operating expenses. The latter were up by EUR 4.3 million or 32% due to the creation of provisions, the revaluation of real estate and the impairment of claims against T-2, against which bankruptcy proceedings were re-initiated in March.

Earnings before interest, taxes, amortisation and depreciation (EBITDA) totalled EUR 199.3 million, which was higher than planned. An EBITDA margin [EBITDA/net sales revenue] of 28.4% was achieved.

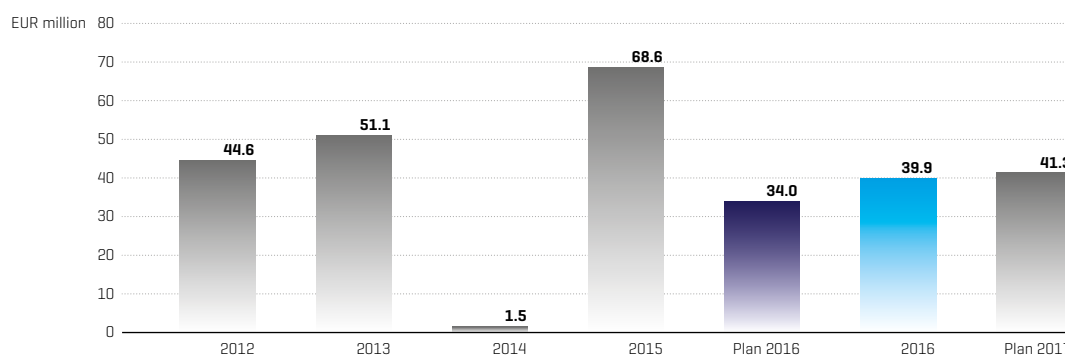
Return on sales amounted to 5.1%.

Earnings before interest and taxes (EBIT) was EUR 36.1 million.

Finance income amounted to EUR 23.6 million, which is EUR 15.7 million or 40% less than the finance income recorded in 2015. Finance costs in the amount of EUR 19.4 million were up by 3% or EUR 591 thousand. The share of profit of associates and joint ventures totalled EUR 6.4 million.

Following the calculation of income tax and deferred taxes in the amount of EUR 6.1 million, the Telekom Slovenije Group generated a **net profit** of EUR 39.9 million in 2016, which was EUR 16% higher than planned, but is not comparable to the net profit achieved in the previous year due to the one-off effect of the exclusion of One in 2015. Telekom Slovenije and the Telekom Austria Group established a new company in Macedonia in 2015, in which the former holds a 45% participating interest and the latter holds a 55% participating interest. The memorandum of association includes conditions for Telekom Slovenije's withdrawal from the newly established company within three years. In accordance with the relevant standards, the effects of that withdrawal are recorded in the period in which the merger occurs.

Net profit of the Telekom Slovenije Group by year



Balance sheet analysis

Total assets stood at EUR 1,367.4 million as at 31 December 2016, an increase of 3% or EUR 45.9 million on the previous year.

Non-current assets totalled EUR 975.8 million, a decrease of 2% or EUR 16.8 million. The proportion of the Company's total assets accounted for by non-current assets was 71.4%. Property, plant and equipment were also down, by EUR 30.9 million, due to impairment.

Current assets amounted to EUR 391.6 million, an increase of 19% or EUR 62.7 million. Of that amount, cash and cash equivalents were up by EUR 31.9 million, while short-term deferred costs and accrued income were up by EUR 17.3 million and current investment were up by EUR 16.3 million.

Equity and reserves totalled EUR 705.9 million, an increase of 1% or EUR 4.1 million relative to the end of 2015, and representing 51.6% of total assets.

Non-current liabilities in the amount of EUR 162.2 million represented 11.9% of total assets, primarily on account of the reclassification of financial liabilities from issued bonds to current liabilities. Telekom Slovenije repaid liabilities from bonds issued in the amount of EUR 300 million when those bonds matured in December 2016, and refinanced those liabilities via a long-term syndicated loan in the same amount. The liabilities from the aforementioned loan were classified as short-term in the Company's books of account at the end of December 2016 in accordance with the requirements of financial standards, as one of the provisions of the associated loan

agreement was breached [negative equity at lpko]. The creditor banks involved have already issued a waiver.

Current liabilities in the amount of EUR 499.3 million represented 36.5% of total assets.

Segment reporting

The criterion for segment reporting is the registered office where an activity is performed. The Telekom Slovenije Group thus presents its operations in the following two segments: Slovenia and other countries. More details are provided in the Financial Report in point 4 of section 3.2.2 Segment reporting.

2.2 FINANCIAL MANAGEMENT AND PERFORMANCE

The objective of the Telekom Slovenije Group's financial policy is to ensure solvency and a sustainable structure of capital over the long term. The implementation of that policy and the determination of the key guidelines in the area of financial management for Group companies are the responsibility of the parent company.

The Group's capital adequacy and solvency are 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, the optimisation of working capital and cash, and the management of key financial risks.

The Group ensures liquidity reserves through short-term revolving credit lines that are regularly renewed, but were not drawn at the end of the year. Taking into account overdraft limits on transaction accounts, the Group's total liquidity reserves amounted to EUR 105.5 million at the end of 2016.

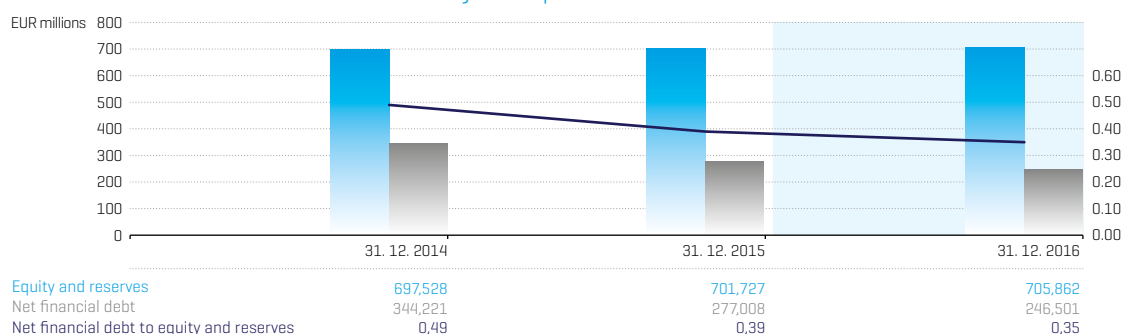
As a rule, subsidiaries secure borrowings from the parent company, which is responsible for financing the Group. Internal financing within the Group and the reallocation of surplus cash between individual companies facilitate synergies due to the more favourable financing terms achieved by the parent company, and more efficient cash management. Such financing ensures the optimisation of net finance income/costs, reduces the Group's exposure to external borrowing and thus ensures greater financial flexibility and the more effective management of the liquidity of all Group companies.

Indebtedness is relatively low at the Group level. The Group's total financial liabilities amounted to EUR 408.7 million at the end of 2016. The majority of that amount was accounted for by the issue of 5-year bonds in the amount of EUR 100 million and a long-term syndicated loan in the amount of EUR 300 million. The latter was drawn down in December to repay bonds issued in 2009 in the same amount. The loan is broken down into three tranches with different repayment schedules, with a final maturity in March 2023, which will ease the burden on cash flows that would have been caused by a large one-time repayment of the debt.

Composition of and changes in net financial debt

Existing long-term loans are repaid regularly in accordance with the associated loan agreements. The Group's net financial debt amounted to EUR 246.5 million on the final day of 2016, a decrease of 11% relative to 2015. The Group improved its financial stability in 2016, as it reduced its net financial debt to equity ratio, which stood at 0.35 at the end of the year.

Net financial debt of the Telekom Slovenije Group

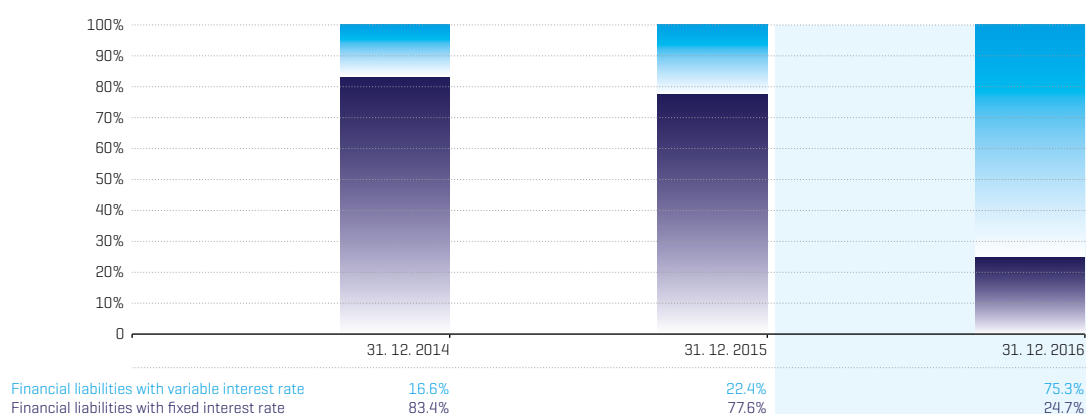


The Group secured new long-term sources of financing in the amount of EUR 400 million. Liabilities from a long-term loan in the amount of EUR 300 million were classified as short-term in the books of account at the end of December 2016 in accordance with the requirements of financial standards due to a breach of the provision of the associated loan agreement, for which the creditor banks involved issued a waiver in February 2017. Excluding the aforementioned transfer of a loan to the current portion, non-current liabilities accounted for 94% of total financial liabilities, while current financial liabilities accounted for 6%.

At 75.3%, loans raised account for the majority of interest-bearing sources of financing, followed by issued bonds at 24.7%, while finance leases account for a negligible amount.

All loans raised bear variable interest rates linked to the 3- and 6-month EURIBOR, while the coupon rate on issued bonds is fixed at 1.95%. The weighted mark-up on the variable portion of the interest rate on all loans within the Group stood at 162 basis points at the end of the year.

Ratio of variable to fixed-rate sources of financing



Exposure to interest-rate risk was not hedged in 2016, as Telekom Slovenije did not draw down a long-term loan in the amount of EUR 300 million until the second half of December 2016. That loan accounted for 98.2% of interest-bearing financial liabilities. In accordance with the loan agreement, an interest-rate hedging agreement was concluded in February 2017 in an amount equal to one half of the seven-year tranche [EUR 100 million] and one half of the five-year tranche [EUR 100 million], for the entire duration of each tranche.

Financial risk management

The primary focus of financial risk management in 2016 was on liquidity and solvency risk, and credit risk. A more detailed description of the processes for managing financial risks is provided in the Financial Report in section 40 Financial risk management.

Fulfilment of financial commitments

Creditor banks require the Group to maintain the values of financial commitments and indicators set out in loan agreements. Failure to fulfil those commitments could result in the early maturity of loans. All financial commitments at the Group level were met as at 31 December 2016. One other contractual provision was breached, but creditor banks have already issued a waiver.

Credit rating

In June 2016 the international ratings agency Moody's Investors Service Ltd. published a new credit rating report for Telekom Slovenije in which it reconfirmed the Company's credit rating of Ba2, but upgraded its outlook to stable. That change was primarily the result of the successful completion of the process to secure long-term borrowings in the amount of EUR 400 million, which the aforementioned agency believes significantly improved Telekom Slovenije's liquidity profile.

At the beginning of January 2017, the ratings agency S&P Global Ratings gave Telekom Slovenije a long-term rating of BB+, with a stable outlook. The aforementioned agency 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.

2.3 INVESTMENTS IN FIXED ASSETS AND FINANCIAL INVESTMENTS

Investments in fixed assets²⁷

The Telekom Slovenije Group earmarked EUR 147.7 million for the construction, modernisation and development of networks and services, an increase of 23% or EUR 27.8 million relative to 2015. Of the aforementioned amount, EUR 130.8 million was earmarked for investments by Telekom Slovenije, while the remainder was earmarked for investments in the development of networks by subsidiaries in South-Eastern Europe. The majority of investments were earmarked for the upgrading and development of broadband fibre optic networks and next generation mobile networks, with a focus on technological development, the development of new services and continuing optimisation at all levels of operations.

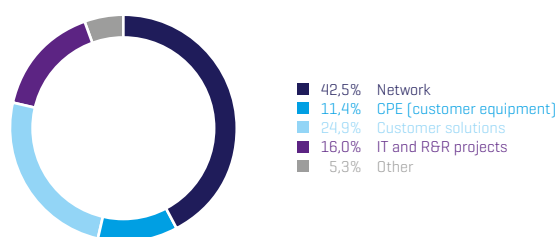
In line with the strategy to strengthen our market position, we began implementing a project to construct a gigabit passive optical network (GPON) in February 2016.

Through the consolidation of the IT environment, we simplify business processes, deploy changes in new systems more rapidly, accelerate the introduction of new products and services, and thus make the Company's operations more efficient. For more information, see section 2.8 Network, technology and IT.

Investments in fixed assets

in EUR thousand	2016	2015 restated	Index 16/15
Telekom Slovenije	130,799	94,384	139
Other companies in Slovenia	2,839	2,109	135
Ipko – Kosovo	11,915	17,267	69
One and Digi Plus Multimedia – Macedonia	0	2,829	0
Other companies abroad	3,561	4,795	74
Eliminations and adjustments	-1,377	-1,488	93
Telekom Slovenije Group	147,737	119,896	123

Breakdown of investments in fixed assets



Financial investments

Telekom Slovenije accounts for the majority of financial investments within the Group. Investments in subsidiaries and joint ventures, and investments in the form of loans to Group companies account for the majority of financial investments.

More information can be found in the Telekom Slovenije Group's Financial Report.

27 GRI GS 203-1, GS 103-1, 103-2, 103-3, GRI I01

2.4 RISK MANAGEMENT

We regularly updated the list of identified risks and reporting.

We redefined acceptable degrees of risk.

We monitored deviations from acceptable degrees of risk, and implemented the appropriate measures as required.

We gradually introduced key risk indicators.

We strengthened the culture of the responsible assumption of risks.

Risk management system

For the Telekom Slovenije Group, risk means any uncertainty regarding an event that may have a positive or negative impact on the achievement of objectives. Risk is, by nature, incorporated into all business processes and decisions. The risk management system is based on the Risk Management Policy, which is binding for all Group companies. The aforementioned policy includes the basic guidelines for managing risks, including powers and responsibilities.

The risk management system is coordinated by Telekom Slovenije's Finance Department, and includes:

- reporting on significant risks;
- the development of methodologies and tools;
- drawing attention to the potential risks in individual areas and business functions; and
- cooperation and expert assistance in the implementation of risk management processes.

To that end, we also coordinate with the Internal Audit Service, which plans annual audits on the basis of the risk assessment and inventory. The Risk Committee, which is chaired by the competent member of the Management Board, plays a special role in guiding and coordinating activities. The aforementioned committee met at four sessions in 2016, where it discussed quarterly risk management reports and amendments to the associated methodology. It thus provided advice and offered assistance in the integration of risk management into business processes.

Risk identification and management

In every major business decision and project and in every business plan, potential risks must be identified and analysed and a plan drawn up for their continued management. This process includes systematic communication and consultation. It also includes defining, analysing, assessing, amending, controlling, monitoring and reviewing risks.

Identified risks are classified into the following four major categories:

- strategic or business risks,
- financial risks,
- operational risk,
- regulatory and compliance-related risks.

Risks are assessed according to the adopted methodology, where the degree of risk is calculated as the product of the probability of the realisation of a particular risk and its impact [effect]. The criteria for assessing the consequences of an event are financial effects and the sensitivity of the area in question, where assessment focuses on the impact on the satisfaction of users and a potential deterioration in the Company's reputation.

The Group employs the following strategies to manage risks: taking up risk, avoiding risk, transferring risk to a third party and mitigating risk.

The following measures are used to mitigate risks:

- the establishment of internal controls;
- the implementation of scenarios to reduce risks to an acceptable level;
- the execution of money-market transactions; and
- the use of derivatives, in particular interest-rate swaps and interest-rate caps.

The following risk owners play an important role in the risk management process:

- members of the Management Board,
- managing directors of Group companies,
- directors of sectors,
- heads of departments and other organisational units, and
- project managers and authorised experts.

Risk owners are responsible for the initial identification of risks in their own areas, for the monitoring of risks and for the implementation of necessary measures. The list of identified risks, both existing and potential, is updated regularly. The implementation of measures is monitored every three months, and the Management Board and Supervisory Board informed accordingly. An enclosure regarding perceived risks is also an integral part of the material submitted to the Management Board in decision-making processes.

Key risks within the Telekom Slovenije Group and activities in 2016

Key identified risks include:

- **risks from the external environment:** competition-market and regulatory risks, risks associated with failure by users and operators to fulfil obligations, and risks associated with climate change;²⁸ and
- **internal risks:** risks associated with the control and efficiency of processes, risks associated with the functioning and security of ICT, and employee-related risks.

Competition-market risks

Similar to the majority of other incumbent operators in the EU, Telekom Slovenije is faced with a declining number of users. This is primarily the result of stiff competition and the price-sensitivity of users. Among market risks and risks linked to the competition, the risk of the migration of business and residential users to the networks of competitors remains elevated. Telekom Slovenije adapts its portfolio of products and services, and carries out activities to promote sales and maintain existing subscribers with the aim of managing the aforementioned risks. A great deal of attention is given to improving user support processes.

Regulatory risks

Regulatory risks for Telekom Slovenije continue to be assessed as high, as the European Commission is drawing up measures for the implementation of the regulation governing the European single market for electronic communications. The aforementioned regulation eliminates retail surcharges for roaming and charges for roaming services, effective 15 June 2017. Telecommunication rules are being reformed in the scope of the European Commission's Digital Single Market strategy, as the existing European regulatory framework dates back to 2009.

Despite implemented measures to mitigate regulatory risks (presented in the overview of risks to which Telekom Slovenije is exposed), risks associated with procedures before regulatory bodies and legal risks linked to lawsuits and legislation persist.

Financial risks

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 revolving credit lines at banks and transaction account overdraft limits. Telekom Slovenije signed an agreement in March 2016 on a long-term syndicated loan in the amount of EUR 300 million for the refinancing of bonds that matured in December 2016. By doing so, it secured financing early, and thus eliminated refinancing risks and exploited the favourable lending conditions on the banking market. Telekom Slovenije issued new bonds on the domestic market in June in the amount of EUR 100 million for the purpose of financing investments. The issue of bonds and the raising of the aforementioned new loan significantly improved the structure of sources of financing and thus reduced the associated risks.

Liabilities with a variable interest rate account for 75.3% of the Group's total financial liabilities. The remaining liabilities are accounted for by issued bonds with a fixed interest rate. Exposure to interest-rate risk was not hedged in 2016, as Telekom Slovenije did not draw down a long-term loan in the amount of EUR 300 million until the second half of December 2016. That loan accounted for 98.2% of interest-bearing financial liabilities. An interest-rate hedging agreement was concluded in February 2017 in an amount equal to one

28 GRI GS 201-1

half of the seven-year tranche (EUR 100 million) and one half of the five-year tranche (EUR 100 million), for the entire duration of each tranche.

Currency risk is assessed as low. We thus do not use hedging instruments.

The most significant source of credit risk (the risk of failure by subscribers and operators to fulfil their obligations) is default by subscribers (retail segment) and operators (wholesale segment). Telekom Slovenije Group companies have therefore introduced risk management procedures that include the monitoring of business partners' credit ratings, collateral for receivables, the monitoring of high-traffic customers and debt collection. Debt collection activities are carried out according to a predefined timetable, while external collection efforts are carried out through specialised agencies. Due to the aforementioned activities, credit risk is assessed as manageable. A detailed overview of financial risks is presented in the Financial Report.

Risks associated with the outflow of revenues in billing processes

Similar to other operators, Telekom Slovenije identifies revenue-loss risk from centralised data capture to the billing process, as well as the risks associated with poor-quality data or the loss of data between OSS and BSS systems. This risk is mitigated using a system to prevent the outflow of revenues.

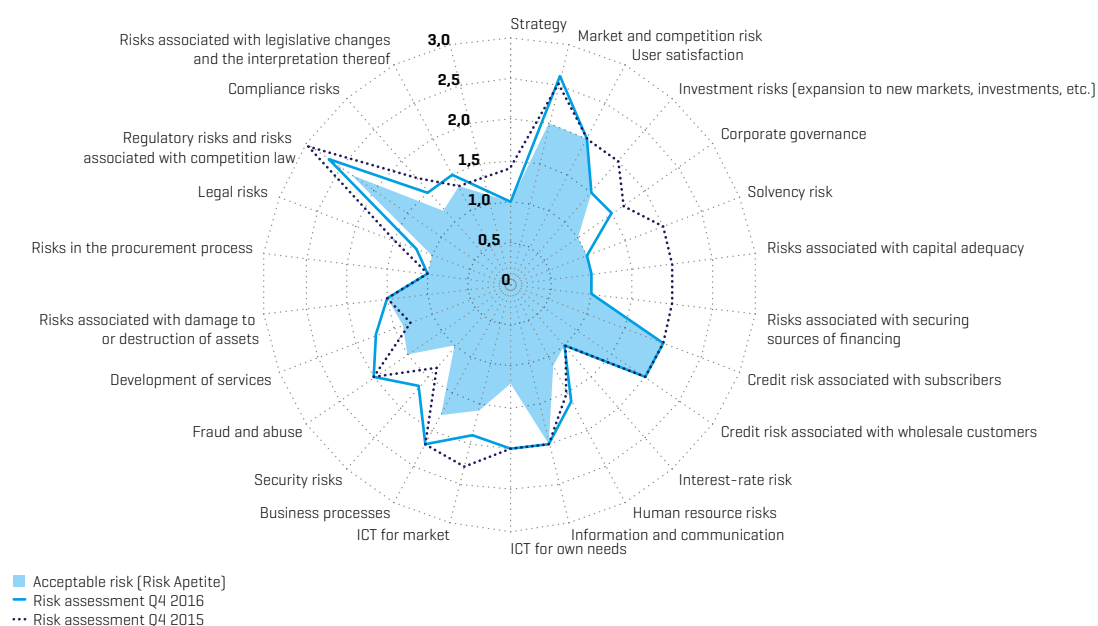
Risks associated with the functioning and security of information and communication technologies [ICT].

Special attention was given in 2016 to managing operational risks associated with ICT networks, services and devices. Risks associated with the functioning and security of the access network are assessed as moderate. To mitigate these risks, priority is given to the underground construction of the cable network, with the use of protective piping and cable ducts. Through intensive investments in the fibre optic network, we improved the functional reliability of the network and mitigated the risks associated with network obsolescence. We carried out updates and increased capacities through redundancy in certain network segments where we have identified increased functional and security-related risks.

The risks associated with the malfunctioning of connections and services provided by other entities are managed by introducing processes to monitor and report on SLA indicators on leased networks, and by standardising requirements vis-à-vis network providers for newly leased networks. Continuous notification regarding planned works on the networks of operators has been established.

Key risks by individual company and market

We verified and redefined levels of acceptable risk in 2016. A comparison of actual risk assessments with acceptable levels for Telekom Slovenije is illustrated in the following graph:



Key risks at individual companies and on markets, and the risks that the Group assesses it will be exposed to in the future are presented in the tables below. Risk management measures are presented for each identified risk. The monitoring and analysis of implemented measures are carried out by Telekom Slovenije's Finance Department in close cooperation with individual risk holders. The reasons for the ineffectiveness of adopted measures are analysed and corrective measures drafted on the basis thereof.

Risks for Telekom Slovenije

Strategic and business risks

Strategic and business risks are linked to the successful implementation of Telekom Slovenije's strategy, the ability to generate operating revenues in the short and long term, and to maintaining the value of assets and the Company's reputation.

Risk	Method of management	Impact	Probability	Degree of risk
Risk of a reduction in the number of users due to their migration to other service providers	<ul style="list-style-type: none"> Provision of competitive solutions in Telekom Slovenije's network. Provision of high-quality services and systems. Campaigns to prevent departures using a forecasting model. Adaptation of the portfolio of products and services to users and trends in the sector. Renovation of points of sale. Sales promotions via all sales channels. 	3	3	9
Risk of diminishing profitability of users	<ul style="list-style-type: none"> Optimisation of the portfolio of products and services in terms of content and price. Optimisation of the sales network. 	3	3	9
Risks associated with the consolidation of regional electronic communication markets	<ul style="list-style-type: none"> Active involvement in the consolidation process. Proper evaluation of synergies and the realisation of market opportunities. 	3	3	9
Risk of diminishing user satisfaction due to failure to fulfil the expectations and requirements of users	<ul style="list-style-type: none"> Internal and external education and training. Improvement of user-support processes. Mentoring and monitoring of the work of call centre employees. Measurement of customer satisfaction following each contact. 	3	2	6
Risks associated with the introduction of new services and products, and the modification of existing services	<ul style="list-style-type: none"> Simplification of the portfolio of products and services, and focus on a specific user segment in the introduction of new services. Testing of new products and equipment in the laboratory and via test users, and measuring the impact on other segments. Improved project management and efficiency calculations. Gradual launch of new services and the monitoring of their impact on existing services. Monitoring of the market and the competition, motivation of employees to provide innovative ideas and improvements, timely response to users' needs, and shortening the time from idea to realisation. Definition and management of business processes, and IT support for those processes. Intensive monitoring of the quality of services immediately following their introduction, and prompt measures to address identified deficiencies. 	2	2	4

Impact: 1 – low, 2 – moderate, 3 – significant, 4 – very high

Probability: 1 – unlikely; 2 – possible; 3 – very likely; 4 – almost certain

Risk level: ■ low [1–3], ■ – medium [4–6], ■ – high [8–9], ■ – very high degree of significance [12–16]

Financial risks

The table below summarises key financial risks and the measures implemented to manage them. These risks are covered in more detail in the Financial Report.

Identified financial risks

Risk	Method of management	Impact	Probability	Degree of risk
Risks associated with short-term solvency	<ul style="list-style-type: none"> • Planning and management of cash flows. • Management of working capital. • Short-term credit lines at banks. • Management of cash surpluses. • Regular contact with banks and verification of the possibility of refinancing existing debt. • Use of cash surpluses within the Group (cash pooling). 	3	1	3
Risks associated with capital adequacy and long-term solvency	<ul style="list-style-type: none"> • Ensure an appropriate debt-to-equity ratio. • Maintenance of current credit rating, thus ensuring the possibility of raising long-term sources of financing. 	3	1	3
Risks associated with securing sources of financing	<ul style="list-style-type: none"> • Ensure an adequate credit rating. • Alternative non-banking sources of financing. • Timely identification of the needs for sources. • Maintenance of business partnerships with banks. 	3	1	3
Risk of default by the subscribers	<ul style="list-style-type: none"> • Strict consideration of subscribers' credit limits in sales via all channels and the implementation of measures in accordance with the Rules on Claims Management. • Monitoring of daily shifts in a subscriber's traffic with regard to average use, and informing subscribers of increased usage. • Regular collection according to a timetable. 	3	2	6
Risk of operator default	<ul style="list-style-type: none"> • Introduction of a credit risk management system for operators. • Regular monitoring of receivables and liabilities, and collection under existing regulations. • Introduction of procedures in the event of default on the domestic wholesale market. • Verification of operators' credit ratings when concluding new agreements. 	3	2	6
Exposure to subsidiaries	<ul style="list-style-type: none"> • Supervision of the operations and financial position of subsidiaries. • Control over exposure amounts. • Inclusion of collateral in loan agreements 	4	1	4
Interest rate risk	<ul style="list-style-type: none"> • Continuous monitoring of the financial markets. • Interest-rate hedging in the amount of 50% of interest-bearing liabilities. 	1	2	2

Impact: 1 - low, 2 - moderate, 3 - significant, 4 - very high

Probability: 1 - unlikely; 2 - possible; 3 - very likely; 4 - almost certain

Risk level: ■ low [1-3], ■ medium [4-6], ■ high [8-9], ■ - very high degree of significance [12-16]

Operational risks

Operational risks, i.e. the risks of losses, are presented in the following table. These risks are the result of inadequate or failed internal processes, the conduct of people or the functioning of systems, and from external factors.

Identified operational risks

Risk	Method of management	Impact	Probability	Degree of risk
Risks associated with diminishing employee commitment	<ul style="list-style-type: none"> Concern for employees, and the training and development of managers at all levels. Human resource meetings with sector directors. Communication regarding the implementation of human resource systems. Upgrading of the remuneration system. 	2	2	4
Risks associated with the outdated or insufficient knowledge of employees	<ul style="list-style-type: none"> Consistent implementation of the training plan. Information regarding the use of new education and training channels. Promotion of the internal transfer of knowledge and a system of internal lectures. 	2	2	4
Risks associated with a lack of innovation and creativity	<ul style="list-style-type: none"> Development and promotion of a culture of innovativeness and creativity. Re-engineering of the innovation process and Brihta system. 	2	3	6
Risks associated with an inappropriate organisational culture	<ul style="list-style-type: none"> Appropriate communication with employees regarding Telekom Slovenije's strategic policies, vision and values. Definition of the desired organisational culture and the drafting of a strategy to achieve it. 	3	2	6
Risks associated with obstructions to constructive dialogue with social partners	<ul style="list-style-type: none"> Continuous cooperation with social partners. 	2	1	2
Risks associated with corporate media exposure and uncertainty among employees	<ul style="list-style-type: none"> Regular and continuous notification of employees. Monitoring of events in the internal and external environment. Active management of information in the shareholder environment. 	2	2	4
Risks associated with the functioning and security of ICT networks and devices	<ul style="list-style-type: none"> Implementation of preventive measures to detect possible problems and critical points; testing and training of personnel to take the proper action. Implementation of an information security management system (ISMS) for ordinary operations. Upgrading of the business continuity management system (BCMS) for the implementation of measures in the event of extraordinary events. 	3	2	6
Risk associated with the functioning of and security for the IP/MPLS segment	<ul style="list-style-type: none"> Implementation of the next generation aggregation network. 	4	2	8
Risks associated with planning and developing ICT	<ul style="list-style-type: none"> Continuous acquisition of expert knowledge in all areas. Testing and validation of solutions. Regular monitoring of trends. 	3	2	6
Risks associated with dependency on external service providers	<ul style="list-style-type: none"> Development of strategic partnerships with suppliers. Implementation of a dual vendor strategy where possible. Definition of procedures for managing partners in the process of developing IT solutions, and the formalisation of the process of managing IT needs. 	3	2	6
Risks associated with the malfunctioning of connections and services provided by other entities	<ul style="list-style-type: none"> Standardised requirements demanded by Telekom Slovenije from network providers for newly leased networks. Adaptation of IT systems to facilitate automatic and continuous notification regarding planned works on the networks of operators. Organisation of processes for monitoring and reporting indicators according to a service-level agreement (SLA) on leased networks. 	3	2	6
Risks associated with network and technology obsolescence	<ul style="list-style-type: none"> Migration of services from the copper-based network to the fibre optic network, preventive maintenance, replacement of critical elements, acquisition of additional backup equipment from equipment that has been removed. Introduction of new technological solutions. Upgrading of the network, taking into account real disposable resources. 	3	2	6

Risk	Method of management	Impact	Probability	Degree of risk
Risk of abuse	<ul style="list-style-type: none"> Use and upgrade of systems to prevent abuse [FMS – fraud management system]. Use of existing systems to protect the Company's facilities. Improvement of the security culture of employees. Introduction of new technologies to increase the security of services. 	2	3	6
Risks associated with losses due to the disclosure of trade secrets	<ul style="list-style-type: none"> Creation of an appropriate communication culture to reduce the uncontrolled outflow of information that could cause harm to the Company. Implementation of general acts to strengthen the security culture. 	3	1	3
Risks associated with cyber security	<ul style="list-style-type: none"> Implementation of an information security policy and information security management systems [ISMS]. Established security systems [firewalls, etc.]. 	4	2	8
Revenue-loss risk in "switch to bill" processes	<ul style="list-style-type: none"> The use of a system to prevent the outflow of revenues [RAS – revenue assurance system]. 	2	4	8
Risk associated with the effectiveness of processes	<ul style="list-style-type: none"> Identification and inventory of key processes, with proposals for improvement and optimisation. Enforcement of the adopted process re-engineering methodology at the Company. 	3	2	6
Risks associated with improperly conducted judicial and administrative proceedings.	<ul style="list-style-type: none"> Cooperation in the legislative process through the issuing of expert proposals. Active defence before the courts and the contesting of lawsuits, efforts to reach out-of-court settlements of disputes, consulting with internal and external legal experts to avoid further lawsuits in sensitive business decisions. 	4	1	4
Risk of damage/destruction of property – direct damage	<ul style="list-style-type: none"> Risk is transferred to an insurance company in the scope of defined coverage limits. 	3	2	6

Impact: 1 – low, 2 – moderate, 3 – significant, 4 – very high

Probability: 1 – unlikely; 2 – possible; 3 – very likely; 4 – almost certain

Risk level: ■ low [1–3], ■ – medium [4–6], ■ – high [8–9], ■ – very high degree of significance [12–16]

Regulatory and compliance-related risks

Regulatory risks are risks that derive from legal and regulatory requirements.

Identified regulatory and compliance-related risks

Risk	Method of management	Impact	Probability	Degree of risk
Risk of pressure from the regulatory body regarding price-related, technical and technological obligations	<ul style="list-style-type: none"> Proactive participation in all regulatory proceedings by submitting remarks, positions and the appropriate analyses. 	3	3	9
Ensuring compliance with competition law	<ul style="list-style-type: none"> Ensure operational compliance by considering legal opinions. Active defence in procedures, consultation with external and internal lawyers in the adoption of sensitive business decisions. 	4	2	8
Compliance risk associated with the use of software licences	<ul style="list-style-type: none"> Restrictive policy on the allocation of software for use. Employee awareness about the importance of using legal software tools. Replacement of licenced software with open-source software. 	3	2	6
Risks associated with energy efficiency and environmental management	<ul style="list-style-type: none"> Maintenance and upgrading of formalised quality management systems. Implementation of a project aimed at the efficient use of energy and the monitoring of indicators. 	2	3	6
Personal data protection	<ul style="list-style-type: none"> Procedures and measures for protecting personal data, preventing the accidental or intentional unauthorised destruction of data, or changes to or loss of data, as well as unauthorised data-processing. 	2	1	2
Risks associated with corporate integrity	<ul style="list-style-type: none"> Code of ethics and guidelines on conflicts of interest. Establishment of a compliance system. 	2	2	4

Impact: 1 – low, 2 – moderate, 3 – significant, 4 – very high

Probability: 1 – unlikely; 2 – possible; 3 – very likely; 4 – almost certain

Risk level: ■ low [1–3], ■ – medium [4–6], ■ – high [8–9], ■ – very high degree of significance [12–16]

Key risks for TSmedia

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

Key risks for GVO

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

Key risks for Avtenta

- The **risk of an insufficient number of 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

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

Key risks for Kosovo

- **Competition and market risks** are present, in particular the risk of unfair competition. We respond to those risks by monitoring tenders and through the appropriate use of legal remedies, while a more proactive approach is taken in operations with business users.
- The **risk of declining revenues due to alternative communication channels** (Viber, Skype, etc.) is managed by closely monitoring the development of the market. Negative effects are partly offset by adapting offers for data services.
- **Risks** have been identified **due to differing interpretations of the copyright fee** for the transfer of programmes via a cable platform, which is defined by the law governing copyrights. We are addressing those risks in negotiations with the VAPIC, the collective organisation for copyrights.
- The risk of a potentially inappropriate capital structure is managed by implementing measures to improve operations and by drafting plans to ensure an appropriate capital structure.

Key risks in Bosnia and Herzegovina

- **Liquidity risk** is managed by planning and managing cash flows, and through short-term and long-term financing within the Group.
- **Legal risks** are assessed as high in Bosnia and Herzegovina due to the disorganised legal environment and protracted procedures to obtain building and operating permits. Individual sections of the network thus continue to operate without the requisite permits, despite the initiation of procedures aimed at legalisation.
- The **risks associated with the continuous functioning of the network and services** are mitigated by establishing redundant connections on individual segments of the network.

2.5 BUSINESS ENVIRONMENT AND TRENDS IN THE SECTOR

2.5.1 Impact of the macroeconomic environment on operations

Slovenia

Economic results in all EU Member States improved or remained stable in 2015, while economic growth is forecast for all Member States until 2017. The IMAD's Autumn Forecast of Economic Trends envisages the continuation of favourable economic developments for Slovenia. The pace of GDP growth will be dictated primarily by government investment in connection with the disbursement of EU funds. Real GDP growth is expected to be 2.3% in 2016, and 2.9% and 2.6% in 2017 and 2018 respectively.

The key factors to growth in economic activity will be exports and growth in foreign demand, and an improvement in the competitiveness of the tradable sector. In addition to the aforementioned factors, domestic consumption, in the context of a considerable improvement in conditions on the labour market and a high level of consumer confidence, is expected to contribute to growth. These positive trends will continue over the next two years. Consumer prices will rise slightly, but inflation will remain relatively low, at below 2% until 2018. Favourable developments are also expected on the labour market, but will be increasingly characterised by demographic changes, in particular a contraction in the working-age population.

Despite the favourable forecasts, certain uncertainties remain in the international environment, primarily in connection with Brexit, future migration flows and the varying pace of recovery of major global economies. Risks in the domestic environment are less pronounced and more balanced than in previous forecasts. Uncertainties relate primarily to the scope of future disbursements of EU funds and thus the scope of government investments.²⁹

Key macroeconomic indicators in Slovenia

	2012	2013	2014	2015	Projection (autumn forecast 2016)		
					2016	2017	2018
GDP (real growth in %)	-2.7	-1.1	3.1	2.3	2.3	2.9	2.6
GDP in EUR million (current prices)	36,003	35,917	37,332	38,570	40,004	41,416	42,885
Registered unemployment rate (in %)	12.0	13.1	13.1	12.3	11.2	10.2	9.5
Labour productivity (GDP per employee)	-1.8	0.0	2.6	1.2	0.4	1.5	1.5
Inflation (year-end rate)	2.7	0.7	0.2	-0.5	1.1	1.4	1.5
Inflation (annual average)	2.6	1.8	0.2	-0.5	0.1	1.4	1.5
Private consumption (real growth in %)	-2.5	-4.0	2.0	0.5	2.3	2.2	2.0
Government consumption (real growth in %)	-2.2	-2.1	-1.2	2.5	2.0	1.3	0.7

Source: SORS, Bank of Slovenia, ECB and IMAD calculations and forecasts [Autumn Forecast of Economic Trends, September 2016].

South-Eastern Europe

GDP in the countries of South-Eastern Europe where the Telekom Slovenije Group operates is at the level of emerging countries, and in some countries as much as six times lower than Slovenia's GDP. Despite gradual economic growth on the aforementioned markets, unemployment is still relatively high, which results in significantly lower prices for telecommunication services than in Slovenia. The economy on those markets remains dependent on economic and employment developments in Western Europe, which dictate transfers and direct foreign investment.

Economic growth was 4% in **Kosovo** in 2015. It remained at a similar level in 2016, at 4.1%. That growth is expected to decline somewhat next year, to 3.3%. The situation on the labour market is also improving, as the unemployment rate is falling gradually, and stood at 32.9% in 2015.

Economic growth continued in **Bosnia and Herzegovina**, and stood at 3% of GDP in 2016. Growth is expected to strengthen slightly next year, to 3.2%. Although the unemployment rate is gradually falling, it remained relatively high in 2015, at 27.7%, and is forecast at 25.4% in 2016.

29 Source: Autumn Forecast of Economic Trends 2016, Institute of Macroeconomic Analysis and Development, Ljubljana, September 2016

Macroeconomic indicators for the markets of South-Eastern Europe

	Slovenia	Kosovo	Bosnia and Herzegovina
GDP per capita in EUR			
2014	18,107	3,023	3,606
2015	18,693	3,140	3,733
Forecast 2016	19,376	3,223	3,841
Forecast 2017	20,056	3,318	3,998
GDP growth in %			
2014	3.1	1.2	1.1
2015	2.3	4.0	3.2
Forecast 2016	2.3	4.1	3.0
Forecast 2017	2.9	3.3	3.2
Inflation (consumer prices) in %			
2014	0.2	-0.4	-0.5
2015	-0.5	-0.1	-1.2
Forecast 2016	1.1	0.5	-0.3
Forecast 2017	1.4	1.7	0.7
Unemployment rate in %			
2014	13.1	35.3	27.5
2015	12.3	32.9	27.7
Forecast 2016	11.2	n/a	25.4
Forecast 2017	10.2	n/a	25.2

Source: Slovenia: IMAD, Autumn Forecast 2016, September 2016; SEE: IMF Outlook October 2016. The unemployment rate in Kosovo is provided by the Statistical Office.

2.5.2 State of the telecommunications sector and trends

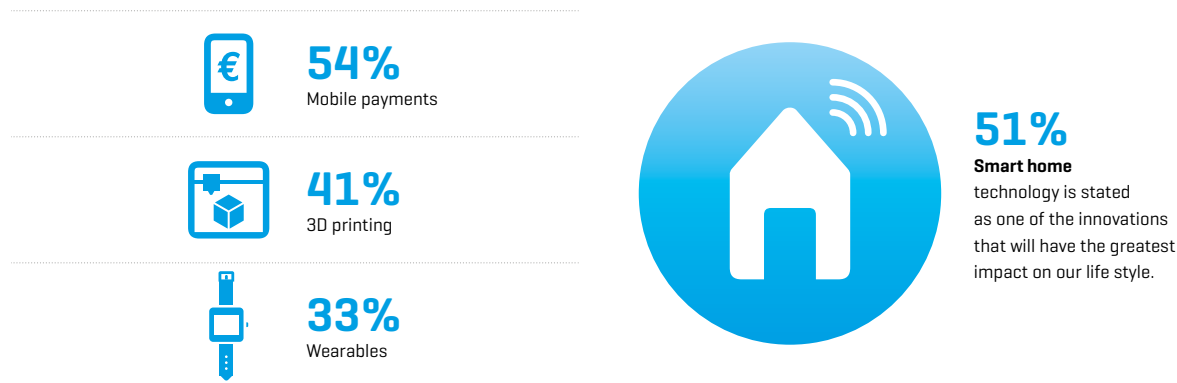
2.5.2.1 Technology trends

Today's lifestyle and digital awareness have reached a level where users are no longer satisfied with the simple and diversified use of products and services. They want comprehensive solutions that facilitate the advanced and simplified use of telecommunication products and services. Development trends relating to solutions are therefore geared towards simplified use and a uniform user experience through the connectivity of all communication channels and devices.

Telecommunication companies around the world are shifting rapidly and increasingly from traditional services to new services and "non-traditional business models". They are expanding their portfolios of products and services by introducing new technologies and through the connectivity of various devices. Mobile devices and broadband connectivity are increasingly part of society and will be crucial to ensuring growth trends in areas such as the broadcasting of video content, the Internet of Things, mobile payments and the management of devices and services. The use of smart technologies and connectivity will expand, which will facilitate the transition to full digitalisation, and thus the direct and continuous virtual interaction of users.

New opportunities are opening on the telecommunications market, primarily in the area of smart homes. These opportunities lead to the upgrading and linking of smart devices with smart solutions, and to connections within the entire home ecosystem. New areas are thus opening for distribution, as well as uses of products and services that have already become a reality in practice. The pictures below from research conducted by GfK [a consumer research company] illustrate technologies that consumers believe will have the greatest impact on life in the future.

Technologies of the future according to survey respondents



Source: GfK POS Tracking

Those surveyed stated security and control, energy and lighting as the most interesting areas in terms of smart homes, while 43% of those surveyed stated household appliances.

Areas for smart home application

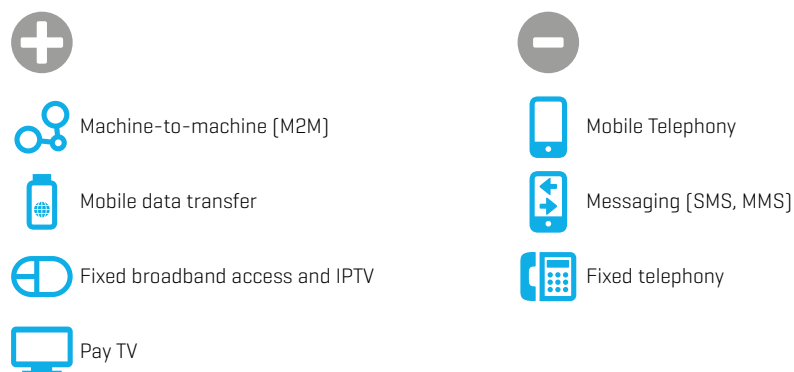


Source: GfK POS Tracking

Trends in the European telecommunications sector

According to the forecasts of analysts and the consultants of Analysys Mason, revenues from telecommunication services will decline in **Western Europe** until 2021. Total revenues will thus decline by 4% between 2015 and 2021, primarily due to a decline in revenues from mobile voice telephony, messaging [SMS and MMS] in fixed telephony. The highest growth will be achieved by M2M [machine to machine, i.e. communication between devices] and mobile data transfer. Growth will also be achieved by fixed broadband access and pay TV services, although that growth will be lower.

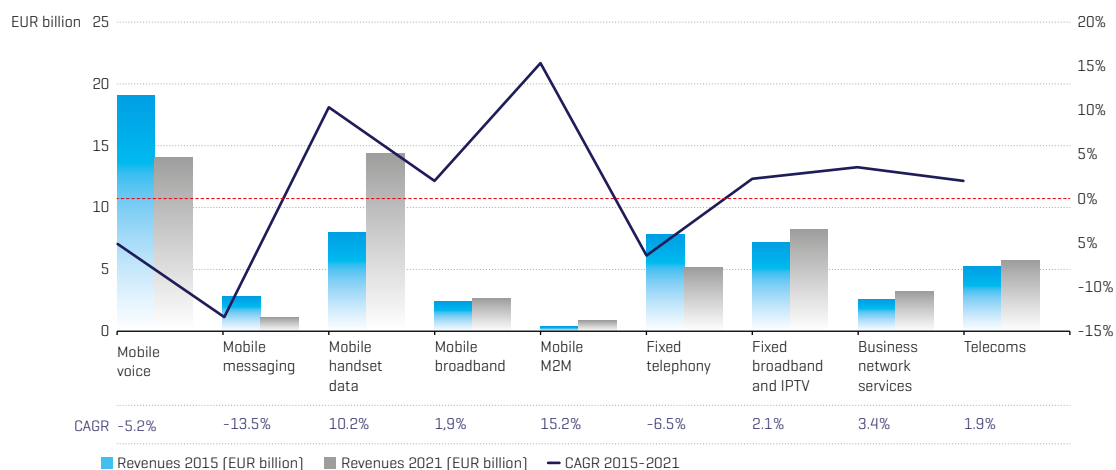
Revenues by service in Western Europe until 2021



Smart phones will be present almost everywhere by 2021. Growth in the aforementioned devices will facilitate a continued increase in the use of OTT [over-the-top] applications such as Netflix, YouTube, Viber and WhatsApp, which in turn will lead to a decline in revenues from mobile telephony and messaging. Mobile telephony revenues were already down by 8.6% in 2015, and that trend will continue until 2021. Mobile data transfer, fixed broadband access and IPTV will offset the decline in revenues from traditional mobile and fixed voice services until 2021, but will not entirely replace those services.

The analysts of Analysys Mason are also forecasting a decline in revenues from services until 2021 in **Central and Eastern Europe**, which is likewise expected to be the result of a decline in revenues from mobile telephony and messaging, which today account for the highest proportion of revenues. Among individual services, the highest growth will be recorded by M2M and mobile data transfer due to the increasing use of mobile phones on social networks and for other communication purposes [banking, purchases and games of chance]. The aforementioned categories will be followed by fixed broadband access, IPTV and pay TV. A decline in revenues in the mobile and fixed segment is also forecast for **Slovenia**, with a more pronounced drop in the mobile segment, where Slovenia will maintain the highest average revenue per user in the region, at above EUR 10 in 2021, primarily due to the high penetration rate of smart mobile phones. The aforementioned rate will exceed 80% in 2021.

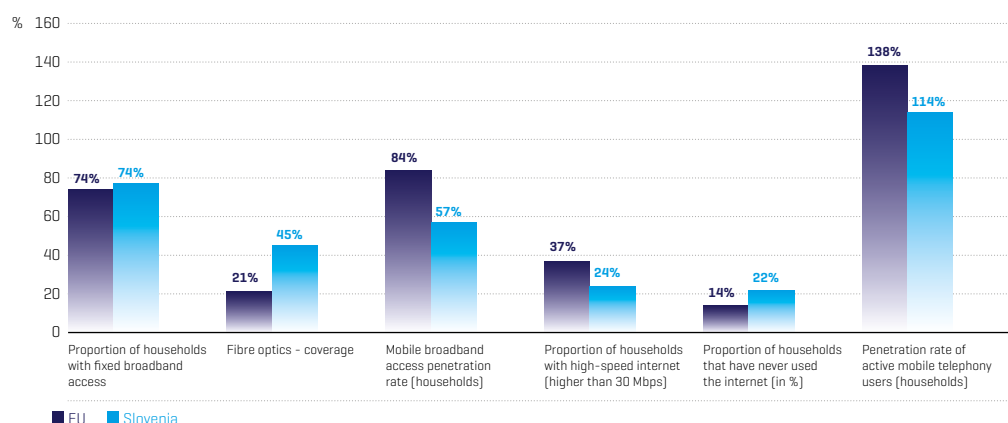
Revenue from telecommunications services – Central and Eastern Europe in the period 2015 to 2021



Source: Analysys Mason, 2016

In the area of **advertising**, the highest proportion of revenues in the period 2017 to 2021 in Slovenia will be recorded by digital advertising, the core activity of TSmedia. Targeted advertising, video advertising, mobile advertising and programmatic leasing represent the greatest opportunities within digital advertising. They also represent the three strategic monetisation categories in which TSmedia currently invests the most resources.

Comparison of the development of the Slovenian telecommunications market with the EU

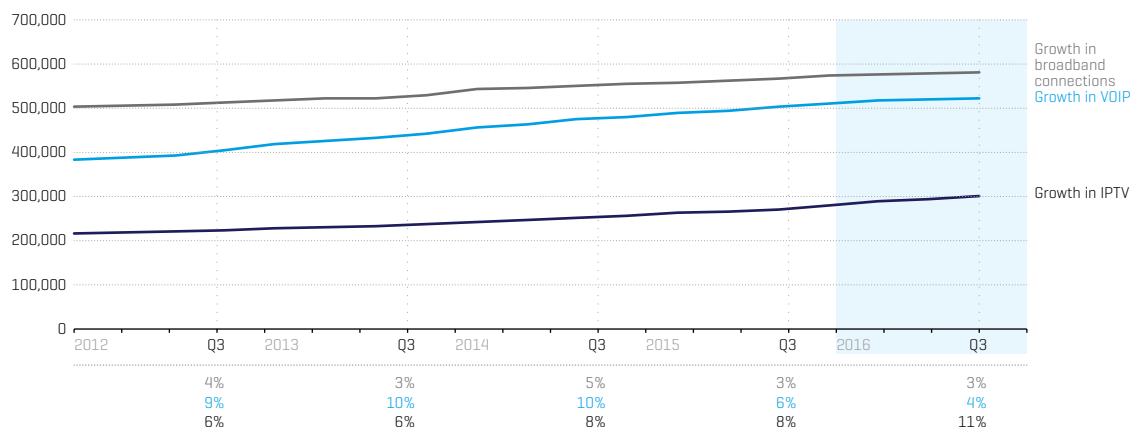


Source: European Commission (2016)

Fixed broadband access market

According to the latest figures from the European Commission (July 2015), Slovenia is below the EU average [31.6%] in terms of fixed broadband access penetration, at 28.0%. Growth in penetration is likewise below the EU average. The fixed broadband connection market is still growing in Slovenia, but the figures on the graph below indicate that growth has slowed somewhat.

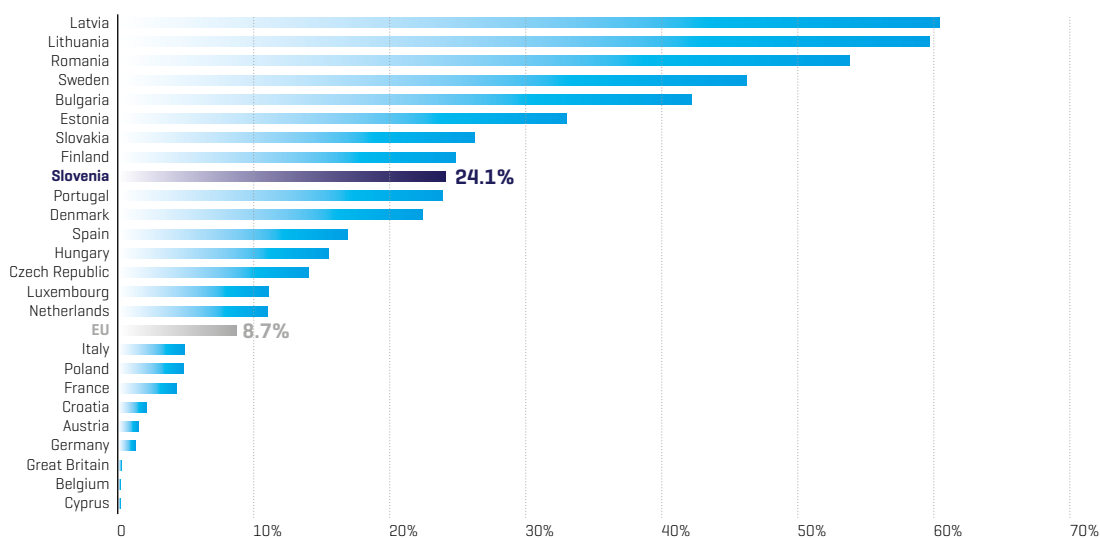
Growth in fixed broadband connections in Slovenia



Source: AKOS, SORS Q3 2016.

The most widely used fixed broadband technology remains xDSL, but its market share fell from 80% in 2009 to 69% in 2015. Slovenia still ranks among the leading countries in Europe in terms of household fibre optic access penetration (FTTx), and stands above the EU average in this regard. Broadband FTTx connections accounted for 24% of all broadband connections in Slovenia, compared with 9% in the EU.

Number of broadband internet connections accounted for by fibre optic connections [2015]



Source: European Commission, Digital Agenda Scoreboard, 2016

Pay TV market

The use of and revenues generated by non-linear, audio-visual and OTT services such as Netflix are growing exponentially. Netflix, the US provider of online film and TV content, expanded its service to 130 countries in 2016, including Slovenia.

IPTV and multimedia content services demonstrate a positive growth trend. IPTV accounts for 50.9% of all TV connections in Slovenia (Q3 2016) and continues to grow. It is followed by cable TV (43.9%), which faces a continuous decline in the number of connections. According to AKOS figures, 72.1% of Slovenian households have pay TV (Q3 2016). At 50.4%, Telekom Slovenije holds the highest share of the IPTV market.

Growth in IPTV connections in Central and Eastern Europe



IPTV

+40%

to 2021

The total number of IPTV subscribers will rise from 9.9 million in 2015 to 13.9 million in 2021.

Mobile broadband access

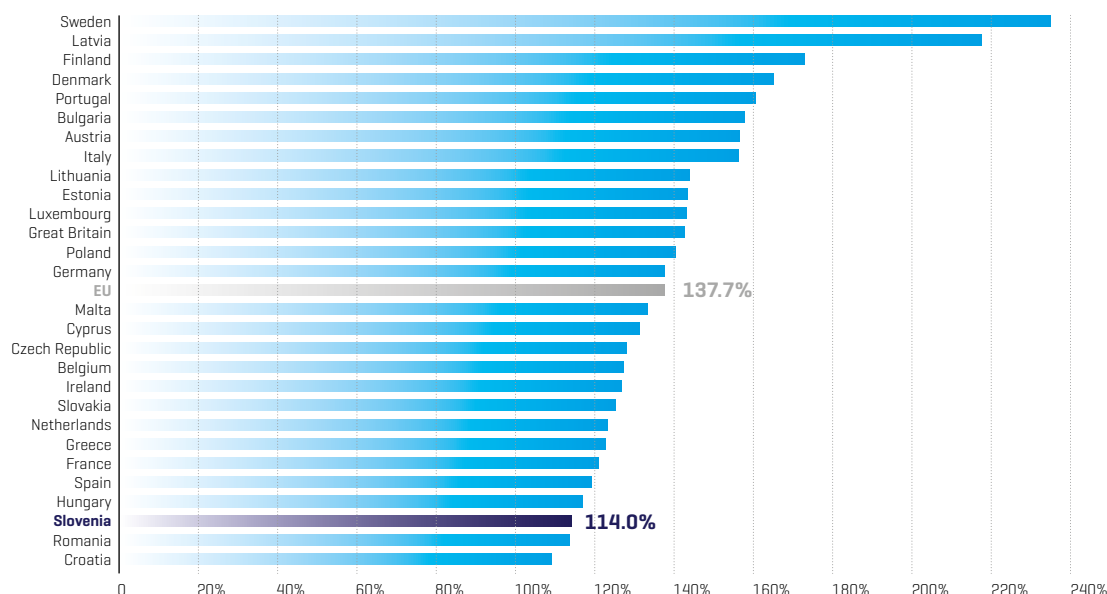
Mobile broadband internet access is the fastest growing segment of the broadband services market, as it is already used by more than 60% of active SIM cards, primarily as an alternative form of access and not as a replacement for fixed access. The majority of mobile broadband subscriptions are used on smart mobile phones, only then followed by tablets and laptop computers. At 49.7%, the penetration rate for mobile internet users in Slovenia is below the EU average (75.3%). The leaders are northern countries (Finland, Sweden, Denmark and Estonia), where penetration exceeds 100%.

The predominant technology in the future will be 4G, as the analysts of Analysys Mason are forecasting that it will already account for 83% of mobile broadband connections in 2021. Only a small proportion of users are expected to migrate to 5G technology by 2021. In 2016, 4G connections surpassed 3G connections in terms of revenues from mobile services. The former accounted for 35% of revenues from mobile services in 2015, with that figure reaching 92% by 2021.

Fixed and mobile telephony

In the **mobile segment**, Slovenia has the third lowest per capita penetration rate of active mobile telephony users in the EU (114% in 2015), giving it sufficient room for further development.

Mobile SIM card penetration in the EU by country



Source: European Commission, Digital Agenda Scoreboard, August 2016

The substitution of fixed telephony with mobile telephony in terms of traffic continues, as the proportion of traffic from the mobile network and VoIP is rising, while the proportion of traffic from the fixed network is on the decline.

The market shares of incumbent operators in the EU and their competitors are declining in the mobile segment. The market share of incumbent operators was 34.2% in 2015, and was lower than the share of other competitors. Telekom Slovenije has one of the highest market shares in the EU in the mobile segment (47.0% in the third quarter of 2016), and is thus under additional pressure from regulatory bodies. Telekom Slovenije also stands above the average of incumbent operators in the EU in terms of traffic in the mobile and fixed networks.

Package services [triple play and quadruple play]

Operators are combating the declining number of subscribers by offering increasingly varied packages that include fixed telephony, internet, TV and mobile telephony (quadruple play). One half of EU households had subscriber packages of services in 2015, while 80% of internet connections were purchased as part of packages. Growth in all packages, most notably in quadruple play packages, is also rising in Slovenia, while the number of stand-alone broadband access connections is falling.

Penetration rate for connections including packages of services [2015]³⁰



Slovenia
64.2%
EU
50.0%

The household penetration rate for connections including packages of services was 63.6% in Slovenia in the third quarter of 2016.

Source: Report on the development of the electronic communications market for the third quarter of 2016, AKOS, December 2016³¹

30 The trend in the penetration rate for connections including packages of services changed in the third quarter due to the more itemised method of reporting and thus more relevant data obtained from operators. All changes are the result of the intensive reconciliation of data with operators (AKOS).
31 The Statistical Office of the Republic of Slovenia conducted a census for 2015 in September. The penetration rates for connections are therefore given.

2.5.3 Regulation of electronic communications

Slovenia

Development of next generation broadband networks

Based on the next generation broadband network development plan covering the period until 2020, the Ministry of Education, Sport and Science issued a public call in May 2016 for a declaration of market interest in the construction of broadband networks. This will result in the determination of areas in which public funds will be available over the next three years to co-finance the construction of a broadband infrastructure. Telekom Slovenije and other potential investors expressed market interest for construction in specific areas.

National legislation and EU regulations

The Ministry of Public Administration drafted a new Electronic Communications Act [ZEKom-1C] in July 2016. The aim is to transpose into national legislation the requirements set out in Directive 2014/61/EU on measures to reduce the cost of deploying high-speed electronic communications networks. Telekom Slovenije submitted numerous comments and proposals in the scope of public consultations. The aforementioned ministry submitted the draft act for inter-ministerial discussions in December 2016.

Regulation [EU] 2015/2120, which lays down measures concerning open internet access and which envisages a reduction in mobile roaming prices, entered into force in April 2016. In August 2016 the Body of European Regulators for Electronic Communications [BEREC] issued the Guidelines on the Implementation by National Regulators of European Net Neutrality Rules [BoR [16] 127].

In order to update the European regulatory framework governing electronic communications from 2009, the European Commission published the draft of a new directive aimed at establishing a European electronic communications code. Two regulations were also drafted regarding the competences and functioning of the BEREC, and regarding the expansion of wireless networks in public places and in local communities. The amended regulatory framework is expected to enter into force in 2019.

Relevant markets³²

The AKOS issued partial decisions regarding relevant markets 5, 7 and 3, and published a methodology for new relevant wholesale broadband access markets, as follows:

Relevant market	Change
Market 5: "Broadband access, wholesale"	Partial change to the "retail minus" obligation, which facilitated the development of competitive, high-speed broadband services on both the retail and wholesale markets.
Market 3: "Call termination in networks at a fixed location" and market 7: "Call termination in mobile networks"	The regulator amended obligations slightly via two corrective decisions. It thus eliminated regulation over the setting of prices for calls that do not originate from end-users within the EU.
New markets Planned regulation of market 3a: "Wholesale local access at a fixed location", market 3b: "Wholesale central access at a fixed location for mass-market products" and market 4: "Wholesale high-quality access at a fixed location".	In March 2016 Telekom Slovenije submitted to the AKOS its responses to 94 questions regarding the published methodologies in connection with the future regulation of relevant markets. In the scope of public consultations in June, Telekom Slovenije submitted its response to the draft methodology for preliminary economic replicability testing, likewise in connection with the future regulation of relevant inter-operator markets for access to the broadband network (markets 3a, 3b and 4).

The AKOS conducted various inspections in 2016 with respect to Telekom Slovenije in connection with imposed obligations on regulated relevant markets. It halted two proceedings, and identified certain instances of non-compliance in one proceeding and ordered the rectification thereof.

Net neutrality

The Administrative Court ruled in favour of two appeals brought by Telekom Slovenije against decisions of the AKOS that were issued during an inspection due to the breach of net neutrality. The AKOS ordered Telekom Slovenije to treat all internet traffic, including Deezer, TViN and TViN Shramba services, equally. In both follow-up inspections in November 2016, the AKOS once again issued decisions, this time prohibiting Telekom Slovenije from slowing internet traffic at the level of individual services or applications.

Universal services

In November 2016 the AKOS redefined Telekom Slovenije as a universal service provider for a period of three years in the area of connections to the public communications network and access to publicly accessible telephone services at a fixed location. This will facilitate the establishment and receipt of national and international calls, and the transfer of facsimile and data communications at a transfer speed appropriate for functional access to the internet. Through its own analysis, the AKOS determined that the imposition of obligations regarding broadband access was unnecessary due to the presence of satellite internet and other technologies.

Regulatory developments in South-Eastern Europe

Kosovo

The governments of Kosovo and Serbia reached an important agreement in 2016 regarding the numbering space. Kosovo was allocated numerical codes of E.164: 383, E.212: 221 and a network/signal code of Q.708: 7-214. The exact date of the activation of the aforementioned codes will be determined subsequently.

The Kosovo regulatory authority [ARKEP] published its intent regarding the direct allocation of the 2100 MHz frequency spectrum for the use of UMTS/IMT-200 and IMT-Advanced for a period of 15 years. Due to an error in the price calculation methodology, Ipko expressed its disagreement with proceedings.

The Kosovo regulatory authority also issued decisions regarding the relevant mobile call termination market, and defined Ipko and Vala as operators with significant market power. Both operators are thus bound to provide access to their mobile network, non-discrimination, transparency and price controls. The regulatory authority also set the price of call termination at 1.74 euro cents a minute from January 2017 on. Prices will be gradually cut to 1.1146 euro cents a minute by 1 July 2018.

Kosovo's Independent Media Commission [IMC] adopted a decree on the distribution of audio-visual services that also regulates IPTV operators and other forms of retransmission. It will restrict the operations of unlicensed IPTV operators who broadcast illegal content.

Bosnia and Herzegovina

The regulatory authority in Bosnia and Herzegovina [RAK] published rules governing the resolution of disputes with end-users. Blicnet submitted comments regarding those rules, but the final version of the document has not been adopted yet.

The RAK repealed the decree governing national roaming.

Blicnet submitted its opinions and comments in the course of public consultations with regard to the rules governing licences for the distribution of audio-visual media and radio services. The aforementioned rules were adopted in October.

In June the regulatory authority introduced a model for assessing tariffs on voice telephony services.

It cut mobile telephony prices and harmonised conditions for the provision of telecommunication services based on the requirements of Bosnia and Herzegovina's Parliamentary Committee. Those decisions relate solely to operators with significant market power.

Blicnet participates in numerous municipal projects to construct a cable trench, including in the municipality of Banja Luka. However, the project is not yet completed. Construction was not possible in certain other municipalities.

2.5.4 Competition protection and proceedings before the courts³³

In 2016 there were two significant proceedings against Telekom Slovenije before the Competition Protection Agency (CPA) regarding the alleged breach of competition rules and monopolistic practices. No new proceedings were initiated against Telekom Slovenije during the aforementioned year.

Telekom Slovenije and its subsidiaries were party to the following significant proceedings before the courts, competition protection bodies and inspection authorities in 2016:

- Telekom Slovenije received a decision issued on 3 February 2016 by the Ljubljana District Court in which the aforementioned court rejected T-2's motion to reopen the case decided by way of final ruling of the Ljubljana District Court on 21 January 2013. In its lawsuit from 2013, T-2 demanded that Telekom Slovenije pay damages in the amount of EUR 129,556,756.00 with appertaining amounts. The court rejected the plaintiff's claim at that time. T-2 filed an appeal against that decision, which the Ljubljana High Court rejected on 31 August 2016.
- Telekom Slovenije received a lawsuit from the SAZAS for the payment of EUR 1,411,397.90 with appertaining amounts. The SAZAS is claiming the payment of the fee for the collective management of copyright and related rights (small rights) in the retransmission of television programmes in the Republic of Slovenia for the period from January 2011 to June 2012 and for December 2012. Telekom Slovenije will prove in the course of proceedings that the plaintiff's lawsuit is completely baseless.
- The SAZAS filed another lawsuit against Telekom Slovenije, in which it is claiming the payment of EUR 331,112.23 with appertaining amounts with regard to the fee for the collective management of copyright and related rights (small rights) in the retransmission of radio programmes in the Republic of Slovenia for the period from January 2011 to June 2012 and from December 2012 to December 2015. Telekom Slovenije will prove in the course of proceedings that the plaintiff's lawsuit is completely baseless.
- Telekom Slovenije received a ruling and decision from the Ljubljana Higher Court with regard to the lawsuit filed by Tušmobil (now Telemach) for the payment of EUR 28,176,227.00 with appertaining amounts. The Higher Court in Ljubljana ruled in favour of Telekom Slovenije's appeal against the ruling of the Ljubljana District Court of 13 February 2015. The court rejected the plaintiff's claim in the amount of EUR 316,847.00 with appertaining amounts and dismissed the claim for the payment of EUR 1,392,153.00 with appertaining amounts, and sent the matter back to the court of the first instance for retrial before a different judge. The Higher Court also reversed the supplementary decision on the costs of proceedings and returned the matter to the court of the first instance for readjudication.
- Telekom Slovenije received a decision from the Supreme Court on 24 June 2016 regarding the claim of Odvetniška družba Rojs, Peljhan, Prelesnik & partnerji for the payment of EUR 5,090,999.47 and appertaining amounts (subject to review due to the payment of EUR 4,532,542.84 with appertaining amounts). The Supreme Court ruled in favour of the motion for review and overturned the ruling of the court of the second instance in points I, III and IV of the operative section of the former's ruling, and sent the matter back to the court of the second instance for retrial. Telekom Slovenije and Odvetniška družba Rojs, Peljhan, Prelesnik & partnerji, o. p., d. o. o. reached a court-brokered settlement, whereby the two companies set in order all mutual relations.
- Telekom Slovenije and Akton signed an agreement on 2 August 2016 on mutual relations by which the two companies set in order open issues regarding mutual relations. Based on Akton's withdrawal of its lawsuit, the Ljubljana District Court halted proceedings regarding the plaintiff's claim for the payment of EUR 2,402,820.82 with appertaining amounts on 4 August 2016, and halted proceedings regarding the claim for the payment of EUR 8,204,341.50 with appertaining amounts on 23 August 2016. On 24 August 2016 the Ljubljana Higher Court also halted proceedings regarding the claim for the payment of EUR 2,604,506.36 with appertaining amounts based on Akton's withdrawal of its lawsuit.

Provisions for obligations arising from legal actions are disclosed in point 26 of the Financial Report.

2.5.5 Compliance and anti-corruption³⁴

The Telekom Slovenije Group strives for compliance at all levels of its operations. We follow a strategy of mitigating compliance risks, in particular in the following areas:

- competition law,
- the prevention of corruption and conflicts of interest,
- the protection of data, and
- the prevention of money laundering.

Compliance is governed by the Telekom Slovenije Group's Compliance Management Policy, which applies to all Group companies. The aforementioned policy establishes and defines the functioning of bodies responsible for compliance. Telekom Slovenije's Management Board also appointed a compliance and integrity officer in 2016.

Guidelines on conflicts of interest have been in force since February 2017 and govern in detail the prohibition of competition, as well as the performance of supplementary and other activities by employees. Internal acts define the protection of the confidentiality of trade secrets and inside information, while mechanisms have also been established to prevent the leakage of inside information.

Guidelines for ensuring compliance with competition law also entered into force in 2016, while Telekom Slovenije drafted Rules on the Prevention of Money Laundering and Terrorist Financing.

The Telekom Slovenije Group has had a system in place since 2014 for receiving, discussing and investigating reports. In 2017 we will facilitate the use of that system by the external public, and not only by employees. The Whistleblowing Committee handled three reports in 2016, one of which was anonymous. The aforementioned committee took the appropriate measures in one case and determined that the allegations in two other cases were unfounded.

No cases of corruption were confirmed within the Telekom Slovenije Group in 2016.

In 2016 we drafted a new Code of Ethics of the Telekom Slovenije Group, which entered into force on 1 February 2017 and replaced in full the Code of Ethics of Telekom Slovenije. The new code applies to all Group companies. The purpose of the code is to provide unambiguous information and keep the Group's employees abreast of both the basic ethics and legal guidelines that we respect in our work. The following responsibilities were redefined in the Code of Ethics:

- responsibility to the Group [e.g. the work environment, assets and information];
- responsibility for fair and transparent operations [compliance with the law, avoidance of conflicts of interest, gifts, the protection of inside information, the prevention of money laundering, sponsorships/donations, reports of dishonest conduct, etc.]; and
- responsibility to stakeholders [co-workers, users, shareholders, business partners, regulatory authorities, the public and the wider social community].

Potential risks associated with corruption in sponsorship and donation activities are managed by the Rules on the Treatment and Approval of Sponsorships and Donations. Neither Telekom Slovenije nor the Telekom Slovenije Group approves funds for the sponsorship of or donations to political parties. We updated the aforementioned rules and defined additional internal controls in 2016. Hence forth, discussions regarding sponsorships and donations always include the compliance and integrity officer as committee member. The provisions of those rules are applied mutatis mutandis by Group companies that have adopted their own internal acts. The internal acts of TSmedia, Avtenta and Blicnet explicitly forbid the sponsorship of political parties, while Soline likewise does not approve funds for such purposes. Subsidiaries regularly report all sponsorships and donations that exceed the value set out in the Corporate Governance Rules. Slovenian companies are also bound to the publications set out in the ZDIJZ.³⁵

34 GRI GS 103-1, 103-2, 103-3, GS 102-16, GS 205-1

35 GRI GS 415-1

External supervision proceedings

With the Instructions Governing Conduct and the Monitoring of External Supervision Proceedings, Telekom Slovenije established the uniform recording and monitoring of external supervision proceedings initiated against the Company and/or its responsible person, and outlined the conduct of employees in such proceedings. We define external supervision as an examination of the Company's operations to verify compliance with legal or contractual provisions or standards in the performance of its activities.

Telekom Slovenije was subject to 68 external supervision proceedings in 2016, as follows:³⁶

- 60 inspection proceedings, of which 36 were carried out ex officio, while 24 were carried out based on a report or initiative; and
- 8 contractual supervision proceedings [commissioned preventive external assessments].

A total of 42 supervision proceedings had been completed as at 31 December 2016.

Areas subject to supervision and number of proceedings at Telekom Slovenije in 2016



Inspection authorities did not impose any fines on the Company or its responsible person in the scope of proceedings in 2016.

Subsidiaries were subject to the following proceedings:

- **GVO:** 3 proceedings:
 - 1 inspection proceeding – completed
 - 1 pre-audit proceeding – completed
 - 1 regular external assessment of the quality management and environmental management systems – completed
- **Avtenta:** 2 proceedings:
 - 1 audit proceeding – completed
 - 1 reassessment in accordance with the ISO 9001:2008 standard – completed
- **Soline:** 9 proceedings:
 - 9 inspection proceedings – 7 completed
- **TSmedia:** 14 proceedings:
 - 12 inspection proceedings – 9 completed
 - 2 audit proceedings – completed
- **IPKO:** 6 proceedings:
 - 7 inspection proceedings – 2 completed
- **Blicnet:** 1 proceeding:
 - 1 tax inspection proceeding – completed with the payment of a fine and default interest in the total amount of EUR 44,423.30.



EACH STEP **BEGINS WITH GOOD EXPERIENCES**

The satisfaction of our users, business partners, employees and other stakeholders can only bring good experiences.



2.6 SALES AND MARKETING

We maintain the highest market share in all segments in Slovenia. We increased our market shares in the IP telephony and mobile telephony segments in 2016.

We communicate the Itak brand for young people under the Telekom Slovenije umbrella brand since 2016.

We offered users Telekom Slovenije electricity services, making them the only subscribers on the market with the option of ordering those services through TV or set-top box.

Six Telekom Slovenije sales centres were renovated during the year.

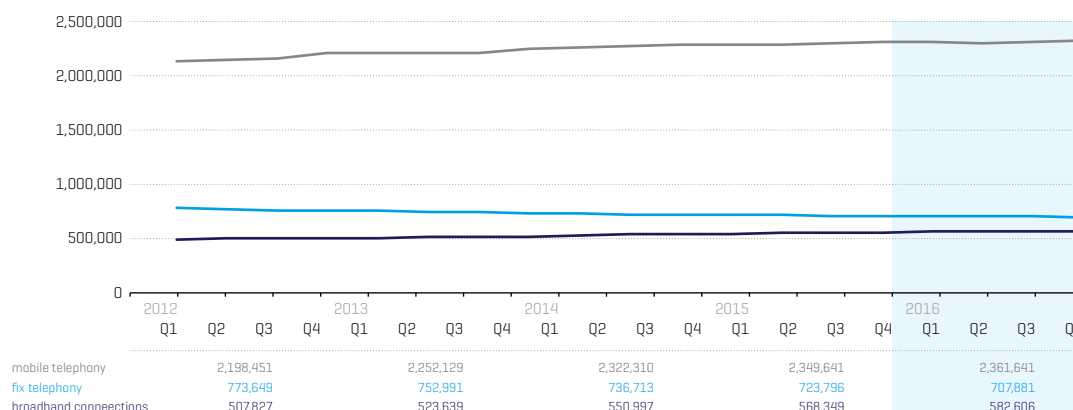
2.6.1 Market and market shares in key service segments³⁷

Slovenia

The ICT sector is characterised by rapid changes, development and technological progress. Telekom Slovenije tracks those changes and offers its users the most advanced services and solutions. Our aim is to continue surpassing the expectations of users in the future, and provide them a simple, convenient and friendly user experience through development in the area of digitalisation. We will also expand Telekom Slovenije's operations to new areas to ensure our long-term success.

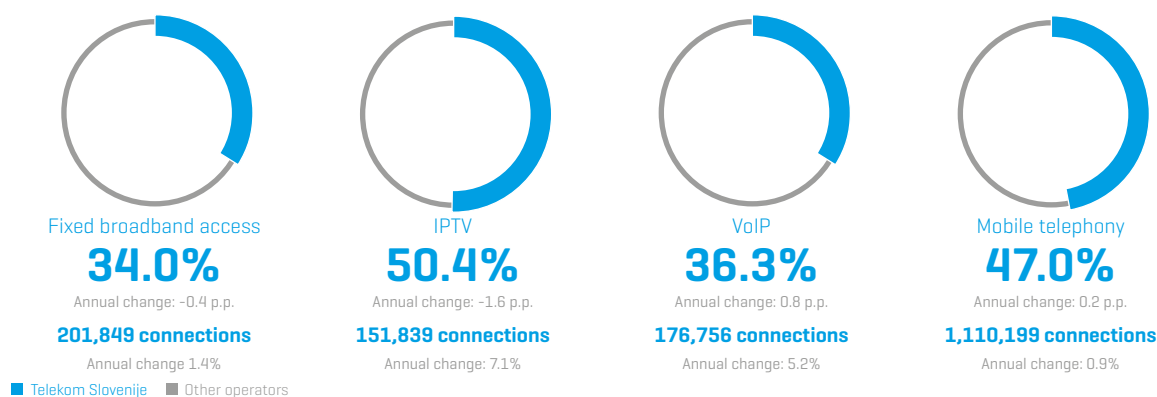
Telekom Slovenije maintains the highest market share in all segments of its operations. Alternative operators are better known in terms of pricing on the fixed services and mobile telephony markets, where they are increasing their market shares. We are countering declining market shares in specific segments through the optimisation of the sales network, cross-sales of services, the development of new services and new subscriber models, through differentiation and a portfolio of exclusive content, by improving the user experience, by providing standardised cloud computing services, and through a comprehensive portfolio of ICT services.

Changes in the number of connections in Slovenia



Source: Report on the development of the electronic communications market for the third quarter of 2016, AKOS, December 2016, SORS, internal data of Telekom Slovenije.

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



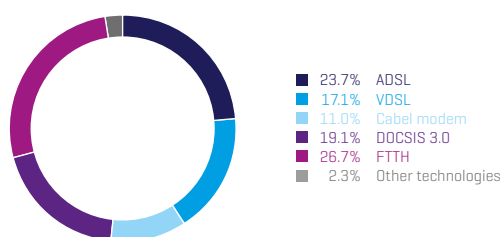
Source: Report on the development of the electronic communications market for the third quarter of 2016, AKOS, December 2016; internal Telekom Slovenije figures.

Fixed broadband access

The household fixed broadband penetration rate stood at 74.1% in Slovenia in the third quarter of 2016.³⁸ There was a total of 582,606 broadband connections (compared with 568,349 in 2015), 86.7% of which were accounted for by residential connections.³⁹ Telekom Slovenije maintains the highest market share, followed by Telemach and T-2.

The increasing proportion of FTTH technology (fibre optic networks) and the portfolio of high-speed internet services included in the packages of service providers are contributing to the trend of increasing speeds. At the end of the third quarter of 2016, the number of active fibre optic connections in Slovenia exceeded 155,000, accounting for 26.7% of all connections. The number of fibre optic connections rose by 15% in one year. Telekom Slovenije had more than 55,000 users on FTTH connections at the end of the third quarter of 2016.

Market shares of fixed broadband technologies in terms of the number of broadband internet connections in Slovenia



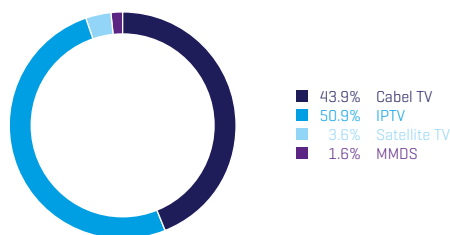
Source: Report on the development of the electronic communications market for the third quarter of 2016, AKOS, December 2016.

Television market

IPTV and multimedia content services are achieving growth, with IPTV already accounting for 50.9% of all TV connections in Slovenia (Q3 2016). IPTV is followed by cable TV, primarily on account of the number of digital connections. The latter, however, is in constant decline. According to AKOS figures, 72.1% of Slovenian households have pay TV (Q3 2016).

At 50.4% (Q3 2016), Telekom Slovenije holds the highest share of the IPTV market, followed by T-2 and Si.mobil.⁴⁰

Market shares of TV connections by technology



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

38 Source: AKOS – One of the most important indicators of the level of development of the electronic communications market is broadband access penetration, which is calculated as the number of residential and business broadband connections relative to the number of citizens or households in the Republic of Slovenia.

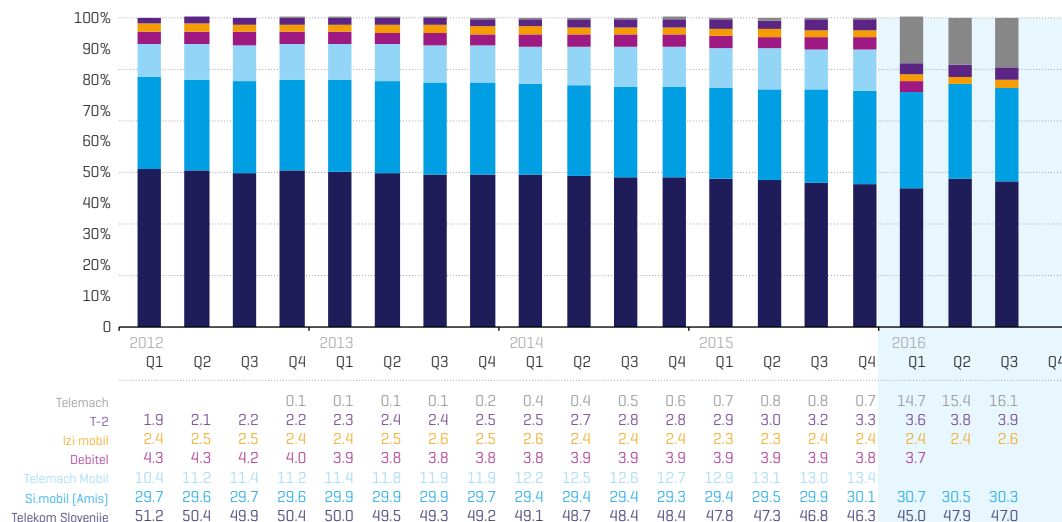
39 Source: AKOS, Q2 2016, SORS, Q2 2016

40 The merger of Amis, d. o. o. with Si.mobil, d. d. was completed on 1 April 2016.

Mobile telephony market

The number of active mobile telephony users was up by 12,000 in the third quarter of 2016 relative to the same period in 2015. The mobile telephony penetration was up, and stood at 114.4%. At 47.0%, Telekom Slovenije held the leading share of the mobile telephony market in the third quarter of 2016, followed by Si.mobil at 30.3%.

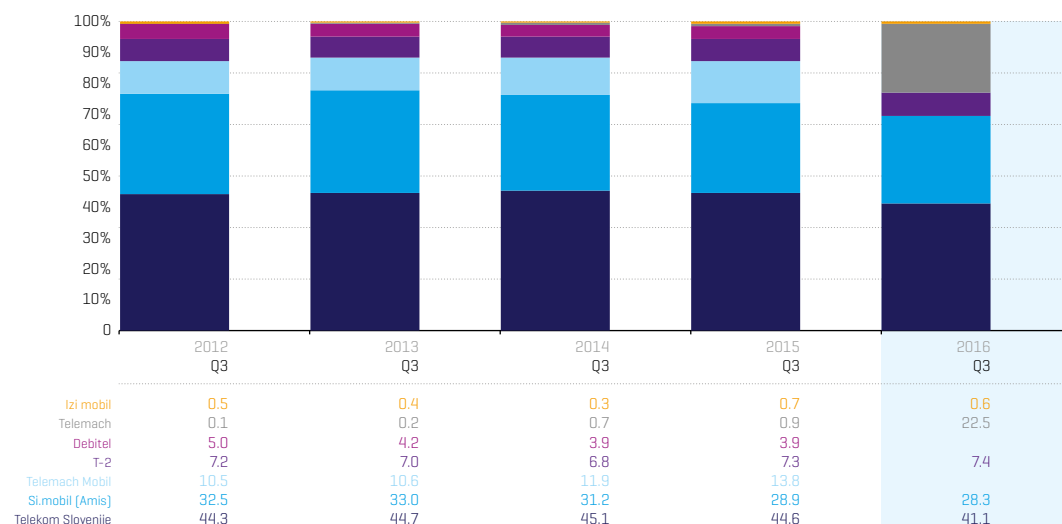
Shares of the mobile telephony market in Slovenia



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

At 41.1% in the third quarter of 2016, Telekom Slovenije held the highest share of the mobile broadband internet access market, while Telemach made the biggest gain in year-on-year terms through the merger of Tušmobil. Growth continues in data traffic in the 3G network and the most advanced networks through mobile broadband access. Telekom Slovenije held the leading market share of mobile traffic at 43.7% in the third quarter of 2016, followed by Si.mobil with a 40.3% market share.

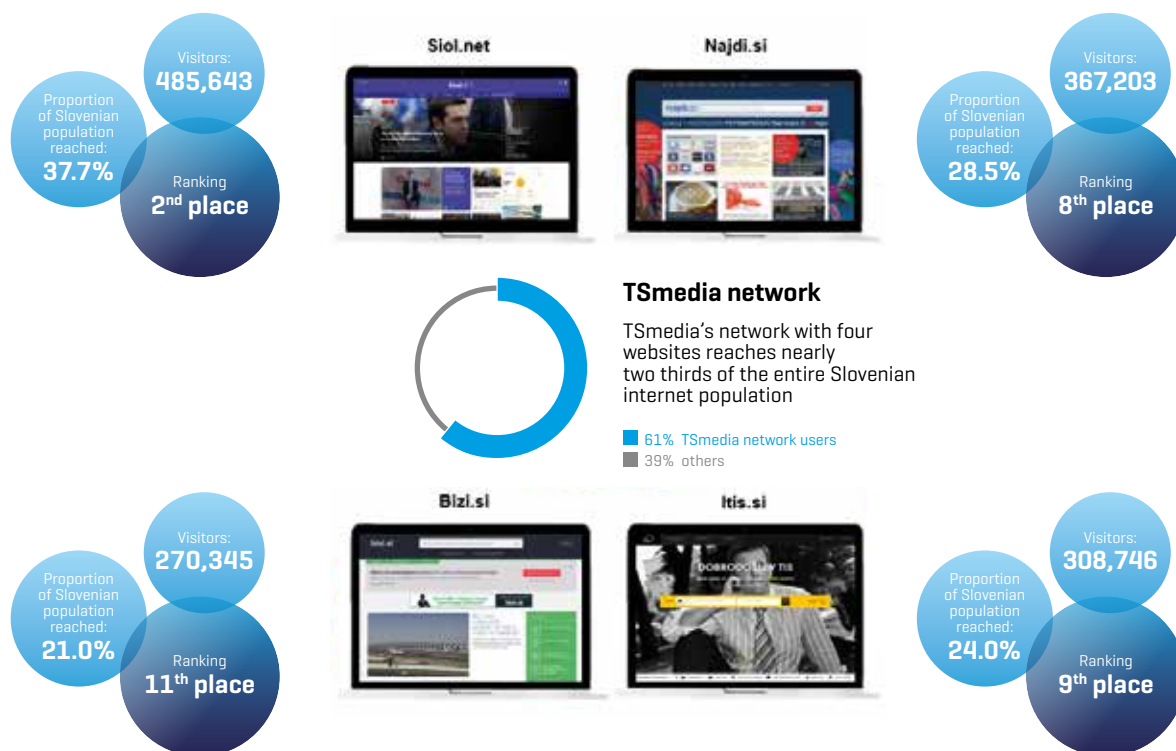
Market shares of mobile broadband internet access operators



Source: Report on the development of the electronic communications market for the third quarter of 2016, AKOS, December 2016

Advertising market

TSmedia helps create the Slovenian media space with one of the leading online media in the form of Siol.net, and represents the main Slovenian information centre with an access point to the Slovenian web [najdi.si] and the bizi.si business directory.



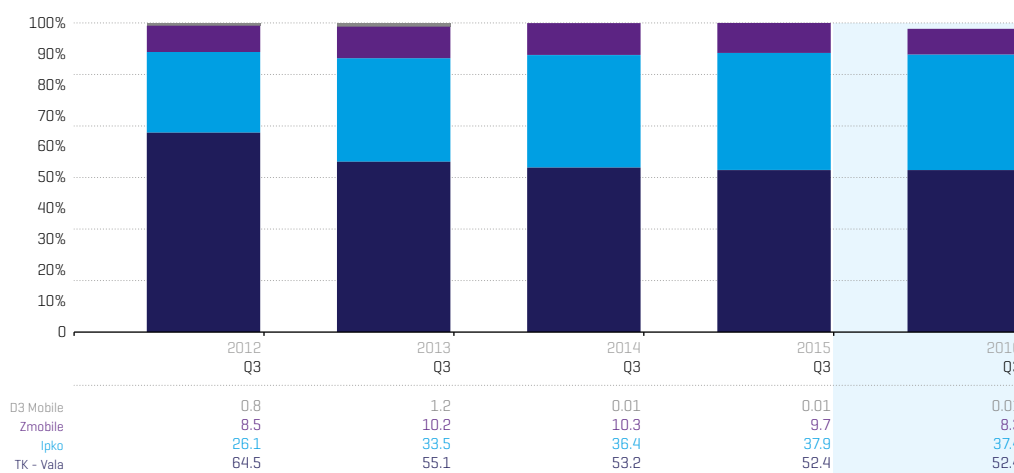
Source: MOSS, december 2016

Markets of South-Eastern Europe

Ipko remains the leading provider of broadband connections in **Kosovo** and the second largest mobile telephony operator. According to the figures of the regulatory authority [ARKEP],⁴¹ there were 237,198 broadband connections in Kosovo at the end of the third quarter of 2016, meaning a household penetration rate of 79.8% and a population penetration rate of 13.1%. Ipko increased its market share slightly in the aforementioned segment, from 49.1% to 49.2%. Ipko assesses that there were around 230 thousand digital TV connections at the end of the third quarter in Kosovo, meaning a household penetration rate of 73%, while Ipko enjoys an estimated market share of 53.1%.

There were nearly 1.9 million mobile telephony users in Kosovo at the end of the third quarter of 2016, translating to a population penetration rate of 103.3%. Ipko's market share was 37.4%, a decrease of 0.5 percentage points relative to the previous year. However, the aforementioned company's market share in terms of revenues from mobile telephony was up sharply in 2016 to stand at 37.9% [33.9% in Q3 2015].

Changes in market shares of operators in the mobile telephony segment in Kosovo



Source: Kosovo ARKEP regulatory authority, Q3 2016 report.

There is a growth trend present in the broadband connection segment in **Bosnia and Herzegovina**. According to the regulatory authority [RAK],⁴² there were 641,527 connections in the aforementioned country in the third quarter of 2016, an increase of 2.7% on the same period 2015. A decline of 2.9% was recorded in the third quarter on the mobile telephony market, where the number of users has fallen to 3.4 million or 89.6% of the population. The sharp decline on the fixed telephony market continues. A total of 697,884 users have active telephone lines provided by incumbent operators, a decrease of 75,000 relative to 2015. At 0.07%, Blicnet's share of the mobile telephony market remained at the level recorded the previous year, while its estimated share of the broadband access market stood at 4.0%.

41 Source: Kosovo ARKEP regulatory authority, Q3 2016 report.

42 Source: Bosnia and Herzegovina RAK regulatory authority, Q3 2016 report.

2.6.2 Management of the portfolio of brands⁴³

We are present on the Slovenian market under the Telekom Slovenije umbrella brand, which comprehensively covers all services. The brand portfolio also includes partner brands such as Moneta and WiFreeLjubljana. We consolidated the specifically profiled Itak brand in 2016, such that the portfolio of services for young people is communicated under the Telekom Slovenije umbrella brand. Even with the merger of Debitel with the parent company, all communication is carried out under the Telekom Slovenije umbrella brand.

The key elements of the identity of the umbrella brand are trust and goods relations, and a comprehensive portfolio and the best network, while positioning Telekom Slovenije as a provider that offers users the most for their money. Also of importance are innovation and social engagement. These elements are built through all market communication activities and are being established through all contact points with users.

The Telekom Slovenije brand is the strongest in the comprehensive provider category, as it achieves the highest recall rate and first recognition. It has established itself as a brand that offers users a comprehensive portfolio of telecommunications services, and is known as the strongest brand in the segment of mobile, fixed and comprehensive communications, both on the commercial (B2B) and mass (B2C) markets [source: Brand Track, September 2016].


Telekom Slovenije has 246 registered brands,⁴⁴ broken down as follows:



- 165 national brands in Slovenia,
- 36 European brands,
- 38 international brands,
- 6 national brands in Macedonia, and
- 1 national brand in Kosovo.

The portfolio of brands is being logically optimised. When protection expires, we do not re-register brands that lack a sufficiently recognisable differentiating element, and/or that are of less significance to us over the next 10-year period. We thus re-registered 18 brands in 2016, and opted not to re-register another 30 brands [29 national brands and one European brand]. The entire list can be found at <http://www2.uil-sipo.si/>.








43 GRI GS 102-2, 102-6








44 GRI GS 102-7

CORPORATE BRAND				
Brand/product	Description	Description of service/note	Market	
 TelekomSlovenije	Umbrella brand	Covers the entire portfolio of the Company's services, and is used for communication with all stakeholder groups (users, investors, business partners, suppliers, employees and the media).	Private	Business




PORTFELJ BLAGOVNIH ZNAMK Telekom Slovenije				
Brand/product	Description	Description of service/note	Market	
	Partner brand	Covers cashless payment services with mobile phones.		B2B business sales
	Partner brand	Covers free WiFi network services.	Private	Business

Telekom Slovenije Group subsidiaries operate on the market independently, and are represented by their own logo and corporate identity. In addition to the corporate brand, the portfolio of subsidiaries in Slovenia also includes a description of the key brands of individual companies and their services. A detailed description of individual brands and services can be found on the websites of the relevant companies.

PORTFOLIO OF BRANDS of subsidiaries in Slovenia				
Brand/product	Description	Description of service/note	Market	
	Corporate brand	TSmedia corporate brand	Private	Business
	Siol.net	Leading Slovenian digital media	Private	Business
	najdi.si	Access point to the Slovenian web	Private	Business
	bizi.si	Business directory		Business
	Slovenian telephone directory	Universal telephone directory	Private	Business
	1188	Value added call centre services	Private	Business
	Dajmedol	Video on demand brand	Private	

Brand/product	Description	Description of service/note	Market	
	Planet TV	General commercial television	Private	Business
	Corporate brand	Covers large corporations and public institutions in Slovenia and the wider region, and combines advanced and verified business solutions for the optimisation and improvement of the efficiency of companies, organisations and public administration.		Business
	Umbrella brand	Combines comprehensive services in the area of designing, constructing and maintaining telecommunication and electricity networks.		Business
	Umbrella brand	Soline salt production	Private	Business
	Solnce (salt cellar)	Food line	Private	Business
	Lepa Vida	Lepa Vida cosmetic line and Thalasso Spa	Private	Business
	Sečovelje Salina Nature Park (SSNP)	Logo for the park and related eco-tourism, used on park souvenirs.	Private	Business

PORTFOLIO OF BRANDS of subsidiaries in South-Eastern Europe

Country/company				
Brand/product	Description	Description of service/note	Market	
Bosnia and Herzegovina – Blicnet				
	Umbrella brand	Mobile telephony, fixed telephony – VoIP, internet, digital TV, TVIN services, cloud storage, bandwidth leasing, network interconnection, convergent services – service packages, web hosting, server hosting, email solutions, registration of domains, integrated solutions.	Private	Business
Kosovo – IPKO				
	Corporate brand	Mobile telephony – GSM, SMS, MMS, WAP, VMS, mobile data transfer – 3G, 4G, GPRS/EDGE, internet, fixed telephony – VoIP, bandwidth leasing, network interconnection, digital cable television, convergent services – service packages, web portal – news and entertainment, email solutions.	Private	Business
	Hej – segment brand			

2.6.3 Sales and marketing activities⁴⁵

The Telekom Slovenije Group achieves good results in the sale of broadband connections on all markets. The number of those connections was up by 2% in Slovenia, primarily as the result of successful sales of Modri packages. Ipko increased its number of connections in Kosovo by 12%, while Blicnet recorded an increase of 2%.

The total number of mobile telephony connections was up by 6% in Kosovo in 2016, and by 2% in Bosnia and Herzegovina. That number was down by 6% in Slovenia, primarily due to the aggressive pricing policies of the competition and the loss of certain major business users.

We increased the total number of VoIP connections (in Slovenia and South-Eastern Europe) by 4%. The decline in the number of traditional fixed voice telephony connections continued in 2016, by 6% in Slovenia.

Telekom Slovenije Group connections and services by type and market

Broadband connections

Number of retail connections as at	31 December 2016	31 December 2015	31 December 2014*	Index 16/15
Slovenia	204,741	201,516	199,573	102
SE Europe:	141,497	125,982	114,893	112
Kosovo	115,723	100,799	90,219	115
Bosnia and Herzegovina	25,774	25,183	24,674	102
Telekom Slovenije Group	346,238	327,498	314,466	106

Fixed and mobile telephony connections

Number of retail connections as at	31 December 2016	31 December 2015	31 December 2014	Index 16/15
Slovenia, mobile telephony	1,111,631	1,179,983	1,125,365	94
Slovenia, fixed voice telephony	357,674	380,478	401,599	94
SE Europe, mobile telephony:	657,754	622,143	628,570	106
Kosovo	655,193	619,638	626,817	106
Bosnia and Herzegovina	2,561	2,505	1,753	102
SE Europe, fixed voice telephony	1,204	566	443	213
Telekom Slovenije Group	2,128,263	2,183,170	2,155,977	97
VoIP connections:				
Slovenia	180,159	172,434	162,042	104
SE Europe	19,196	19,442	17,935	99
Telekom Slovenije Group	199,355	191,876	179,977	104

Number of mobile and fixed telephony connections/services

Number of retail connections as at	31 December 2016	31 December 2015	31 December 2014	Index 16/15
Total mobile telephony	1,769,385	1,802,126	1,753,935	98
Total fixed voice telephony services*	558,233	572,920	582,019	97
Telekom Slovenije Group	2,327,618	2,375,046	2,335,954	98

*Sum of fixed voice telephony connections and VoIP services.

Note: For reasons of comparability, we have excluded the connections of the Macedonian company One from the situation as at 31 December 2014 at the Telekom Slovenije Group level.

45 GRI PA4, GRI GS 102-2

Net sales revenue of the Telekom Slovenije Group

The Telekom Slovenije Group's net sales revenue amounted to EUR 701.7 million in 2016, down 4% on the figure achieved in 2015. Here it should be noted that statutory changes within the Group mean that net sales revenue for 2015 included the revenues of Debitel for the final three months of the year and the revenues for Macedonian companies for the first seven months of 2015, which resulted in an overall reduction in revenues relative to 2015. A comparison of revenues in 2015 excluding One indicates that the net revenues generated during 2016 were EUR 5.7 million or 1% higher than those generated in 2015.

Breakdown of net sales revenue by company⁴⁶

in EUR thousand	2016	2015 restated	2014	Index 16/15
Telekom Slovenije	639,471	634,105	643,057	101
Other companies in Slovenia	57,676	46,488	54,357	124
TSmedia	6,901	8,259	9,542	84
Avtenta	7,652	6,229	7,766	123
GVO	38,973	24,382	33,598	160
Debitel	0	3,607	0	-
Soline	4,150	4,011	3,451	103
Ipko – Kosovo	69,462	67,603	69,465	103
Companies in Macedonia	0	44,138	75,662	-
Other companies abroad	21,291	21,266	21,227	100
Blicnet – Bosnia and Herzegovina	18,895	19,504	17,721	97
SiOL [SEE]	2,396	1,725	710	139
GVO GmbH, Germany	0	37	2,796	-
Total unconsolidated	787,900	813,600	863,768	97
Eliminations and adjustments	-86,152	-85,321	107,314	101
Telekom Slovenije Group	701,748	728,279	756,454	96

TELEKOM SLOVENIJE

Telekom Slovenije's net sales revenue was up by EUR 5.4 million or 1% in 2016 relative to 2015, to stand at EUR 639.5 million, primarily due to higher revenues on the wholesale market, and higher revenues from broadband and IT services, despite the lower revenues from mobile subscribers and pre-paid users, who are transitioning to new, more affordable packages. Revenues from traditional voice telephony have likewise been declining for several years due to the migration to mobile and IP telephony.

Residential user market

We offered users more transparent international and domestic call prices in the **traditional telephony** segment. We divided international traffic into four regions and standardised the prices of calls to all Slovenian networks. We offered subscriber packages with included call minutes, updated and supplemented call options, and introduced the cross-selling of mobile telephony and internet access services.

We simplified the portfolio of packages in the **mobile services** segment. We now offer subscribers the Brezskrbni and Enostavni packages. Brezskrbni packages facilitate worry-free communication at home and abroad [EU], while Enostavni packages are intended for those who wish to pre-purchase a certain number of units and use them as they see fit. We further simplified packages by making them available to private and business users under the same conditions. We have developed the new Dogaja package for young users. In the prepaid user segment, we introduced the revamped monthly Mobi 200 package and the new Čvekaj Mobi package.

Because the use of mobile data transfer services is continuously rising, we increased data transfer quantities in mobile internet subscriber packages. We introduced the Mobilni Internet Brezskrbni (worry-free mobile internet) package that offers subscribers unlimited data transfer quantities, with the option of choosing a speed in the LTE network.

In the area of **convergent services**, we introduced Telekom Slovenije electricity services for the first time. We added two new convergent packages for residential users: Modri Plus for larger families and Modri net for young persons. In terms of TV services, we were the first on the market to offer subscribers seven-day back viewing and introduced this service on all of our platforms. We updated applications such as Daljinec+, and integrated the DKiNO video library in TViN. We improved the TV experience for users through 360-degree services, where similar content from different sources is combined.

Services for business users

We redesigned business packages for small and medium-sized business users [Premium business package and Modri business package] and offered them the option of preferential treatment. We also carried out various cross-sale campaigns and offered benefits to new subscribers.

In terms of management services for large business systems, we redesigned the multimedia business telephony offer and standardised the platform for the provision of conference services. In the segment of premium services, we continued to consolidate and simplify platforms, and to migrate users and facilitate new functionalities that further improve the user experience and the quality of services.

ICT services

With the aim of providing comprehensive ICT services and merchandise, we upgraded the management model to include principals and other partners from the field of system integration. We actively participated in the sales and marketing activities of key principals [Microsoft, IBM, HP, Cisco, Juniper, ECM, etc.] through participation at business events and professional-technical workshops.

We renewed the Cisco CMSP [Cloud and Managed Services Program] certificate for MPLS VPN [virtual private network] services and IaaS [infrastructure as a service]. Telekom Slovenije has earned the status of Microsoft LSP [Licence Solution Provider] for the resale of Microsoft licence agreements to major customers. We also earned the status of Microsoft CSP [Cloud Solution Provider] for the sale of cloud licences for Microsoft Office 365, Azure and Express Route. In addition, Telekom Slovenije employees hold HP Gold Hardware Partner certificates that demonstrate their qualifications to sell HP products, which are included in Telekom Slovenije's comprehensive solutions. All of the aforementioned statuses have allowed us to secure transactions and conclude agreements with some of the largest users of Microsoft services.

Telekom Slovenije is rapidly entering the AaaS [applications as a service] market. We began to actively market several AaaS solutions in 2016, such as SAP as a service and a document system as a service. We also work actively with the developers of specific-purpose application solutions.

Points of sale and agent network

We continued to renovate points of sale and opened six renovated Telekom centres in 2016, as follows:

- Nova Gorica 2, Cesta 25. junija 1 p, Kromberk
- Lucija, Obala 112/114,
- Novo Mesto, Novi trg 9,
- Trbovlje, Trg svobode 14,
- Slovenj Gradec, Ronkova ulica 4, and
- Ptuj, Mestni trg 1.

We upgraded tools to improve the effectiveness of sales channels in the private user segment, which has resulted in increased effectiveness and improved results, particularly in the sale of convergent services. By preparing databases for the execution of campaigns via all sales channels in a systematic and structured way, we ensured increased transparency and a focused approach to the retail market. In areas where the infrastructure is in place, we employed a field team of sales staff to actively market our broadband services and provided users a high-quality fibre optic connection. We began to implement the **Sales Academy** project with the aim of increasing the effectiveness of sales, which will result in a higher-quality approach and the increased satisfaction of users. We continued to implement "**Sales Excellence**" measures at Telekom centres and at business partners, through which we achieve higher, uniform standards of sales excellence. As part of the **omnichannel user experience**, we facilitated the submission of requests for fibre optic connections over the internet.

Inter-operator segment (wholesale)

Domestic wholesale services

Revenues from the wholesale market were up 6% relative to 2015. They were higher on the domestic market due to growth in broadband and unbundled access connections, national tracking and an increased number of calls in Telekom Slovenije's network. Revenues generated in this segment were down 5%. However, the merger of Debitel with the parent company means that transactions with Debitel are no longer recorded as wholesale transactions. Revenues are thus not directly comparable with those generated in 2015. In the area of sales, we carried out numerous marketing activities aimed at the inclusion of new broadband connections in the fixed and mobile network.

International wholesale services

We achieved 10% growth in revenues on the international market as the result of higher revenues from international transit traffic, leased capacities and incoming international traffic, and the introduction of a charge for incoming international calls, depending on the source.

Through proactive personalised sales and participation in specialised events for international operators, we increased the presence and recognisability of Telekom Slovenije as a regional provider of telecommunication services.

In the area of international roaming, we pay particular attention to reducing wholesale cost prices with the aim of mitigating the negative impact of the implementation of the "roam-like-at-home" regulation on the Company's operating results.

The final missing route of Telekom Slovenije's **regional optical network (RON)** through Serbia was activated in 2016. The RON remains one of the main potentials for growth on the international wholesale market in future years. The RON is complementary to other pan-European networks. With the aim of managing the RON, we have established subsidiaries in recent years in Croatia, Bosnia and Herzegovina, Montenegro, Macedonia and Serbia. The RON is one of key strategic advantages of the Telekom Slovenije Group, as Telekom Slovenije is the only national operator with its own infrastructure in place that helps connect all major regions and cities in the Balkans and South-Eastern Europe. The network was constructed in accordance with the latest standards and using the most advanced transmission equipment.

Telekom Slovenije's regional optical network



TSMEDIA⁴⁷

TSmedia's net sales revenue in 2016 in the amount of EUR 6.9 million was down 26% relative to the previous year, primarily due to a decline in revenues from information services, as users are making use of other sources. The number of calls to the 1188 number has been in decline for a number of years, while interest in the telephone directory is also waning.

TSmedia helps create the Slovenian media space with one of the leading digital media in the form of [Siol.net](#), and represents the main Slovenian information centre with an access point to the Slovenian web ([najdi.si](#)), the [bizi.si](#) business assistant, the only official telephone directory in Slovenia ([itis.si](#)), and outdoor digital screens with important information and dynamic advertisements at 474 locations.

[Siol.net](#) was redesigned in graphical, contextual and technological terms in 2016, and thus brought the company closer to both users and advertisers, and introduced already established global digital trends:

- the main guiding principles in the aforementioned redesign were mobility and accessibility via all devices, through which we ensure a uniform user experience on all screens;
- we introduced news briefs and covered important news live, which ensures that users get information about important events in Slovenia and around the world even faster;
- we enhanced articles with even more photos and video content to round off the user experience; and
- introduced new premium ad formats for advertisers, which facilitate tailor-made content solutions and superior video productions and exclusive advanced targeted advertising, with expectations regarding the simultaneous behaviour of users.

AVTENTA

Avtenta is the leading provider of solutions for managing and implementing SAP solutions and paperless operations on the Slovenian market. The company generated net sales revenue of EUR 7.7 million in 2016, an increase of 23% relative to 2015. Revenues from the sale of SAP services and key programmes on the external market were up. The company's market share is thus growing in the e-business solution segment, while its role as an SAP provider outside the Telekom Slovenije Group is strengthening.

Sales activities supported the company's established portfolio of products and services (e.g. SAP maintenance, SAP integration and EPR systems for companies), and were aimed at the development of new SAP HANA solutions for the SME segment using an innovative rental model. The company achieved the following objectives in 2016:

- we attracted new users for the introduction and maintenance of SAP systems, and significantly increased revenues generated by such services on the Slovenian market;
- we positioned ourselves on the market as a provider of SAP ERP solutions for SMEs under a rental model;
- we consolidated our position on the Slovenian document systems market via new projects;
- we strengthened the teams of both core programmes;
- we carried out the re-accreditation of management systems according to the ISO 9001 standard; and
- we continued to adapt Avtenta's mode of operation and business strategy, which will facilitate its sustainable development in the future.

GVO

GVO is the leading provider of comprehensive solutions in the areas of project design, and the construction, management and maintenance of telecommunications networks in Slovenia. The company is also expanding to related activities in the areas of construction and maintenance of infrastructure facilities.

The company's net sales revenue was up 60% in 2016 relative to the previous year. That growth was primarily a result of the increased scope of construction of telecommunication networks in Slovenia and the launch of a project to deploy a free-flow electronic toll collection system. The company also recorded higher revenues from the management and maintenance of open broadband networks managed by GVO, where we achieve continuous growth in the number of active connections.

SOLINE

Soline's revenues were up 3% in 2016 relative to 2015 due to higher sales of salt (up 15%), the increased number of visitors to the Sečovelje Salina Nature Park (up 25%) and the increased sales of Thalasso Spa Lepa Vida cosmetics (up 51%). Revenues from European projects were down sharply, and were equal to just 23% of such revenues recorded in 2015 due to the completion of the EU's LIFE programme. Soline also completed the European CARS-OUT! project in 2016, which placed full restrictions on vehicle traffic in the park. Remediation measures were carried out to clean up the after effect of flooding in the Strunjan saltpans.

47 GRI TA2

IPKO

Ipko's net sales revenue was down 1% in 2016 relative to the previous year. The company compensated for falling revenues from international traffic due to the increased use of free internet voice applications such as Skype and Viber with revenues from transit traffic and higher revenues from the end-user market. Those revenues were higher in the fixed segment (TV and broadband services).

In 2014 Ipko was the first operator in Kosovo to facilitate access by users to 3G and LTE/4G technologies. At the end of 2015 it received a licence for the use of capacities in the 1800 MHz frequency band. At the end of 2016 Ipko covered 90% of the population with 3G technology and around 85% of the population with LTE/4G technology.

Ipko presented new packages in 2016 with the aim of attracting subscribers. It presented packages that include mobile devices with the aim of compensating for revenues from voice services, as well as packages that include national data packages and for data roaming in EU countries, Switzerland and the US. In the fixed segment, it continued with promotional offers, including the Super DUO fixed subscriber package. It also continued with the expansion of the fixed network and with a special digital TV package with no connection fee.

BLICNET

Blicnet's net revenues were down 1% in 2016 relative to 2015. Growth was recorded on the end-user market, while revenues on the wholesale market and other sales revenue were down.

Blicnet offers its users in Bosnia and Herzegovina analogue and digital TV, internet, and fixed and mobile telephony. Blicnet introduced digital TV services in 2016 and increased the number of HD channels in its programme scheme. The company became the only official distributor of Apple iPhone 7 and iPhone 7 Plus mobile phones, and updated the selection of devices from other manufacturers.

2.6.4 Responsibility to users⁴⁸

87%
SATISFACTION

0.35%
PROPORTION OF COMPLAINTS

10.3 million
NO. OF ISSUED INVOICES

Strong ties with users and their satisfaction are crucial to the success of our operations. User satisfaction is therefore monitored via questionnaires at Telekom Slovenije' contact centres. We use the information gained in this manner to improve our work. A total of 87% of users assessed their satisfaction with contact centres at 4 or 5 in 2016, compared with 90% in 2015. Based on assessments received, we employed a team of experienced trainers and mentors to improve the qualifications and professionalism of employees, and thus contributed to the improved effectiveness of sales.

Significant activities in 2016

We upgraded and improved the Moj Telekom (My Telekom) portal. The most important new feature is the ability to quickly register all existing and new subscribers who visit one of Telekom Slovenije's points of sale. Every subscriber is thus given immediate access to all data regarding their subscriptions and services. The users of fixed services are now able to organise programme schemes and options more transparently, and independently change modem settings, including the management of their Wi-Fi network. Users have the option of linking their profile to social network accounts (e.g. Facebook and Google), while electricity service subscribers can monitor and organise data for their distribution point. Moj Telekom is also available to users in the form of a redesigned mobile application, and in a condensed form via BOX and BOX S set-top boxes. There were 45,475 registered users of the portal at the end of the year, an increase of 10% relative to 2015.

We also demonstrate our responsibility to users via the Telekom Slovenije Loyalty Programme, which exceeded the 250,000 member threshold in 2016. More than 25,000 new members signed up and, like existing members, accumulate points that they exchange for benefits. We also strive for a cleaner environment by encouraging and rewarding users who transition from printed invoices to the electronic receipt of invoices, with more than 10,000 users changing their habits in this regard during the previous year. Users are also awarded for managing the services they receive independently via the Moj Telekom portal. In 2016 more than 60% of members took advantage of reward points, either independently via the Moj Telekom portal or via SMS.

48 GRI GS 103-1, 103-2, 103-3, GS 102-43

Communication with users and technical help desk services⁴⁹

Users most frequently turn to Telekom Slovenije's key contact points for assistance. Those points take the form of the User Advice Department and the Technical Help Desk Department, as well as the toll-free numbers 080 8000 and 080 1000. Both contact points are available to users 24 hours a day, seven days a week. In periods when the call centre was overburdened, we actively promoted other communication channels, resulting in an increased number of reports via email, the online chat feature and SMS. Our users may also report problems or submit requests for technical assistance via the Moj Telekom portal.

We use a workforce management system [WFM] to allocate tasks to technicians in the field and coordinate installation times with users. The number of tasks within the aforementioned system was up sharply in 2016 due to the success of sales. During the final quarter of the year, we transferred records and the allocation of escorts for the technicians of domestic operators from the Security and Control Centre to the WFM. We began to introduce the allocation of fault clearance times on a trial basis.

Within the User Advice Department, we established a special team of employees with several years of experience that we named the Win Back Team [a team tasked with the retention of users]. Those employees use their negotiating and communication skills to help users find the optimal solutions, services and packages. Each user is treated individually. The response has been exceptionally positive. From January to September 2016, we successfully retained 78% of users who were considering switching providers.

Our contact centres received 2,127,068 calls in 2016, a decrease of 4% relative to the previous year, while the Subscriber Relations Department received 89,908 calls. Calls to resolve complaints accounted for 17% of all calls, while 83% related to the conclusion of subscriptions and various requests.

Telekom's interactive assistant Tia sent 45,844 responses, of which the majority or 21,008 related to Telekom Slovenije services and subscriber relations. A total of 39,839 users contacted an advisor via the online chat feature at www.telekom.si, a decrease of slightly more than 1% relative to 2015. We also assisted users via Twitter and Facebook, which represent an additional channel for communication with users.

Number of interactions with users:

 **2,664**
via Twitter

 **8,309**
via Facebook

In **written** communication with users [via info@telekom.si and tehnicka.pomoc@telekom.si], we responded to 262,310 messages, a slight increase relative to 2015. The Company's application for capturing written contacts with users was also adapted for the purpose of allocating contacts received via Facebook and Twitter.

We resolved 933,150 technical issues and made 536,725 outgoing calls to users, a decrease of slightly less than 1% on the previous year.

An agreement was reached with TSmedia in September to end cooperation in the concessionary provision of 1188 services, resulting in the discontinuation of the 1188 Call Centre Service. A total of 873,093 calls were received until that time.

There was a sharp increase in advisory services for business users last year. Due to the increasing recognition of our contacts for business users, call, emails [poslovni@telekom.si] and online inquiries are on the rise. The total number of contacts was up 50% on the previous year.

Transparency in the charging of services⁵⁰

We continued to implement certain changes to invoices in 2016, including an altered appearance and the renaming of items, which contributes to the increased transparency and better understanding of invoices. With regard to e-invoices, we were involved in the introduction of the new 1.6.1 version of e-Style, which we introduced on our invoices in December, before the aforementioned style became legally mandatory in January 2017.

49 GRI GS 102-43, 102-44

50 GRI PA10

We continued updating the monitoring of contacts and tasks in the Complaints Department. We carried out the transfer of email directly to the Inbox application, which facilitates the faster receipt of complaints and tracking in the archive of all documents.

Telekom Slovenije issued more than 10.3 million invoices for services. The overall complaint rate relative to invoices issued was 0.35% compared with 0.37% in 2015.

Concern for the security of children and adolescents⁵¹

The safe use of communication services, especially the internet, receives a great deal of attention and effort on our part, in particular among the most vulnerable segment of the population: children and adolescents. We are involved in the Slovenian Safe.si initiative for the safe use of the internet and also support the Logout organisation, a centre to help those who use the internet excessively. We implemented the Moja prva pogodba [My First Contract] project in cooperation with the latter in 2016. As part of that project, we drew up guidelines for parents and contracts for children and adolescents with the aim of helping them reach an agreement on the appropriate use of mobile phones and mobile devices.

Through the **Kar poveš, je zares** [What You Say is True] communication campaign, we continued and upgraded last year's campaign, **Ne objavi, kar te lahko gnjavi** [Don't Post What Can Hurt You Most] in the scope of the **Moč besed** [Power of Words] initiative. This year we raised awareness about the effects of offensive statements and posts on social networks on the lives of individuals. The Moč besed initiative was developed in cooperation with the Slovenian Friends of Youth Association.

Telekom Slovenije is a signatory of the code of mobile operators and internet providers aimed at user protection and of the ETNO Corporate Responsibility Charter. We have set up the tab **Nasveti za varno rabo mobilnih naprav in storitev** [Recommendations for the safe use of mobile devices and services] for users on our website, where we provide advice regarding the safe use of contemporary communication devices and services. We also published **10 golden rules for safe internet use**, which also apply when accessing the internet via a mobile phone.

Access to Dajmedol adult content on the TV or set-top box is protected by a parental password, and accompanied by a descriptive and video warning that the content is inappropriate for children and adolescents below the age of 18.

Through a systematic editorial policy at TSmedia, we ensure that freely accessible content is secure and/or appropriately marked. We call on those making comments on the Siol.net digital media to respect the etiquette of online communication. Users' comments are moderated, and those that encourage hate speech are not published.

We offer users two possibilities to protect their devices. Users can install the Kaspersky security package on their device. The aforementioned package facilitates parent control, identity protection, and above all safe web browsing in any network. We also offer the use of the Varen splet [Safe Web] service that allows users to protect data traffic and to manage that data on all devices.

Services for vulnerable user groups

We provide more affordable access to our services by special user groups, and adjust our offer to meet their needs. We provide **disable persons** the appropriate services, terminal equipment and a list of public telephones and terminals accessible by wheelchair. We offered **deaf and hearing-impaired** the new Gluhi A subscriber package which provides users 15 GB of data transfer, calls and video calls in all Slovenian networks, while SMS and MMS messages are charged according to usage, but never exceed EUR 2 a month. The new package is the result of our long-standing successful partnership with the Slovenian Association of Deaf and Hearing Impaired People, as Telekom Slovenije has been preparing special packages for the deaf and hearing impaired since 1999.

Volunteer protection and rescue organisations are offered mobile service packages with no subscription fee. We offer **students** specially priced packages of broadband services, and fixed and mobile voice telephony services. **Pensioners and active seniors** over the age of 60 can take advantage of the benefits of the Penzion package, which brings them an additional discount on selected fixed and mobile packages, as well as special promotional offers.

51 GRI G4-DMA, G4-M4, PA2

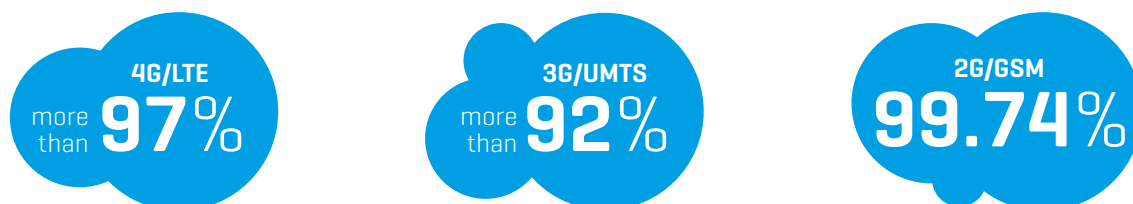
In cooperation with the company Doktor 24, Telekom Slovenije provides services in the area of remote **medical assistance**, intended primarily for elderly persons and young families. The aforementioned service is always available and easy to use, as it functions with a single call or by pressing an SOS button on a mobile or fixed telephone device. SOS Zdravnik [SOS Doctor] is a 24-hour medical hotline that provides users remote medical assistance, even when travelling abroad. The SOS Doma [SOS Home] service includes a telephone with an SOS button on the back side. Pushing that button initiates a call to a call centre where assistance is coordinated and organised. With the SOS Mobilni [SOS Mobile] service, users receive a special mobile device with large buttons and numbers/letters, and a built-in SOS button on the back side. It also includes a fall detector and a GPS signal that facilitates the location of a user in need of help. More information is available on the Company's website at <http://www.telekom.si/zasebni-uporabniki/telefonija/teleoskrba#sos-zdravnik>.

Our portfolio of services also includes iHealth devices that facilitate the simplified monitoring of the health of users at home or while travelling. Measurements are saved automatically, so they can be monitored at all times and shared with a personal physician. Wireless devices can be used to quickly and simply measure blood pressure and blood sugar. The portfolio of products also includes a scale for analysing body composition, an activity and sleep tracker, and a fingertip pulse oximeter for measuring oxygen saturation in the blood and the heartbeat.

Broad access to Group services⁵²

As part of its social responsibility, Telekom Slovenije strives to ensure broad access to the most advanced ICT services, even by the inhabitants of remote, less-populated regions. The mobile telephony signal is thus accessible across the entire territory of Slovenia, while a large portion of territory is also covered by broadband internet access and fixed telephony.

We have invested a great deal of effort in the construction of the LTE/4G network in recent years. That network already covered more than 97% of the population and more the 80% of the territory of Slovenia at the end of 2016. Access to mobile broadband services is made possible via satellite and our own technological solution to provide users internet, fixed telephony and TV services via the LTE/4G mobile network. This solution is provided to users in areas where setting up a fixed connection is not possible, but the LTE/4G mobile signal is available.⁵³



Our companies in South-Eastern Europe also contribute to the overcoming of the digital divide in their own environments and to the provision of the most advanced technological solutions. Ipko ensures a high level of coverage of Kosovo with its mobile signal: at the end of the year, the 3G signal covered 90% of the population, while the LTE/4G signal covered 85%. Blicnet primarily operates in the northwest part of Bosnia and Herzegovina, and provides access to state-of-the-art telecommunications by the rural population via a wireless triple play package. Users in the Kotor Varoša region were also provided access to FTTH services [fibre optic network] in 2016.

2.6.5 Customer satisfaction⁵⁴

Customer satisfaction with Telekom Slovenije's services

The satisfaction of our users is measured regularly, with the results contributing to the development and improvement of products that are tailored to the user. Users state the extensive network as the greatest strength of our fixed services. The sound quality of fixed telephony, TV back-viewing, the accessibility of points of sale and the knowledge of technicians and sales personnel are also assessed as high.

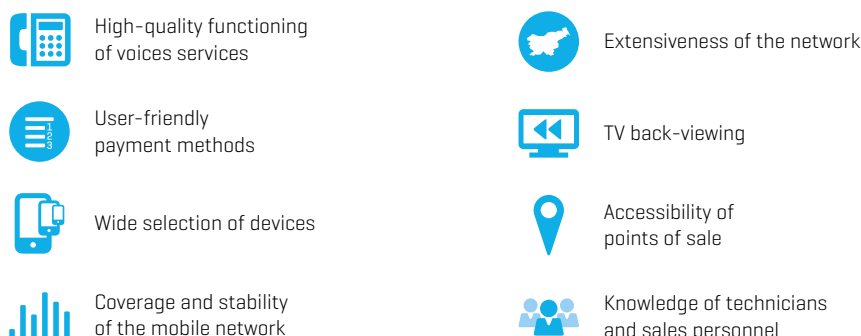
52 GRI PA1, PA2

53 GRI PA4

54 GRI GS 103-1, 103-2, 103-3, GS 102-43, 102-44

The competitive advantages our mobile services are the high-quality functioning of voice services, the stability and coverage of the network, the selection of devices, the payment method for the purchase of devices, the functioning of the internet and the commitment of the operator. The users of multiple services [voice/SMS/mobile internet/additional SIM card], and young persons and communities [the majority of a social circle – friends, acquaintances and family – use the network of the same provider] generally express the highest level of satisfaction.

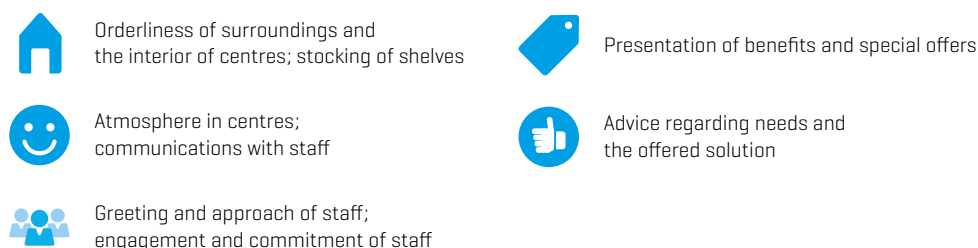
Competitive advantages of Telekom Slovenije⁵⁵



Satisfaction with Telekom Slovenije's points of sale

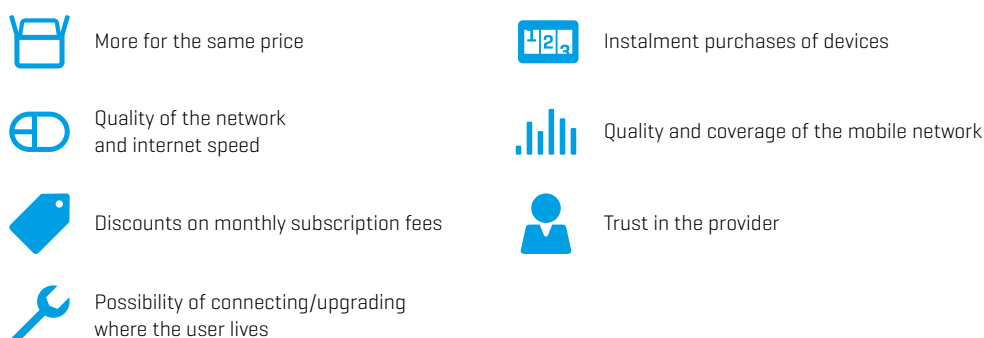
Telekom Slovenije measures the satisfaction of visitors to points of sale and satisfaction with the call centre and the info@telekom.si email address. Satisfaction is measured four times a year through mystery shopping research. All channels receive high satisfaction ratings, which are on the rise.

Telekom Slovenije's users express the highest level of satisfaction⁵⁶ with the following factors:



Reasons for migration to Telekom Slovenije⁵⁷

We measure the migration of users three times a year. The results indicate what users want, what they value and what is most important to them when selecting a provider. Users of **fixed services** who migrated to Telekom Slovenije assess the following elements as strengths: more value for their money, internet speed, quality of the network, discounts on monthly subscription fees, the possibility of connecting/upgrading where the user lives and instalment purchases of devices. Users of **mobile services** state the following elements as the reason they migrated to Telekom Slovenije: quality and coverage of the network and trust in the provider.



55 User satisfaction research [September 2016]

56 Mystery Shopping Research [Q3 2016]

57 Migration Research [August 2016]

Customer satisfaction at other companies

Customer satisfaction is also measured regularly at other subsidiaries in Slovenia and South-Eastern Europe. **TSmedia** conducts research regarding online products through the use of online statistics and online questionnaires, and through focus groups and the monitoring of users' opinions. It is not currently possible to show these data due to differences in the product portfolio and in methodologies.

GVO regularly measures customer satisfaction after the completion of construction using a questionnaire, and once a year by performing an analysis in accordance with the ISO 90001 standard. The proportion of users who assessed GVO's work for the needs of Telekom Slovenije as excellent or very good was 91% in 2016, while the proportion of market users who assessed its work as excellent or very good was 100% (compared with 98% of the previous year).

Ipko regularly monitors user responses via social networks, and measures customer satisfaction through a telephone questionnaire and quarterly quantitative studies. Customer satisfaction with mobile services remained at the level recorded in 2015, at 4.4 on a scale from 1 to 5. Customer satisfaction with Ipko's fixed services improved in all segments. Satisfaction with Ipko's internet services rose from 3.4 to 3.9, while it achieved a result of 4.0 in the digital TV segment (2015: 3.4).

Blicnet monitors customer satisfaction on a monthly basis via the number of complaints received and interventions.

2.6.6 Market communication⁵⁸

Telekom Slovenije's communication activities are based on a long-term standard platform. That platform is based, in turn, on previous market analyses, experiences and the carefully segmented addressing of target groups. Through carefully planned market communication activities in 2016, we successfully supported a portfolio of comprehensive telecommunication services, while the messages in communication campaigns were effectively combined with the use of innovative communication channels.

We executed numerous market communication campaigns in 2016, a few of which are presented below. We launched a new platform in April using the slogan **Naj vas nič ne ustavi** [Don't Let Anything Stop You], which we continued during the Olympic Games in Rio [Road to Rio]. During the summer we communicated the EU zakup option and continued to promote the Modri Plus package. In September and October we designed the new platform **Prihodnost nas navdušuje** [Inspired by the Future]. Alongside our portfolio of packages, we focused on the presentation of our main strengths, such as the network, user experience [free seven-day back-viewing and TViN] and a selection of devices at exceptional prices. In November we provided communication support for our new electricity services. The portfolio of services for young persons was shifted under the Telekom Slovenije umbrella brand. We presented young users the new Dogaja package in June, while we executed a campaign to communicate the upgraded package in September and around the New Year.

The portfolio of business services for small and medium-sized business users was presented in a market communication story using the slogans **Začnimo dobro** [Start Off Well] and **Vsako jutro je nov začetek** [Every Morning is a New Beginning].

We developed more than 60 pieces of print material and eight catalogues to achieve our established communication objectives and sales targets.

In terms of **online communication**, we recorded more than 21 million visits to Telekom Slovenije's central website, resulting in more than 67 million page views. Merging the profiles of Mobitel and SiOL with Telekom Slovenije's profile resulted in an increase in followers, accompanied by a high level of engagement. We thus have one of the largest bases of followers on Facebook and Twitter among companies in Slovenia who transact directly with users. We had 188,700 likes on Facebook and 12,150 followers on Twitter at the end of the year. Growth is also present in requests for information and user technical support via social networks.

58 GRI GS 103-1, 103-2, 103-3

Telekom Slovenije participates in and **organises numerous events and promotions**, through which it gains opportunities for continued direct communication with our existing users and potential new users. To that end, we organised 48 events, 191 promotions at events and Telekom centres, and three fair presentations in 2016. We organise regional meetings every year for our large business users, where in 2016 we presented trends in the areas of digital transformations, Telekom Slovenije's ICT services and solutions. We organised seven meetings in 2016 and hosted more than 450 attendees.

Special attention is also given to **direct communications with users**. To that end, we presented our services to users via more than 300 segmented direct marketing campaigns that were executed via SMS, outgoing calls, post and email.

The Company's communication excellence and innovativeness, as well as its brands, were confirmed again in 2016 by numerous recognitions and awards, which are reported in point 1.11.

Telekom Slovenije and TSmedia are signatories of the Slovenian Advertising Code. Compliance with various codes is verified every time a communication project is planned. The two aforementioned companies also adhere to the examples of best practices drawn up by the Slovenian Advertising Chamber [accessible at: www.soz.si/projekti_soz/dobra_praksa/]. Ipko also respects general professional advertising codes.⁵⁹

No Telekom Slovenije Group companies were deemed to have breached codes or voluntary standards in the area of marketing communication in 2016.⁶⁰



59 GRI GS 103-1, 103-2, 103-3

60 GRI GS 417-3

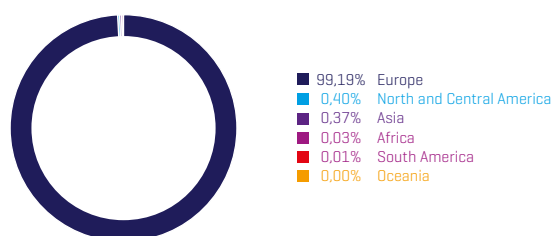
2.7 PROCUREMENT AND LOGISTICS FUNCTIONS⁶¹

Procurement function

Telekom Slovenije purchases goods and services primarily for its own needs. It also provides certain support activities for the subsidiary GVO, while other subsidiaries perform the procurement function independently. Procurement at Telekom Slovenije in 2016 was characterised by the accelerated construction of the fibre optic access network, the implementation of major projects, the assumption of liabilities to Debitel's suppliers and increased activities in connection with the optimisation of processes and the IT infrastructure. In order to reduce our impact on the environment and optimise costs, we promoted paperless operations, as our aim is to establish the exchange of e-invoices with as many suppliers as possible. We are also introducing reverse electronic auctions as a regular business practice.

Total purchases at Telekom Slovenije amounted to EUR 526 million in 2016, and included operators, agents in the sale of goods, the conclusion of subscription agreements, and other suppliers and partners. Total purchases by Telekom Slovenije and its Slovenian subsidiaries amounted to EUR 566 million, with Slovenian suppliers accounting for 73% of the value of purchases.

Proportions of Telekom Slovenije's suppliers by continent

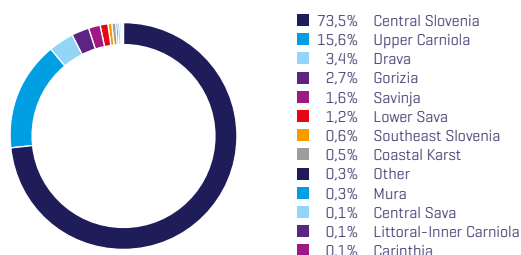


The majority or 92% of Telekom Slovenije's suppliers are from Europe, with 88% of those from the European Union and 77% from Slovenia. There were no major changes in the composition of domestic and foreign suppliers relative to the previous year.

Top 10 countries according to the number of suppliers

- | | |
|-------------------|-----------------|
| 1. Slovenia | 6. India |
| 2. United Kingdom | 7. Austria |
| 3. USA | 8. France |
| 4. Germany | 9. Switzerland |
| 5. Croatia | 10. Netherlands |

Dispersion of Slovenian suppliers by statistical region



Suppliers in Slovenia come from different local environments, with the majority from central Slovenia. The proportion of suppliers from individual regions is illustrated by the graph above.

61 GRI GS 102-9, 102-10

Environment and social responsibility in Telekom Slovenije's procurement function



Logistics

Several systematic changes were made in the area of logistics in 2016. We adopted Inventory Management Rules that define all of the rights and obligations of the owner of inventories of materials. At the end of 2016 we carried out the complete centralisation of the car fleet and established certain systematic records of inventories. To increase efficiency, the transport of materials will be assumed in full in 2017 by external service providers who already provide these services for other contractual partners.

A man with a beard, wearing a light blue button-down shirt over a white t-shirt, is seated at a wooden table in a kitchen. He is looking down at a tablet computer he is holding with both hands. On the table in front of him are several sheets of paper, a pen, and a black marker. The background shows a kitchen with white cabinets, a tiled backsplash, and a dark coffee machine on a counter. The lighting is warm and natural. There are two overlapping semi-transparent circles, one purple and one blue, on the left side of the image.

EVERY MORNING BEGINS WITH GOOD SOLUTIONS

We are inspired by the future,
as good solutions open new dimensions.



2.8 NETWORK, TECHNOLOGIES AND IT

We successfully completed the European eBADGE project aimed at setting up a pilot international smart grid. We began to develop new omnichannel platforms.

We optimised and consolidated server and disk capacities.

We invested intensively in the gigabit passive optical network (GPON). More than 33,000 households were given the opportunity to connect to the aforementioned network during the year, with nearly 10,000 subscribers actually connecting.

We linked the hubs of ARNES and made the first connections between data centres for the needs of the electronic toll collection project.

We fulfilled the objective of the next generation broadband network development plan, which was to provide 96% of households with an access speed of at least 100 Mb/s by 2020 and remaining households with an access speed of at least 30 Mb/s.

The LTE/4G network already covers more than 657 cities and towns and 97% of the population.

Telekom Slovenije's network is thus prepared for the introduction of SRVCC-VoLTE and VoWiFi services.

2.8.1 Research and development services⁶²

Telekom Slovenije's research and development projects cover various areas, and are financed in part or full by the European Union. We focus on areas that give or will give Telekom Slovenije a comparative advantage on the market, now or in the future. These areas include:

- the Internet of Things (smart grids, connected homes, smart cities, eHealth, etc.),
- fifth generation mobile networks, the wholesale segment and cloud computing services,
- data mining and big data as a service,
- critical public services, such as emergency call services, and
- specialised solutions for the rail network.

Major projects included research of the infrastructure development of smart electricity grids, and the new services and products associated with them. Presented below are the major research and development projects in which we are involved.

In 2016 we successfully completed the European eBADGE project, which was coordinated by Telekom Slovenije in the scope of the EU FP7 programme. The objective of the project was to set up a pilot international smart grid. The project was implemented by an international consortium of thirteen partners from five countries [Slovenia, Italy, Austria, Germany and Finland].



Telekom Slovenije is also coordinating the SUNSEED project, likewise from the EU FP7 programme. The total value of the project is EUR 4.7 million. Nine partners from six countries [Slovenia, the Netherlands, Denmark, the United Kingdom, France and Germany] are working together in the project, the objective of which is to develop a technical and economical model and analyses for the most efficient use of the telecommunications infrastructure for the functioning of the smart electricity grids of the future. The project also includes the establishment of a pilot smart grid in Slovenia, in which the transfer of data will flow through various access technologies, the mobile network, fixed connections and satellite access.

The photo illustrates the placement of SUNSEED equipment in the field.

The iCIRRUS project comprises a consortium of 11 international partners from the United Kingdom, France, Spain, Germany, Cyprus and Slovenia. The project is valued at a total of EUR 3.8 million and will run from 2015 until the end of 2017. The aim of the project is the research and development of technologies in the access segment of the fifth generation [5G] mobile network. We are in the final phase of the identification and preparation of test platforms and modules. We have begun preparations for final testing in Telekom Slovenije's test laboratory.

Telekom Slovenije is also a member of the consortium of companies working on the CHARISMA project. The total value of the project, which is part of the Horizon 2020 programme, is EUR 5.9 million. Partners in the consortium are offered practical experiences and presented with issues encountered by telecommunication operators in fifth generation [5G] networks.

62 GRI GS 103-1, 103-2, GS 203-1, I01

The [NEXES \[Next Generation Emergency Services\]](#) project addresses the implementation of next generation telecommunication systems in the 112 information centres, and is valued at EUR 4 million. We facilitate roaming by the server element of the application on our infrastructure, and offer assistance in the integration of the system with the mobile positioning system.

We also continued research and development work for the upgrading of the automated emergency call (eCall) system, in the scope of the pan-European [I_HeERO](#) project. The aforementioned project envisages the pilot establishment of an additional hub (eCall router and eCall node) for the receipt, decoding and storage of relevant data regarding an accident.

2.8.2 Convergent core network⁶³

The convergent core network comprises technologies that facilitate the signalisation and traffic service flows of Telekom Slovenije's networks. Convergent core segments include:

- the fixed and mobile aggregation of traffic from the access network,
- the fixed and mobile core network,
- the backbone network and network interconnection, including roaming technologies,
- the internal business network with management services,
- platforms for value-added services, and
- continuous control [24/7/365] of networks and services, security, the development of control and support systems, and quality control.

We implemented extensive investment programmes in this area in 2016 aimed at updating and increasing the capacities of various segments of this technology, to a great extent in connection with the management of risks in this area. To that end, we also continued putting in place the new concept of geographical redundancy for the mobile core network in accordance with the recommendations of the business continuity management (BCM) project.

We successfully achieved all key performance indicators:

- availability of the mobile core network,
- availability of the fixed core network,
- the successful resolution of complaints,
- the level of quality of data in inventory systems, and
- operating costs.

We further organised processes relating to the planning of works and processes associated with the portfolio of administrative services.

In accordance with the Telekom Slovenije Group's Strategic Business Plan for the period 2016 to 2020 and the strategic policies and objectives defined therein, we implemented numerous projects in 2016, as listed below by individual technology segment: the upgrading of the aggregation network, and the modernisation and expansion of the mobile radio access network (RAN). We also continued with the redesign of the ELAS level, solutions for business users and special projects (electronic toll collection, administrative services, big data, etc.), and the testing and verification of new equipment and the upgrading of control systems for quality assurance.

Group subsidiaries in South-Eastern Europe also implemented numerous activities relating to the convergent core network. Ipkofocused on increasing availability and improving the quality of services, and on the optimisation of operating costs. Intensive work was also carried out to manage the functioning of the temporary solution for AuC/HSS hosting of 3G and LTE/4G users by Telekom Slovenije. We also completed the project to migrate Ipkof's entire user base to Telekom Slovenije's new UDC platform (unified data centre of users).

Work in the area of roaming was intensified notably, particularly with regard to the establishment of LTE roaming relationships. We ended the year with the following relationships:

- 433 GSM relationships (in 206 countries),
- 191 UMTS relationships (in 96 countries),
- 301 GPRS relationships (in 135 countries),
- 155 CAMEL relationships (in 83 countries), and
- 30 LTE relationships (in 25 countries).



The entire IT infrastructure for Telekom Slovenije's needs is located at two data centres in Ljubljana (at the Cigaletova and Stegne locations). The data centre at the Cigaletova is considered one of the most state-of-the-art in Slovenia, while we also offer major business users superior services, from the comprehensive management of their solutions and databases, the virtualisation of the environment, security and applications to the network element.

We established an additional geo-redundant location in Maribor in 2016 to ensure the increased availability of systems. To achieve greater flexibility and simplify the management of disk capacities, we will set up an additional system for the virtualisation of disk capacities and facilitate the management of various types of disk systems.

The photo is of Telekom Slovenije's data centre located at Cigaletova ulica in Ljubljana.

Selected key functionality indicators for Telekom Slovenije's convergent core network in 2016⁶⁴

Key functionality indicators	Achieved in 2016
Availability of the fixed core network	VPN availability: 99.977%
	FBB availability: 99.961%
	R-VOIP availability: 99.966 %
	B-VOIP availability: 100%
	IPTV availability: 99.915%
Availability of the mobile core network	Availability of all network elements: 99.995%
Availability of OSS	Granite Inventory availability: 99.772%
	WFM availability: 99.971%
	HDM availability: 100%
	Remedy availability: 99.889%

2.8.3 Access network

We continue to actively develop the fixed access network and upgrade it with new technologies that will facilitate new services and an even better user experience. We achieved or improved all key target indicators for the management and maintenance of the telecommunication cable network, access devices for fixed services, transmission systems, electromechanical devices and real estate used for technological purposes. We applied our technical knowledge in the development or upgrading of various Telekom Slovenije Group products and services.

Management and maintenance of the telecommunication cable network

Through intensive investments in the fibre optic access network, we are building the basic infrastructure for all services that Telekom Slovenije offers its users. A highly permeable fibre optic access network facilitates high-quality broadband services, an unforgettable user experience and entry to the digital world of the future. Our objective and strategic policy is to redirect all existing users of broadband services on the copper-based network to the fibre optic network in areas where the FTTH network has been built.

Due to favourable weather conditions, no major damage was incurred on the cable network, while those conditions also facilitated the accelerated investment in the construction of the network and the completion of works to repair the damage to Telekom Slovenije's network caused by the ice storm that hit Slovenia during the winter of 2014. We recorded exceptional growth in the number of additional connections on the FTTH network.

Major investment projects in 2016 focused on the following:

- the construction of new FTTH connections, including with the use of GPON technology;
- we expressed interest in the construction of the FTTH network;
- the laying of fibre optic cables for backbone connections, and connections to LTE base stations and business users;
- the construction of a fibre optic and copper-based RNO; and
- joint construction works with other investors in the scope of other infrastructure projects.

64 GRI PA3

The realisation of expressed market interest is one of Telekom Slovenije's key projects in terms of the construction of broadband networks. To that end, we successfully covered more than half of the households registered with the AKOS in the scope of the aforementioned project in 2016.

Major projects implemented included the linking of the hubs of ARNES and the first connections between data centres for the needs of the electronic toll collection project.

Access devices

Telekom Slovenije strives to ensure the fulfilment of the next generation broadband network development plan. The objective of that plan is to ensure that all Slovenian households have high speed internet access by 2020, 96% with an access speed of at least 100 Mb/s and the remainder with an access speed of at least 30 Mb/s. To fulfil that objective, we continued with the construction of fibre optic access networks and the shortening of copper pairs, and thus provided users broadband services with higher transfer speeds.

The largest project this year is the gigabit passive optical network (GPON), which represents an alternative to the fibre optic "point-to-point" architecture, where every user is connected to a central device via their own optical fibre. Multiple end-users (i.e. in a multi-family dwelling or small settlement) are no longer connected to a central device via their own optical fibre, but to an intermediate gigabit network switch that is connected to a central device. More than 33,268 households were given the opportunity to connect to the new fibre optic network during the year. Of those, 9,875 are already subscribers.

With the migration to an all-IP platform and the upgrading of the fixed network with new technologies, we are replacing TDM technology, which in the contemporary world of telecommunications does not satisfy development needs or regulatory requirements. A total of 39,167 subscribers were migrated to the IP platform in 2016 (of the planned number of 42,946 subscribers).

Ipko continued to expand the hybrid fibre optic-coaxial (HFC) network in Kosovo in 2016.

Transmission systems

We continued to upgrade network elements with ROADM functionalities, and thus significantly increased the flexibility of the network. Due to a lack of capacity on optical segments and the need for additional bandwidth, we are introducing new 100G line interfaces (10x 10G on the user side or 100G "native") based on DWDM technology, which will allow us to transfer a larger number of channels via a single fibre optic pair. This will result in a tenfold increase in transfer speeds per channel in our fibre optic network. We included additional 10G connections in the DWDM network, and ensured mostly 1G connections on segments of the fibre optic network at full capacity using CWDM transmission systems. We began to modernise the SDH network, and replaced existing TDM elements with elements that support both TDM and packet transfer. By doing so, we reduced maintenance costs significantly and gained MPLS-TP functionality.

With regard to the Balkan RON, construction of the Sophia-Belgrade-Zagreb DWDM section completed the ring, which facilitates the realisation of connections via two physically separate paths. In Montenegro, we extended the system from Bijelo polje to Podgorica. Given traffic needs, we included 10G and 2.5G connections to our IPOP locations and began to include secure connections on the Sophia-Ljubljana section (6x10GE).

Future upgrades will further increase capacities and the functional stability of the network, and ensure users the high-quality functioning of services.

Electricity and air-conditioning systems

The reduction in electricity consumption in the areas of fixed communications and commercial real estate continues as the result of the implementation of related measures, while consumption continues to rise in the mobile communications segment. We are reducing the costs of maintenance of electricity, air-conditioning and heating systems through optimisation activities and by increasing the scope of internal maintenance works.

As an environmentally oriented company, Telekom Slovenije also uses alternative energy sources. In addition to our commitments to the cost-effective and efficient management of electricity, we are also bound to efficient consumption this year by the successful renewal of the company's ISO 50001 energy efficiency certificate.

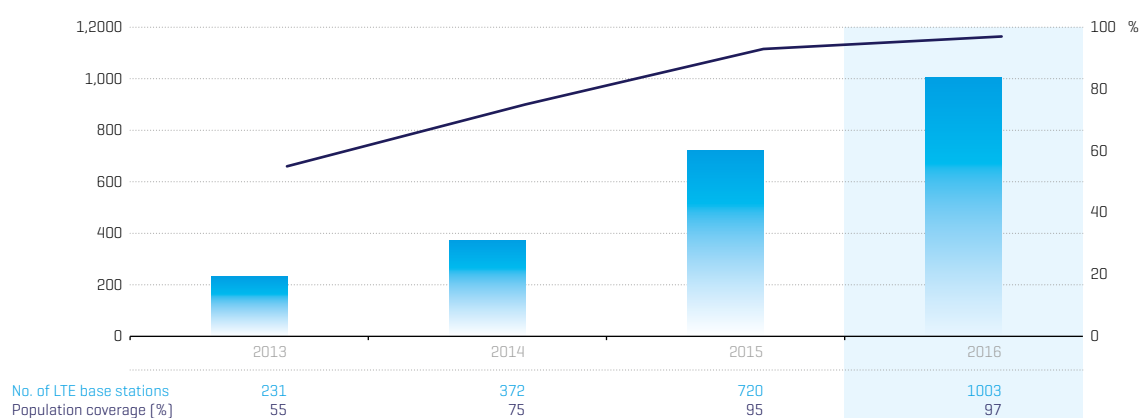
Radio network

The modernisation of Telekom Slovenije's radio network is a continuous task. We thus upgraded LTE/4G base stations at existing locations, replaced obsolete 2G and 3G equipment, upgraded software and increased capacities at certain base stations where this was required due to growth in mobile data traffic.

There were 1,115 GSM base stations, 910 UMTS base stations and 1,003 LTE/4G base stations (of which 283 were newly connected during the year) connected to a total of 1,171 functioning locations on the radio network in Slovenia at the end of 2016. The LTE/4G network already covers more than 657 cities and towns and 97% of the population.

The coverage of Slovenia with a radio signal represents a major challenge due to the many variations in the terrain. Nevertheless, the Company exceeded the concession requirements set out in the most recent auction of frequencies for the provision of public mobile communication services organised by the AKOS, which envisage 95% coverage of the population by 2019. Telekom Slovenije has set itself the target of ensuring coverage by the LTE/4G signal that is comparable with GSM coverage.

Development of Telekom Slovenije's LTE/4G network



We further upgrade the network during mass sporting and cultural events with LTE-Advanced technology to ensure complete stability, even in the event of an exceptional, simultaneous increase in the number of users. We are placing repeater installations to ensure a consistent mobile signal in the interiors of buildings. There were 1,413 repeater installations at the end of the year, with 106 new locations connected during the last year.

Telekom Slovenije's network is thus prepared for the introduction of SRVCC-VoLTE and VoWiFi services, which are based on the integration of different technologies. Telekom Slovenije will offer its users both services at the same time when a sufficiently broad range of terminal equipment (smart mobile phones) is available. Telekom Slovenije is also preparing for the introduction of the LTE-Advanced Pro (or 4.5G) technology, which will facilitate data transfer speeds in existing LTE/4G networks of up to 1 Gbit/s. We successfully tested transfer speeds in the mobile network and in a laboratory environment, where a speed in excess of 900 Mbit/s was achieved, while a data transfer speed of 881 Mbit/s was achieved on a mobile terminal under external conditions. The latter was achieved using an LTE category 16 terminal, which is expected to be available to users in 2017. The new technology will thus facilitate improved stability and even higher transfer speeds for an increased number of users who will use data transfer services simultaneously at a specific location.

Telekom Slovenije achieved a transfer speed in the mobile network in a laboratory environment in excess of 900 Mbit/s, while a speed in excess of 881 Mbit/s was achieved under external conditions.

Ipko expanded coverage of the mobile network with new base station locations, while simultaneously upgrading 50 existing base stations with 3G and LTE/4G technologies. Ipko thus increased coverage of the population with 3G technology (total of 283 base stations) from 87% to 90%, while coverage with LTE/4G technology (total of 215 base stations) was increased from 81.7% to 85%.

Real estate management

We have concluded easement or lease agreements for the majority of real estate used for technological purposes. We therefore dedicated special attention to the legal aspects of that real estate, which is an important element for ensuring a stable and secure network.

900+
Mbit/s

In real estate management, we strive for the optimisation and management of the costs of fees, energy, maintenance, insurance, amortisation and depreciation and investments. Divestment represents another possibility for cost optimisation. We sold seven properties in 2016 and intend to sell another five. We continued to renovate points of sale at an accelerated pace and opened six renovated Telekom centres.

2.8.4 Development of information technology

We pursue the long-term objectives and development strategy of the Company's IT architecture. A number of activities were carried out to ensure a high-quality IT environment for our operations.

Projects and initiatives to consolidate the IT architecture

Key projects and innovations to upgrade IT solutions in 2016 included:

- **The BSS (Business Support Systems) consolidation programme** combines five mutually connected projects to optimise processes and consolidate IT solutions to support processes related to the fulfilment of services and the billing thereof.
- **Consolidation of platforms for managing data and middleware:** we completed the consolidation of databases on the Oracle ExaData and SAP HANA platforms, and upgraded the SOA/BPM environment and applications to the latest version, and completed the migration of applications to a single runtime environment [IBM IPAS].
- **Consolidation of customer relationship management (CRM) solutions:** we supplemented CRM functionalities with a module for managing business opportunities [lead management] and introduced the solution in sales of ICT services.
- **Single environment for advanced analyses and CRM:** we established a system for the continuous proposing of the most appropriate packages for various sales channels and integrated it with the CRM system.
- **Migration of Debitel:** adaptations and changes to back-office information solutions and the migration of data structures facilitated the integration of the mobile operator Debitel into Telekom Slovenije's portfolio and the Company's business processes.
- **Mobile Urbana:** we offered the mobile Urbana by using NFC functionalities on mobile devices and facilitated the topping up of Urbana card using the Moneta service.
- **Support for the sale of electricity:** we facilitated the implementation of changes required in back-office information solutions and information support for business processes in the billing and sale of electricity.

Support for operations [changes/improvements/operations]

- Adaptation of information solutions to the requirements of new legislation regarding support for billing, issuing and sending invoices to subscribers: the implementation of Regulation [EU] 2015/2120, which sets out revised roaming charges and prices within the EU.
- Adaptation of processes and systems for the optimisation of the Company's support business processes, and adaptations to legal requirements. Support for processes is continuously supplemented and adapted to the needs of subscribers: management of discounts, management of easement and consents, management of complaints, management of requests for legal and financial support, support and management of TV channels, etc.
- Integration of the organisational structure and improvement of the management of needs at the Company level.
- Consolidation and optimisation of IT incident management and the introduction of time tracking/resource management in all IT activities.
- Optimisation of the verification of technical feasibilities by upgrading the service feasibility check [SFC] business service and the integration thereof in order fulfilment processes.
- Support for regulatory requirements and open broadband network requirements: adaptation and optimisation of IT support for order fulfilment processes, and the fulfilment and billing of services.
- Support for the introduction of new services and marketing campaigns. Numerous updates were made to systems for ordering, customer relationship management, order management and automatic activation and billing in order to implement changes in the portfolio of existing products and services and new services in the fixed and mobile segments. These include the new Modri convergent package, the TRIO via LTE service, GPON and MVNO [Me2, Spar Mobil, HIP Mobil, etc.].
- Adaptation of IT solutions to support the automated activation of services on new network elements [UDC].
- Upgrading of the Quota Server to connect it with the mobile core network in order to use the Gx protocol.
- Updating of versions of programming environments to ensure the smooth functioning of IT solutions and the sustainable development of the information system.





EVERY MEETING BEGINS WITH GOOD RELATIONSHIPS

Awareness of the importance of the development
of the environment in which we live and work
strengthens good relationships with the wider
community.

2.9 SOCIAL RESPONSIBILITY⁶⁵

We maintained our role as an important sponsor and donor at the national and local levels. We supported sporting, cultural, educational and humanitarian organisations and projects again in 2016.

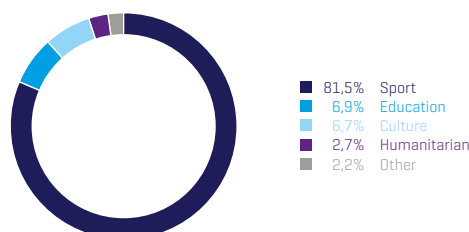
The Telekom Slovenije Group strengthens its position as a socially responsible entity in part through numerous activities in the environment in which it operates, where we are active in the fields of education, culture, sports and humanitarian causes by assisting individuals, projects, events, organisations and institutions. Special emphasis is placed on sports, where we provide assistance to individuals and teams, sporting associations and sporting events.

Telekom Slovenije has been working for several years with the Slovenian Olympic Committee (SOC), and thus supported our athletes at the Olympic Games in Rio de Janeiro in 2016. Activities included a campaign on the Twitter social network, where we encouraged others to support Slovenian athletes. Based on the number of tweets, we earmarked money for the Slovenian Olympic Committee Fund for athletes from socially disadvantaged backgrounds.

Through sponsorships and donations, the Telekom Slovenije Group maintained its role as an important sponsor and donor at the national and local levels. We paid particular attention to geographical diversity. We earmarked a total of EUR 2.4 million or 0.3% of the Telekom Slovenije Group's operating revenues for sponsorships and donations.

Requests for sponsorships and donations are reviewed by a committee that makes decisions regularly and throughout the year. That committee takes into account the interests of those requesting help and Telekom Slovenije Group's strategy when allocating funds.

Allocation of sponsorship and donation funds by purpose



Major sponsorships and donations in 2016

Humanitarian projects

Telekom Slovenije assisted the following organisations:

- The Slovenian Red Cross for the renovation of the Debeli rtič youth spa and resort,
- the Ljubljana Moste-Polje chapter of the Friends of Youth Association in the Slovenia-wide Botrstvo v Sloveniji child sponsorship project,
- telephone counselling provided by the Friends of Youth Association to help children and youth in distress,
- telephone counselling provided by the Association of Counsellors to help those in distress (the anonymous Samaritan line), and
- the Fire Fighters Association of Slovenia.

65 GRI GS 201-1

Donation for students from socially disadvantaged environments

Telekom Slovenije supports the Botrstvo v Sloveniji child sponsorship project, whose activities have been helping families in distress for a number of years. The project functions under the auspices of the Ljubljana Moste-Polje chapter of the Friends of Youth Association, and is aimed at eliminating the social exclusion of children and youth and their families due to poverty.

Funds in the amount of EUR 10,000 originally intended for holiday greeting cards were donated to the Botrstvo v Sloveniji child sponsorship project in 2016. The funds will be used to cover the costs of residence in student dormitories for young people from socially disadvantaged backgrounds. In this way, the employees of Telekom Slovenije also help people in distress. Activities included the collection of funds for Botrstvo v Sloveniji through the FerFud project carried out in the summer of 2016.

Education and science

We are the supporter of numerous projects, conferences and events in the fields of education and science, and serve as a partner to projects and organisations, including:

- the Happy School project,
- the Reading Badge project,
- the graduation parade,
- the multimedia educational programme at the Faculty of Mechanical Engineering at the University of Ljubljana, and
- the Post and Telecommunications Museum, which Telekom Slovenije co-founded.

Environmental projects

We have participated in the Eco-Quiz project aimed at educating primary school students about the environment for several years, and provided partnership support again in 2016.

Culture

Through numerous smaller, contextually varied and geographically dispersed events, we continue to support cultural events that with our support have become an essential element of cultural expression, both in Slovenia and internationally. These include:

- the Ljubljana Festival,
- the Ljubljana International Film Festival (LIFFe),
- the Ljubljana Puppet Theatre,
- the National Opera and Ballet in Maribor, and
- Carnival in Ptuj.

Sports

We provided assistance to numerous local events intended primarily for children and youth. We provided the following sponsorship support in 2016:

- **sporting associations:** the Slovenian Olympic Committee, the Slovenian Football Association [the national team and Slovenian First Football League], the Ice Hockey Federation of Slovenia, the Slovenian Volleyball Association, the Slovenian Judo Federation, the Slovenian Athletics Association, the Slovenian Kayaking Association, and the Slovenian Handball Association.
- **sporting clubs:** the Maribor and Olimpija football clubs, the Krka Novo Mesto basketball club and the Helios Suns basketball club.
- **sporting events:** the 2016 World Cup ski flying competition in Planica, the 2016 World Cup women's ski jumping competition in Ljubno, Golden Fox World Cup ski event, the Tour of Slovenia cycle race, the Franja Marathon and the swim meet in Radovljica.
- **athletes:** Vasilij Žbogar and Peter Kauzer.



2.10 RESPONSIBILITY TO EMPLOYEES

The number of employees in the Telekom Slovenije Group was reduced by 3.6%, while companies in Slovenia reduced the number of employees by 4.4%.

Employee turnover was 7.3% in 2016.

A revised version of the Code of Ethics of the Telekom Slovenije Group was adopted and entered into force in February 2017.

Code of ethics⁶⁶

The aim of the Code of Ethics of the Telekom Slovenije Group, which was revised in 2016, is to provide employees unambiguous information and brief them on basic ethics and legal guidelines governing the performance of work. The aforementioned code sets out the guiding principles of our operations and our responsibilities in mutual relationships, and in relationships with the users of our services, shareholders, the social and natural environment, and all other stakeholders.

The Telekom Slovenije Group respects the dignity of the individual, fosters open mutual relationships, carefully protects personal data and business information, and handles the Company's assets responsibly.

We reject all forms of indirect or direct discrimination, as set out in the code and the Rules on the Prevention and Elimination of Mobbing at Telekom Slovenije. Individual Group companies have other mechanisms in place for identifying potential cases of discrimination and for taking action in such cases. TSmedia has an agreement in place on a system for the prevention and elimination of mobbing at the company. Employees may also turn to the Works Council, as needed. GVO has in place rules governing the prevention and elimination of sexual and other forms of harassment and mobbing in the workplace, and also has a whistleblowing committee. Mechanisms are set out in Ipko's code of conduct. An email address has been set up to send anonymous complaints, while employees may also turn to Ipko's trade union.

In November 2016 Ipko in Kosovo received a report of the breach of personal dignity. However, the responsible committee determined in proceedings that the aforementioned report was unfounded. No cases of discrimination were reported at other Group companies in 2016.⁶⁷

The Group has found no evidence of the possible use of child or forced labour in any of the activities of Group companies or at its suppliers.⁶⁸

Structure of employees⁶⁹

The Telekom Slovenije Group had a total of 3,665 employees as at 31 December 2016, with Slovenian companies accounting for 3,027 of that number. The total number of employees was down 3.6% relative to 2015. The number of employees was down in Slovenia, primarily due to the termination of employment for business reasons and retirements at Telekom Slovenije. At 7.3%, employee turnover within the Telekom Slovenije Group was down slightly relative to the previous year [7.6% in 2015], while the turnover rate was 8.16% at companies in Slovenia compared with 8.9% in 2015.



66 GRI GS 102-16, GS 103-1, 103-2, 103-3

67 GRI GS 406-1

68 GRI GS 408-1, GS 409-1

69 GRI GS 401-1, GS 102-7

Structure of employees at Telekom Slovenije Group companies⁷⁰

Situation as at 31 December	2016	2015	2014	Change in 2016	Index 16/15
SLOVENIA	3,027	3,167	3,366	-140	96
Telekom Slovenije	2,403	2,543	2,749	-140	94
Other companies in Slovenia	624	624	617	0	100
TSmedia	58	81	90	-23	72
Avtenta	40	38	44	2	105
GVO	437	373	394	64	117
Soline	89	88	89	1	101
Debitel	0*	44		-44	-
SOUTH-EASTERN EUROPE	638	636	1,065	2	100
Ipko – Kosovo	532	524	524	8	102
Companies in Macedonia	0	0**	420	0	-
Blicnet – Bosnia and Herzegovina	106	112	121	-6	95
TELEKOM SLOVENIJE GROUP	3,665	3,803	4,431	-138	96

Notes:

* Merger of Debitel with the parent company Telekom Slovenije.

** Establishment of the new company One.Vip, which is no longer a subsidiary of the Telekom Slovenije Group.

Number of new employees and departures in 2016 by age group⁷¹

Age group	Telekom Slovenije Group		Telekom Slovenije		Other companies in Slovenia		Companies in South-Eastern Europe	
	New hires	Departures	New hires	Departures	New hires	Departures	New hires	Departures
00-30	86	29	5	7	70	12	11	10
31-40	50	54	15	26	21	14	14	14
41-50	14	52	9	37	3	14	2	1
51-60	5	140	2	87	3	53	0	0
61-65	1	19	1	15	0	4	0	0
Total	156	294	32	172	97	97	27	25

The proportion of employees with whom the Telekom Slovenije Group has concluded standard employment contracts and contracts based on a collective agreement was the same as the previous year, at 98.4% of employees. The remaining 1.6% of employees have contracts outside the collective bargaining system. These are primarily employees in management positions.

Proportion of employees by contract type⁷²

as at 31 December 2016	Telekom Slovenije Group	Telekom Slovenije	Other companies in Slovenia	Companies in South-Eastern Europe
Employees covered by collective agreement	98.4%	97.9%	99.0%	100.0%
Employees outside the collective agreement system	1.6 %	2.1%	1.0%	0.0%
Total	100%	100%	100%	100%

70 GRI GS 102-8

71 GRI GS 401-1

72 GRI GS 102-41

Employees by type of employment and gender⁷³

A total of 84.4% of employees in the Telekom Slovenije Group are employed permanently (compared with 85.5% in 2015), while 15.6% of employees are employed for a fixed period of time (compared with 14.5% in 2015). The main reason Slovenian companies employ workers for a fixed period of time is to cover increases in the work load.

Of a total of 2,403 employees at Telekom Slovenije in 2016, only eight were employed for a fixed period of time. More employees are employed for a fixed period of time at companies abroad than in Slovenia, which is a reflection of the legislation of the country in question and the employment policy of the individual company.

Proportion of employees by contract type⁷⁴

Proportion in % as at 31 December 2016	Telekom Slovenije Group	Telekom Slovenije	Other companies in Slovenia	Other companies in South-Eastern Europe
Permanent employment	84.4	99.7	84.3	27.0
Temporary employment	15.6	0.3	15.7	73.0
Total	100.0	100.0	100.0	100.0

Men accounted for 67.2% and women for 32.8% of Telekom Slovenije Group employees at the end of the year. This ratio differs from company to company depending on their activity. Men are prevalent at companies in Slovenia, while the gender ratio in favour of men is slightly lower at companies abroad (60%).⁷⁵

Full-time employees account for the largest proportion (97.8%) of employees at the Group level, while part-time workers account for a smaller proportion (2.2%).⁷⁶

Retiring Telekom Slovenije Group employees are entitled to severance pay in accordance with valid legislation and the provisions of the collective agreement, where it applies. Telekom Slovenije has no special pre-retirement training programmes for employees, while the average age of employees at the majority of other companies is so low that such programmes are not required.⁷⁷

Educational structure of employees

The largest decline within the Telekom Slovenije Group in 2016 was recorded in the number of employees with an educational level of V. Those persons still account for around one third of employees. The proportions of those with educational levels of VII and VIII are 29.8% and 4.1% respectively. Those proportions are higher at Telekom Slovenije, where 34% of employees have an educational level of VII and 5.4% have a master's or doctorate degree.

Telekom Slovenije Group employees by actual educational level

Zaposleni po dejanski stopnji izobrazbe	2016	2015	2014	Delež v %	Sprememba v letu	Ind. 16/15
Levels I to IV Education comprises less than four years of schooling, i.e. less than technical or other secondary education	400	408	478	10.5	-8	98
Level V Four-year secondary school	1,154	1,267	1,494	30.3	-113	91
Level VI Higher or college education, faculty comprises less than four years of schooling	866	871	888	22.8	-5	99
Level VII Faculty – university level, Bologna master's programme	1,093	1,111	1,392	28.7	-18	98
Level VIII Master's and doctorate degrees	152	146	179	4.0	6	104
Total	3,665	3,803	4,431	100.0	-138	96

73 GRI GS 102-8

74 GRI GS 102-8

75 GRI GS 102-8, GS 405-1

76 GRI GS 102-8

77 GRI GS 201-3

Employment of disabled persons

There were 112 employees of various disability levels working in the Telekom Slovenije Group at the end of the year. Of those persons, 54.5% are full-time workers, while the remainder work a reduced number of hours. The majority of our companies in Slovenia regularly exceed the legally prescribed quota of disabled persons, which is the result of our efforts to facilitate the employment of disabled employees. Telekom Slovenije and GVO again exceeded the quota in 2016, which is 2% for information and communication activities and 3% for the construction sector. These companies were therefore entitled to compensation in the amount of 25% of the minimum monthly wage for each disabled employee over the prescribed quota. Companies abroad do not have a compensation system for exceeding the quota of disabled persons.

Training and HR development⁷⁸

We ensure the growth and development of the Company and its employees through continuous planned education, training and knowledge management. We thus contribute to the successful achievement of objectives and the internal mobility of employees. Through education and training programmes, we follow the latest developments, particularly in the information and telecommunications sector, and we strive to increase the internal transfer of knowledge. We develop and support the use of e-learning, which facilitates the simplified and best form of education and training in terms of time and financial resources.

Telekom Slovenije's education and testing centre provides education and training to internal and external users with highly qualified lecturers from the field of information and communications technologies. Through the requisite certificates, education and training programmes are tailored to individual companies and their work processes.

A total of 90.5% of Telekom Slovenije Group employees were included in education and training processes in 2016, an increase of 3 percentage points relative to 2015 (87.2%). The number of participants was close to the number recorded in 2015. The number of training hours was up by more than 2% at the Group level.

A total of 95% of education and training programmes were organised internally. These programmes were adapted to the work specifics and needs of the Group, and were thus beneficial in terms of time, price and location. Men accounted for 66% and women 34% of all employees included in education and training programmes, which corresponds to the overall gender ratio, as training is based on workplace needs, with no distinction made by gender.

Key figures regarding employee training within the Telekom Slovenije Group and at Telekom Slovenije⁷⁹

	Telekom Slovenije Group				Telekom Slovenije			
	2016	2015	2014	Index 16/15	2016	2015	2014	Index 16/15
Number of participants in training	3,315	3,318	3,847	100	2,479	2,610	2,596	95
Number of training hours	95,701	90,006	103,454	106	74,727	74,842	76,055	100
Proportion of employees included in training	90.5%	87.2%	86.8%	104	103.2	102.6*	94.40%	101
Number of training hours per employee	26.1	23.7	23.3	110	31.1	29.4	27.7	106

* The proportion of employees included in training was higher than 100%, as the number of participants in training includes persons who attended training during the year but were no longer employed at Telekom Slovenije as at 31 December 2016 and 2015

Structure of training by type in 2016⁸⁰

The majority of training activities in 2016 were carried out in the areas of sales and information and communication technologies. E-learning in the areas of sales and product knowledge is mandatory for certain target groups. The majority of training in the area of sales also relates to the Sales Academy project.

Due to the nature of Telekom Slovenije's work, we have various forms of personal data at our disposal regarding users, business partners and employees. Employees are obliged to take particular care to protect personal data, which may not be viewed without authorisation, disseminated to third parties or used in any other way. In 2016 a total of 138 training hours were completed within the Telekom Slovenije Group in the aforementioned area, representing 0.14% of all training hours. The majority of training was conducted via the

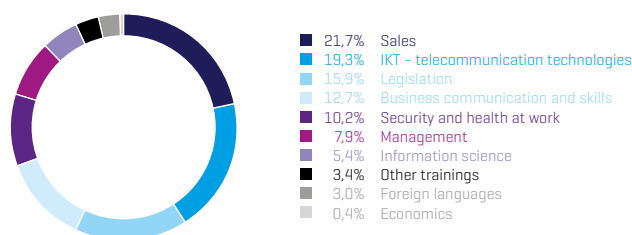
78 GRI GS 103-1, 103-2, 103-3

79 GRI GS 404-1

80 GRI GS 404-1

e-learning portal. The purposes of training are to present employees the basics of personal data protection and the lawful processing thereof, to improve knowledge of rules governing the protection and processing of personal data and to increase employee awareness.⁸¹

Structure of training by area within the Telekom Slovenije Group in 2016



SAP Quality Awards – bronze award

Successful launch of the Effective Team portal

Telekom Slovenije received a prestigious international award in 2016: a bronze award for the implementation of the SAP Success Factors application (called the Effective Team by the Company), through which annual appraisal-development interviews have been conducted since 2015. The aforementioned award was received in the innovative solutions category. Such awards are given to companies in Europe, the Middle East and Africa for the successful and professional use of SAP applications, resulting in the simplification of business processes.

Key and perspective personnel

Telekom Slovenije has in place a system for identifying and managing perspective and key personnel. These are experts and management staff that achieve above-average results in their work and have the potential to take on even more demanding tasks. They also include young, highly qualified employees who have not yet produced results, but have been identified as having high potential. A total of 14% of employees were identified as key personnel at Telekom Slovenije.

We provide targeted training for managers and persons just starting in such positions every year, and ensure their professional and personal development. We gave special attention this year to the certification of experts through the drafting of individual training plans and career development plans. We also continued the rotation programme for perspective personnel between organisational units, which contributes to links between sectors, the optimisation of processes and costs, and the implementation of joint projects. Such programmes are not yet in place at other subsidiaries.

Lifelong learning, scholarships and the recruitment of new personnel⁸²

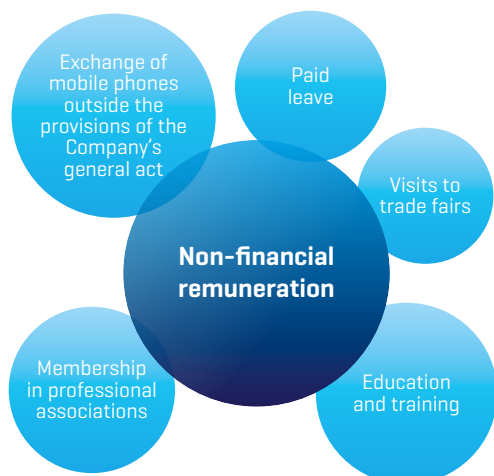
The development of technologies and the changing habits of our users lead to changes in the competences required by our employees, which is why we support the enhancement of their professional knowledge. We finance the study of employees and facilitate paid absence to prepare for study requirements. At the end of 2016, a total of 16 employees had contracts with the Telekom Slovenije Group to obtain a higher level of education, 14 at the parent company and one each at GVO and Avtenta. Ipko in Kosovo had one scholarship agreement at the end of the year.

Motivation of employees

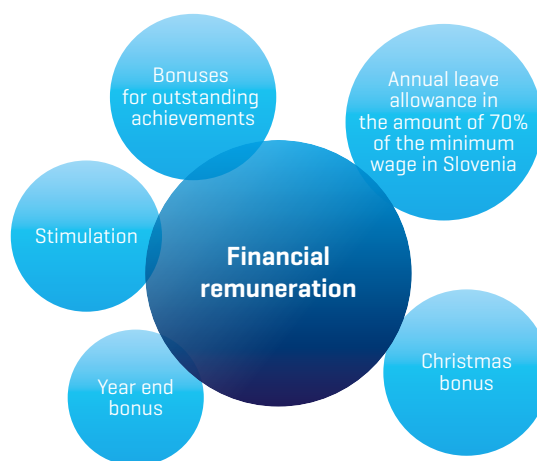
Telekom Slovenije uses financial and non-financial forms of motivation to remunerate employees who stand out significantly from the average in achieving established objectives. Bonuses are paid in accordance with the company-level collective agreement and other internal acts.

81 GRI GS 103-1, 103-2, GS 412-2
82 GRI GS 404-2

Non-financial remuneration at Telekom Slovenije



Financial remuneration at Telekom Slovenije



Individual remuneration depends on the achievement of personal objectives, while collective employee remuneration depends on achieved business results.

Full-time and temporary employees enjoy the same benefits, except the payment of voluntary pension insurance premiums, which new employees are entitled to after one year of employment. The premium for employees who have been employed by their respective company for at least one year is paid by Telekom Slovenije [98% of employees], GVO [85% of employees], TSmedia [95% of employees] and Avtenta [79% of employees]. The amount paid is 5.844% of the defined base, except for Avtenta, which has a fixed premium of EUR 26.70 in place. We have been planning the retirement of employees at Telekom Slovenije for the last five years. Employees are notified accordingly at least one year prior to retirement, and are offered legal assistance and personal counselling. Employees receive severance pay at retirement which, according to the collective agreement, is slightly higher than the legally prescribed amount. Other Group companies do not have such programmes, as the average age of their employees is significantly lower. Companies outside Slovenia pay their employees' compulsory contributions for pension insurance in accordance with local laws, but do not yet pay premiums for additional pension insurance for them.⁸³

A Telekom Slovenije Group employee's base salary is equivalent to the value of the wage grade for a particular position for which an employment contract has been concluded, and is not dependent on gender, location or activity. Employees at companies in Slovenia have a higher minimum wage than the legally prescribed minimum wage in Slovenia. Employees at Ipko in Kosovo likewise have a higher wage [index of 193].⁸⁴

Professional literature

Employees have access to various professional literature in print and electronic form. Printed literature is kept by employees, and shared amongst them.

Cooperation with research institutions

Telekom Slovenije has cooperated with universities, faculties and secondary schools for a number of years, as we are aware of the need for new specialised technical knowledge to supplement knowledge from the areas of traditional telecommunications and ICT (multimedia, cloud applications, user interfaces, etc.). Cooperation with the aforementioned institutions enables the rapid transfer of knowledge from the environment to the Company. Through a partnership, we support the multimedia study programme at the University of Ljubljana's Faculty of Electrical Engineering and Faculty of Computer and Information Science. Our subsidiary Ipko also cooperates with universities and research institutions in Kosovo.

83 GRI GS 401-2, 201-3, 404-2

84 GRI GS 405-2, 202-1

Organisational climate, employee satisfaction and culture⁸⁵

The organisational culture comprises a tangible element, which includes employee behaviour, management style, norms, symbols, interpersonal communication and internal practices, and an intangible element, which includes values, beliefs and a sense of belonging. Measurement of the organisational culture was carried out in 2016 according to the methodology of Human Synergistics International. Using a questionnaire, employees defined the current culture and guidelines for the establishment of the desired culture. The transformation of the organisational culture is part of Telekom Slovenije's adopted strategy. Telekom Slovenije aims to change the corporate culture into a constructive culture, meaning a positive focus on the user, the development of services and business excellence. We will implement measures and activities to create a pervasive, dynamic, innovative, open and cooperative culture that will allow us to remain a step ahead of the market.

The organisational climate and satisfaction were not measured in the Telekom Slovenije Group in 2016, as we opted to perform such measurements every two years.

Annual appraisal-development interviews⁸⁶

In 2016 we upgraded the Effective Team portal for annual appraisal-development interviews. Those interviews are conducted once a year, including at the majority of companies during the year. They covered an assessment of the achievement of the objectives and job performance of employees, the setting of objectives for the current year, and employee training and development plans.

Annual appraisal interviews were conducted with all employees at companies in Slovenia, except those employees on lengthy sick leave or maternity leave, new employees and reassigned employees, and employees in the process of employment termination. Interviews were conducted with 89.5% of employees at Ipko, but were not conducted at Blicnet due to labour law changes and a new systematisation of jobs.

To increase the value added of the management by objectives system and thus performance assessments, we agreed with social partners that we will make updates in this area in 2017.

Managing innovation

Telekom Slovenije promotes and creates an environment in which employees develop an innovative approach to the use of their knowledge and participate by putting forward proposals and innovative ideas. We thus create new or better services for users, and improve processes and generate savings and/or increase revenues.

We promote a culture of innovation and creativity through new learning programmes, while the effective collection and realisation of ideas flows through the Brihta innovation portal. Brihta represents a hub of ideas and communication channel for proposers, other employees, assessors and managers who have a comprehensive overview. Every employee who submits a useful idea receives a practical reward, while proposals that offer high added value are financially rewarded. The hackathon organised in December 2016 also contributed to the promotion of innovation. A total of 65 competitors participated in the aforementioned event, where they solved business challenges and reflected on Telekom Slovenije's opportunities. Some 14 employees also participated in the hackathon.

The employees of Avtenta, TSmedia and GVO are also able to submit proposals for improvements, ideas and innovations in individual areas through the aforementioned companies' internal processes. Ipko holds a competition to collect innovative ideas, with rewards given for the best.

Cooperation with employee representatives⁸⁷

In accordance with the Workers' Participation in Management Act, we cooperate constructively with the works councils of Telekom Slovenije, GVO and TSmedia, and maintain constant social dialogue with trade union representatives (notification, joint consultation, issuing of consent, etc.). Telekom Slovenije's Works Council met at 13 regular meetings and one correspondence session in 2016. The majority of initiatives and questions put forth by employees and their representatives relate to the Company's strategy and operations, regarding which the Workers Director and Company's Management Board provided information (the President of the Supervisory Board also attended two sessions in 2016). Employee representatives were briefed on the human resource strategy and plan, Training and Education Rules and the collective agreement of Telekom

85 GRI GS 102-44

86 GRI GS 404-3

87 GRI GS 103-1, 103-2, GS 102-43, 102-44, GS 402-1

Slovenije. Telekom Slovenije's Supervisory Board also includes three employee representatives, while the Management Board includes the Workers Director. Employees and their representatives are informed about the implementation of significant changes in accordance with valid legislation.

Responsibility for employees and their activities outside the workplace

The Telekom Slovenije Group offers support to employees in various ways, including leisure activities and activities outside the workplace. We devote special attention to our employees' children and pensioners. Activities were carried out differently by individual companies, in accordance with their policies:

- sporting and social events were organised for employees;
- we sent employees with children a Moja prva pogodba [My First Contract] gift package to mark Children's Week;
- we gave gifts to employees' children who were born or entered first grade during the year;
- at the end of the year gifts were given to the children of employees, and to minors and the school children of deceased employees, with some companies awarding scholarships;
- recreational activities were organised for employees by leasing various sporting facilities, while sports organisations functioning at Group companies were supported;
- Telekom Slovenije pensioners clubs were supported;
- at the end of the year, we gave gifts to retired employees;
- we worked with the alpine climbing club of Pošta Slovenije and Telekom;
- we facilitated the purchase of discounted tickets for certain sporting and cultural events; and
- we organised preventive examinations and vaccinations, and preventive treatments at spas.

Occupational health and safety⁸⁸

Telekom Slovenije implemented all measures relating to occupational health and safety, and fire protection in 2016. We took regular measurements of environmental conditions and lighting in the work environment for all locations where deemed necessary. Training was also carried out in the following areas: workplace injuries, fire safety, work at height and training for those persons responsible for carrying out evacuations. We carried out regular inspections of personal protective equipment and supervised its use. Large organisational units and the Company's sales centres are also equipped with semi-automatic defibrillators, to provide aid in the event of heart failure.

We notify employees about preventive examinations, vaccinations against various diseases and current health content via the Modro jabolko [Wise Apple] portal. We also promote a healthy lifestyle by publishing useful articles and information about physical activity and a healthy diet.

Occupational health and safety is incorporated into the collective agreements of Telekom Slovenije and GVO. This area is also governed by the declaration of safety with risk assessments at other companies in Slovenia where no collective agreement is in place. Telekom Slovenije has six employees [0.25% of employees] and GVO has three employees [0.69% of employees] serving on formal health and safety committees that help advise on and monitor occupational health and safety programmes.⁸⁹

This area is governed by the laws of individual countries and business policies at other companies abroad.

Healthcare

Preventive medical examinations were organised for employees at Telekom Slovenije and at other subsidiaries in Slovenia in accordance with the law. During the year we offered vaccination against tick-borne meningoencephalitis [TBE] for employees working in forests.⁹⁰ Flu vaccinations were offered to all employees in Slovenia, although we have recorded diminishing interest in this area. The systematic organisation of these types of vaccinations has not yet been introduced at companies abroad.

88 GRI GS 103-1, 103-2, 103-3

89 GRI GS 403-1, 403-4

90 GRI 103

Healthcare and workplace injuries⁹¹

Occupational safety and healthcare	2016	2015	2014	Index 16/15
Number of injuries	44	45	36	98
Number of working days lost	1,315	1,291	1,090	102
Number of working hours lost	10,199	9,684	8,431	105
Number of medical examinations	820	976	1,124	84
- Preliminary examinations	92	46	64	109
- Periodic examinations	746	930	1,060	80
Number of deaths	0	0	0	-

The Telekom Slovenije Group has no employees at high risk to occupational diseases.⁹²

Fire safety

Telekom Slovenije Group companies did not record any fires in 2016. We continued to draft fire rules and revise evacuation and fire plans for buildings where major changes were made. Fire safety training is an integral part of workplace safety training programmes. Fire extinguishers and hydrant networks were inspected and serviced in all buildings, and several evacuation drills were conducted.

The photo shows October's evacuation drill at the Cigaletova ulica location, where 383 employees were evacuated.

Family-Friendly Company certificate

The Family-Friendly Company certificate represents an element of Telekom Slovenije's social responsibility and is deeply ingrained in the Company's organisational culture. The values that derive from the aforementioned certificate are woven into all 21 adopted measures aimed at improving our employees' work-life balance. Best practices are reinforced through activities that we implement every year:

- the organisation of day care for the children of employees during school holidays;
- the organisation of LEGO workshops for children;
- gifts for newborns;
- a visit by Father Christmas for preschool children;
- gifts for first-graders;
- participation in the Botrstvo v Sloveniji child sponsorship project;
- participation in school-organised Eco-Quiz competitions;
- participation in the Happy School project;
- participation in the Reading Badge project; and
- open house for ninth-graders and secondary school students at Brihtalab.

Parental leave⁹³

Parental care leave is more than just the entitlement to absence from work due to maternity, paternity and parent leave; it is also one of the indicators that we include in the category of work-life balance. Employees with the right to parental leave exercise that right in full. These are mothers in most cases, and less frequently fathers.

Of the 128 employees who were on parental leave from Telekom Slovenije Group companies in 2016, 70 were from Telekom Slovenije, 13 from other companies in Slovenia and 45 from companies in South-Eastern Europe. In most cases, employees return to their jobs after using parental leave.

⁹¹ GRI GS 403-2

⁹² GRI GS 403-3

⁹³ GRI GS 401-3

	Telekom Slovenije Group			Telekom Slovenije		
	2016	2015	2014	2016	2015	2014
Number of employees on parental leave	128	111	144	70	70	84
women	121	109	136	67	69	77
men	7	2	8	3	1	7
Number (proportion in %) of employees who returned to work following parental leave	101 (78.9 %)	87 (78.4 %)	126 (78.5 %)	68 (97.1 %)	68 (97.1 %)	82 (97.6 %)
women	94 (77.7 %)	85 (78.0 %)	118 (68.8 %)	65 (97.0 %)	67 (97.1 %)	75 (97.4 %)
men	7 (100 %)	2 (100 %)	8 (100 %)	3 (100 %)	1 (100 %)	7 (100 %)

Communication with employees⁹⁴

The Telekom Slovenije Group communicates with employees via various communication channels. Group employees and retired workers may access the Oglasi.se news portal, through which we communicate all relevant events, activities and the latest news at Group companies, as well as the Group's mission, values and sales portfolio. Care for the environment, innovation and the involvement of employees in sales campaigns are also promoted. The portal was developed in Slovene and English.

The main tool for communicating with Telekom Slovenije employees is the Telekom intranet portal, as it facilitates the up-to-date transfer of current information, and the secure transfer of internal documents. Employees have access to various documents, such as manuals, rules, instructions and forms. In addition to the intranet portal, other tools are used to communicate with employees. They include councils, working meetings and workshops, emails, notice boards and special events for employees.

Every Telekom Slovenije Group company has its own channels for communicating with employees.

94 GRI GS 102-43, 102-44

2.11 RESPONSIBILITY FOR SUSTAINABLE QUALITY MANAGEMENT

We were the first in Slovenia to receive certificate of the compliance of our business continuity management system with the requirements of the ISO 22301 standard.

The parent company and subsidiaries passed all re-certifications and regular audits of compliance with the requirements of SIST EN ISO/IEC standards, without incidents of non-compliance.

The scope of certification of the information security management system [compliance with ISO/IEC 27001] was expanded to include the Technical Help Desk.

We completed the first part of the self-assessment of business excellence for the parent company in accordance with the requirements of the EFQM model.

We maintained the certificate pertaining to Telekom Slovenije's Internal Rules.

In addition to internal audits and management reviews, external audits are a key mechanism in the independent verification of quality management systems and for ensuring continuous improvements.

An important achievement of Telekom Slovenije in this area in 2016 was the successful certification of the compliance of its business continuity management (BCM) system with the requirements of the ISO 22301 standard. To the best of our knowledge, we were first in Slovenia to complete the aforementioned certification.

We successfully expanded the scope of the certification of compliance of the information security management (ISM) system with the requirements of the ISO/IEC 27001 standard for processes focused on external customers with the inclusion of the associated work of the user Help Desk (i.e. call centre).

Re-certification of the energy management system [compliance with the requirements of the ISO 50001 standard] indicated that the objectives for 2016 were almost achieved in their entirety, despite the limited availability of resources. This certificate, together with the performance of energy reviews, facilitates annual savings of EUR 40 thousand, taking into account the surface area of Telekom Slovenije's covered premises.

As part of the electronic toll collection project, we drafted a project quality assurance manual in accordance with the ISO 10005 standard.

Interest expressed by business users for quality management certificates was diminished in 2016, with the exception of information security and business continuity management. Evidence regarding certificates obtained was enclosed to around 30 responses to requests for offers or questionnaires. There were practically no enquiries by residential users.



Compliance certificates [ISO certificates] and the validity thereof at Telekom Slovenije and subsidiaries

Company – certificate:	Validity of certificate [as stated therein]:
Telekom Slovenije	
SIST EN ISO 50001 [issue: 2011] valid until: 31 January 2020	Development, planning, construction and management telecommunications network and services.
SIST ISO 22301 [issue: 2012] valid until: 11 April 2019	Services and processes of Telekom Slovenije, d.d.
SIST ISO/IEC 27001 [issue: 2013] Valid until: 28 April 2017	ICT Outsourcing and Customer Support, Systems Integration and Project Implementation and ICT Cloud Services.
SIST EN ISO 14001 [issue: 2004] valid until: 15 September 2018	Development, planning, construction and management of the telecommunications network and services.
GVO	
SIST EN ISO 9001 [issue: 2008] Valid until: 31 December 2017	Design, construction and maintenance of telecommunications and electro energetic networks.
SIST EN ISO 14001 [issue: 2004] Valid until: 31 December 2017	Design, construction and maintenance of telecommunications and electro energetic networks.
Avtenta	
SIST EN ISO 9001 [issue: 2008] Valid until: 15 September 2018	Development and integration of business solutions, service delivery and consulting, system integration and project management, education centre, cloud IT services, sales and product management.

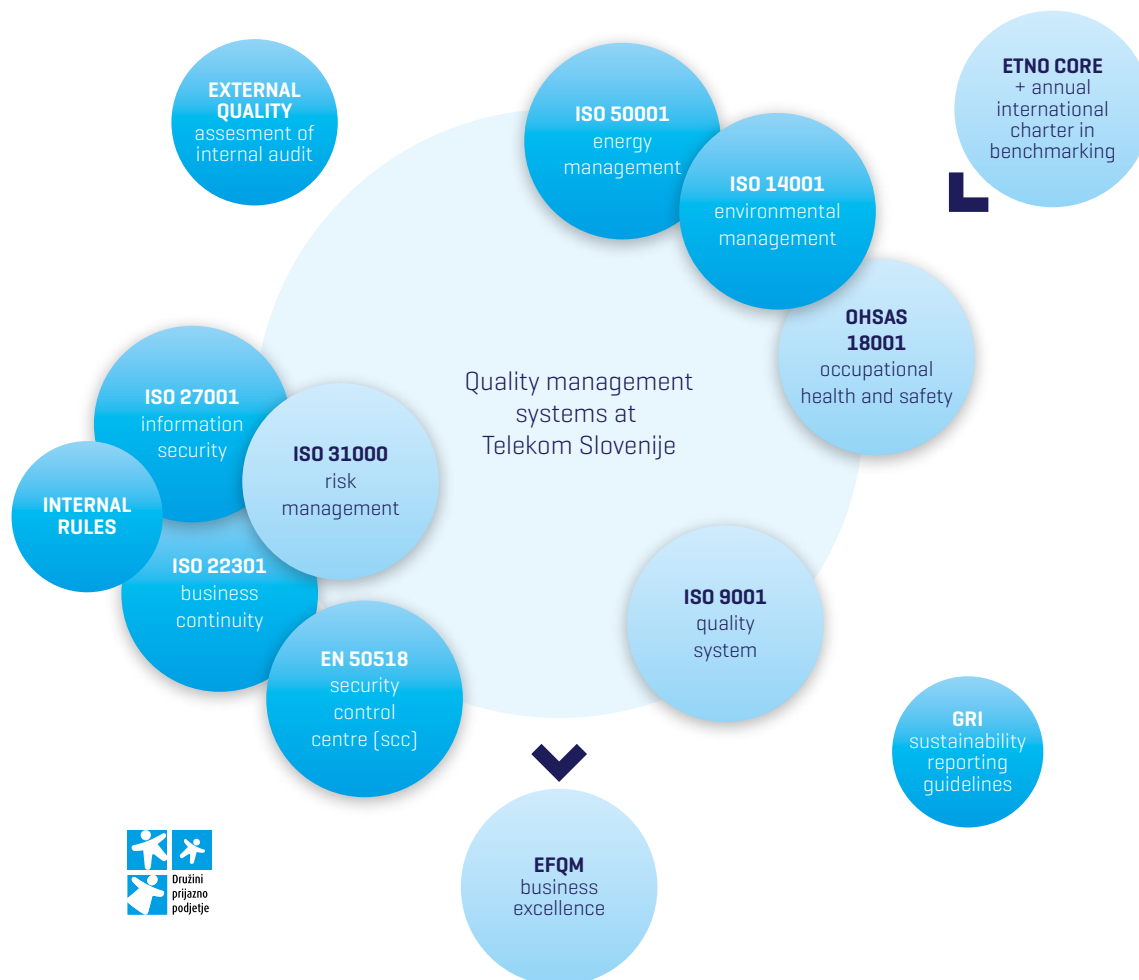
Other certificates and commissioned independent verifications

In 2016 certified auditors carried out an external audit of the quality of internal auditing. An independent external assessment is carried out every year to verify the compliance of the annual report with the GRI Guidelines.

Telekom Slovenije maintained its certificate pertaining to security services and its Family-Friendly Company certificate. At the end of the year, the Company took all necessary steps to ensure the continued validity of internal rules with the most perspective segment of electronic document archiving.

In 2016 the parent company, Telekom Slovenije, carried out the self-assessment of business excellence according to the EFQM BEM [Business Excellence Matrix] methodology.

An overview of all maintained quality management systems at Telekom Slovenije at 31 December 2016 is presented in the figure below. Dark blue indicates those systems for which an independent external audit and certification have been carried out. We assess that those systems marked in light blue meet the criteria of an SDS [self-declared-system], as permitted by those standards.



2.12 ENVIRONMENTAL RESPONSIBILITY⁹⁵

Telekom Slovenije improved its results in the area of energy efficiency for the seventh year in a row. Consumption of the most important energy resource – electricity [measured in kWh] – was further reduced by 0.7%. Telekom Slovenije carried out 252 additional comprehensive measurements of the effects of electromagnetic radiation due to the expansion of the LTE/4G mobile network, while 25 such measurements were carried out by Ipko in Kosovo.

We developed a methodology for assessing the carbon footprint of Telekom Slovenije.

Environmental responsibility is an element of our social responsibility, which is built into the Telekom Slovenije Group's strategy. Progress in this area is monitored using measurable energy and environmental indicators.

The key guidelines of Telekom Slovenije's energy and environmental policy are as follows:

- the methodical prevention and reduction of the impacts of the Group's activities on the environment and the world we live in;
- the regular monitoring of the use of resources, in particular energy consumption and costs;
- the setting of strategic [framework] and energy-related and environmental operational objectives that are balanced against the particularities of the Group's operations and development;
- the continuous improvement of environmental protection activities;
- the transfer of best internal and other sound energy and environmental practices to all Group companies;
- the inclusion of globally recognised energy and environmental development guidelines in the development of the Group's services;
- the monitoring of and compliance with the requirements of valid Slovenian and European legislation; and
- compliance with regulatory and ethical energy and environmental commitments.

95 GRIGS 103-1, 103-2, 103-3

Energy and environmental report of Telekom Slovenije

We carried out a number of activities in 2016 in the scope of the integrated energy and environmental management system. The Energy Act in Slovenia requires companies to systematically ensure energy efficiency. The aforementioned act governs energy performance certificates and energy audits. With more than 90 energy reviews, we are among the leaders in Slovenia. Reviews of air conditioning systems were introduced in 2016.

Telekom Slovenije actively participated in the drafting of sector-specific implementing regulations based on the Energy Act, some of which will have a negative effect on operating results in terms of costs [i.e. mandatory reviews of air conditioning systems]. Tasks awaiting us in 2017 include energy audits for the car fleet, as required by an implementing regulation adopted on the basis of the Energy Act [EZ-1].

We communicate with employees regarding the efficient use of energy via intranet sites. Every employee at Telekom Slovenije, GVO, TSmedia and Avtenta must participate in mandatory occupational and fire safety training once every three years, and complete one hour of training in the scope of the energy-environmental primary school. For a number of years we have supported the Eco-Quiz project aimed at educating primary school students about the environment, energy, nature and ecology.

We report regularly and in a transparent manner to the responsible regulatory body and other government authorities [e.g. ARSO, SORS, CARS/FARS, AKOS, ETNO, Intrastat and Ekstrastat].

Overview of the achievement of energy and environmental objectives at Telekom Slovenije in 2016⁹⁶

COMMITMENT I: To reduce energy consumption and emissions into the environment		
Framework objective A: To reduce electricity consumption by 7% by 31 December 2017 [in kWh; base year 2009].		
OPERATIONAL OBJECTIVE	DEADLINE	ASSESSMENT AND COMMENT
A1. Energy management (EM) system in regular use – at least 92% of consumption included.	30 June 2016	EM system fully operational in accordance with plan. We are not yet satisfied with the level of use by all potential users. 2017 objective: 95%.
A2. To install analysers at the time of the processing of electrical connections. 2016 objective: 20 locations [additional consumption by air conditioning units].	Phased approach (milestone: 31 December 2016)	Objective exceeded. Close to 100 analysers connected. Multi-year task continues in 2017 in a reduced scope (less than 50).
A3. To install air conditioning units with simple ventilation systems at locations less exposed to heat. 2016 objective: 25 locations	Phased approach (milestone: 31 December 2016)	Objective exceeded (around 30 locations). Activities continue in 2017 in a reduced scope (around 10 locations).
A4. To replace defective air conditioning units with energy efficient systems. 2016 objective: 30 air conditioning units.	Phased approach (milestone: 31 December 2016)	Regularly implemented; number in line with plans and available funds. Multi-year task continues in 2017 in a reduced scope.
A5. To raise temperature limit values in key technological rooms (differentiated according to the levels of the network and remoteness from centres). Phase 3 – control over implementation.	30 June 2016	Operational activities successfully completed; further control over implementation required for effectiveness.
A6. To accelerate server virtualisation.	Phased objective 31 December 2016	Slight growth in 2016 due to the specific requirements of projects. Even slower growth planned in 2017 (up to a maximum of 0.5% annually).
Framework objective B: To reduce the number of cars and vehicles relative to year 2015.		
OPERATIONAL OBJECTIVE	DEADLINE	ASSESSMENT AND COMMENT
B1. To reduce the number of company vehicles by 2% relative to the situation in 2015.	31 December 2016	The number of cars, freight and work vehicles was reduced by 7% in 2016 relative to 2015 and by 9% relative to 2013.
B2. To achieve an average emission value of 140 g CO _{2eq} /km in newly purchased vehicles.	31 December 2016	An average emission value of je 140 g CO _{2eq} /km was achieved, while a value of 121.6 g CO _{2eq} /km was achieved for newly purchased vehicles.
B3. The use of electric vehicles in Ljubljana between Telekom Slovenije locations.	31 December 2016	Activities are being prepared for the use of vehicles to transport employees between Telekom Slovenije locations in Ljubljana.
B4. Reduction in printed travel orders. Systematic transfer of data regarding km to SAP/FM. Systematic archive established as a result.	31 December 2016	The systematic and automated transfer of km to the system was established in the technical segment in December 2016.

COMMITMENT II: To reduce the quantity of general waste and emissions

Framework objective C: To reduce the volume of mixed municipal waste by 10% by 31 December 2017 (base year 2009).

OPERATIONAL OBJECTIVE	DEADLINE	ASSESSMENT AND COMMENT
C1. To exclude two additional locations, where municipal waste is not generated, from the collection system.	31 December 2016	Despite efforts, the objective was not achieved in full. Several municipalities have adopted ordinances that hinder realisation.
C2. To secure/cross-link one ecological island in 2016.	31 December 2016	Implementation postponed until 2017.

Framework objective D: To connect 100% of treated wastewater to public sewerage systems by 31 December 2017, and to control costs and water consumption.

OPERATIONAL OBJECTIVE	DEADLINE	ASSESSMENT AND COMMENT
D1. To draft an action plan addressing the public sewerage system and individual treatment facilities.	30 September 2016	Plan concept completed.
D2. To update the records of locations that are not connected to the public sewerage network.	1 December 2016	Internal records established.
D3. To verify the availability of documentation on oil traps and whether that documentation is up to date.	1 November 2016	Activities in progress: Additional activities required at certain locations.

Framework objective E: To ensure full security for the handling of hazardous substances (reducing risks of spills, etc.)

OPERATIONAL OBJECTIVE	DEADLINE	ASSESSMENT AND COMMENT
E1. To purchase and maintain functioning equipment for measures in the event of a spill of hazardous materials.	Permanent task	All known needs fulfilled. Permanent task; the analysis of changing needs continues in the future.
E2. To update documentation regarding tanks.	30 September 2016	Multiple activities. Not completed at all locations. Completion of activities regarding the management of hazardous materials in 2017.
E3. To replace 90% of air conditioning units that use Freon 22 with a more environmentally friendly refrigerant (regulatory requirement).	31 December 2016	In the final phase; units are being replaced when they malfunction. Additional control over whether data are complete in 2017.
E4. To update documentation regarding oil traps, hydrants and sewerage systems.	30 September 2016	Activities due to new regulatory requirements in final phase. Additional activities required in 2017.

Framework objective F: To reduce noise and emissions into the atmosphere by modernising technological devices.

OPERATIONAL OBJECTIVE	DEADLINE	ASSESSMENT AND COMMENT
F1. Energy audits. 2016 objective: Two buildings – recording of situation and analysis; enhanced monitoring of the implementation of measures.	Phased approach (milestone: 31 December 2016)	All activities implemented according to plan; number exceeded on account of cooperation with electricity suppliers.
F2. To draw up the required energy performance certificates for Telekom Slovenije facilities.	Phased approach (milestone: 31 December 2016)	Implementation at all locations envisaged for sale. Not required in 2016.
F3. To record the situation with regard to external lighting – phase III – verification and implementation, as required.	Phased approach (milestone: 31 December 2016)	All initiated activities implemented. Activities continue in 2017 in a reduced scope.

Other energy and environmental objectives in 2016*

OPERATIONAL OBJECTIVE	DEADLINE	ASSESSMENT AND COMMENT
G1. Fire safety: to conduct measurements and update documentation for lightning conductors and installations; two employees to take NVQ2 examination.	Phase milestone: 31 December 2016	Intensive field work. Additional activities required at major locations (numerous periodic measurements again in 2017).
G2. To communicate sustainable development and the integrated energy and environmental management system; participation in three external, socially responsible projects and enhancement of internal communication.	31 December 2016	Enhanced energy (and environmental) communication. Multiple articles published; three campaigns executed.
G3. To conduct energy and environmental training. In 2016 in the form of at least two internally organised seminars for 400 Group employees at the energy-environmental primary school.	31 December 2016	Annual training meeting. Energy-environmental primary school in the scope of mandatory occupational safety training. Specific-purpose training in Procurement Department. Comprehensive training on the EFQM model and processes.
G4. Upgrading of records of locations in SAP.	30 June 2016	Application is not yet completed in full. Follow-up activities in 2017 (standardisation by an external service provider).
G5. Explosive areas – to complete operational activities for all locations and training.	30 April 2016	Less than 10 locations with standard batteries remain; number of explosive areas (and thus their importance) continues to decline.
G6. Fire traps – inspection and records of status by location; organisation of contractual relations; rehabilitation following inspections.	Phased approach (milestone: 31 December 2016)	Numerous activities implemented. Regular maintenance required; objective thus remains open in 2017.
G7. To complete the attempt to calculate Telekom Slovenije's carbon footprint.	30 September 2016	Completed.
G8. To update work instructions (heating, solar power plant, security and auxiliary lighting).	29 October 2016	Prepared. Large portion published in the intranet; completion and control over updates in 2017.
G9. To inventory locations and technical data regarding heating.	1 August 2016	Completed. Objective achieved.
G10. To shut down air-conditioning units in six commercial buildings at night.	1 October 2016	Implemented. Objective achieved.

* Objectives not directly linked to the integrated energy and environmental management system, but managed together with energy and environmental objectives for the sake of efficiency.

■ Objective achieved ■ Objective partially achieved – activities continue

Assessment of carbon footprint⁹⁷

We carried out activities in 2016 aimed at the identification of sources of greenhouse gas emission and at the assessment of Telekom Slovenije's carbon footprint. We have already assessed our impact on GHG emissions in the scope of several years of participation in the benchmarking organised by the European Telecommunications Network Operators' Association (ETNO). That assessment included the consumption of electricity and energy required for heating premises, as well as fuel consumption by the car fleet. The new calculation of our carbon footprint in 2016 also included accidental discharges of HFC gases from the air conditioning of premises (fluorinated greenhouse gases), the consumption of fuel for the transport of employees to and from work, the use of company cars for business purposes and air travel by employees. We established a model for the definition of our carbon footprint in accordance with the internationally recognised Greenhouse Gas (GHG) Protocol.

The assessment of the Company's carbon footprint indicates that electricity consumption contributes to most or nearly three quarters of Telekom Slovenije's GHG emissions. A year-on-year comparison indicates that the Company is reducing its carbon footprint as the result of numerous measures that Telekom Slovenije has been implementing for several years (energy management, a reduction in the number of company vehicles and kilometres driven, server virtualisation, the reduced use of paper, the issue of e-invoices, etc.).

97 GRI GS 103-1, 103-2, GS 305-1, 305-2, 305-3

Estimate of emissions by Telekom Slovenije by source⁹⁸

Skupina virov emisij	2016*	2015	2014	2013	2012	Index 15/14
Scope 1 – direct	n/a	3,396.40	3,498.30	3,642.06	3,532.77	97
Scope 2 – indirect due to energy	n/a	39,872.20	45,193.47	45,914.01	46,782.67	88
Scope 3 – other indirect	n/a	8,116.18	8,871.28	9,419.17	9,836.57	91
Total in tonnes of CO ₂ equivalents	n/a	51,384.78	57,563.06	58,975.25	60,152.01	89

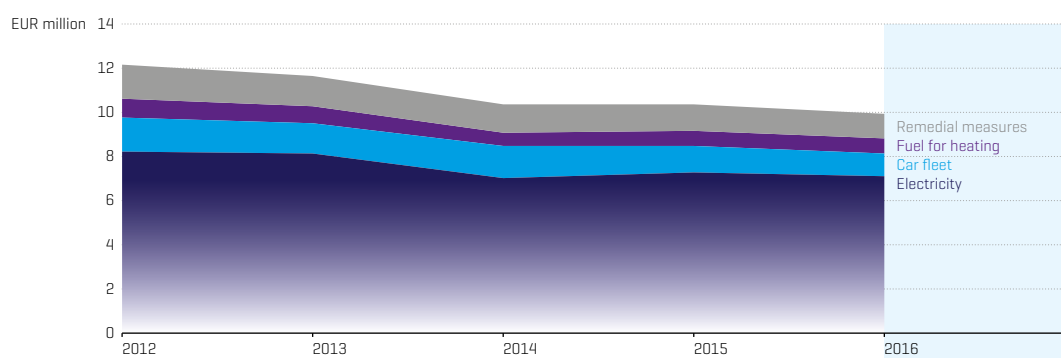
The data for 2016 cannot be calculated at this time because the factor for calculating CO₂ from supplied electricity (which is reported by the supplier) is not available until the second half of the calendar year.

Electricity⁹⁹

Prior to the establishment of the ISO 50001 project, energy and environmental costs totalled nearly EUR 20 million at the Telekom Slovenije Group and EUR 14 million at Telekom Slovenije. Those costs were down by nearly EUR 3.6 million at the parent company in 2016. Two thirds of the aforementioned costs are accounted for by the cost of electricity. Production by own solar power plants accounted for 0.26% of total electricity consumption.

The computer-supported energy management system, which facilitates effective control over electricity consumption, will be further upgraded in the future. That system already includes nearly 2,200 measuring points, 80 locations with heating devices and nearly 9,000 pieces of data.

Energy and environmental costs at Telekom Slovenije (in EUR)



Costs and consumption of electricity and fuel, and other environmental measures at Telekom Slovenije

Telekom Slovenije	2016	2015	2014	Index 16/15
Electricity costs (in EUR)	7,131,975	7,294,588	7,076,704	98
Consumption of electricity (in MWh)*	77,340	77,882	78,358	99
Consumption of electricity (in TJ)*	277	279	281	99
Fuel for car fleet (in TJ)	35.0	33.2	35.6	105
Cost of fuel for car fleet (in EUR)	1,049,563	1,216,307	1,336,649	86
Cost of fuel for heating (in EUR)	638,519	679,231	637,862	94
Costs of remedial measures** (in EUR)	1,121,259	1,186,548	1,284,961	94

Source: SAP; except for electricity consumption – energy management system.

* Includes the consumption of electricity by Telekom Slovenije, TSmedia, Avtenta and RTV locations.

** Costs of remedial measures include the costs of cleaning, municipal services, water, waste management, chimney sweeping services and other remediation measures (rat extermination, disinfection services, etc.).

Fuel for car fleet¹⁰⁰

The total number of vehicles at Telekom Slovenije was reduced by 7% in 2016, while fuel consumption was up by 6% due to the increased scope of works in the construction of broadband networks and field sales. Fuel costs were down 1% relative to 2015.

⁹⁸ We used publicly accessible emission factors for the conversion not yet verified by the competent organisation. We will verify the calculation in the future and thus take a more comprehensive approach to the calculation of our carbon footprint according to the beginning-to-end principle. We will thus carry out a more in-depth analysis of other GHG emissions in the scope of the supply chain, and expand the calculation to include other indirect GHG emissions. We otherwise find that direct GHG emissions from our operations account for only a minor proportion of the carbon footprint.

⁹⁹ GRI GS 302-1

¹⁰⁰ GRI GS 302-1

Number of vehicles by fuel type and consumption in litres at Telekom Slovenije*

Telekom Slovenije	Diesel No. of vehicles	Diesel Consumption in litres	Petrol No. of vehicles	Petrol Consumption in litres	Total no. of vehicles	Total consumption in litres
2016	301	459,135	420	572,550	721	1,031,685
2015	285	411,694	490	565,075	775	976,769
2014	286	410,382	510	641,202	796	1,051,584

Source: SAP/BI

* Data as at 31 December 2016 are disclosed taking into account the actual number of vehicles and fuel consumption. Consumption was monitored in previous years taking into account the average number of vehicles for which consumption was .

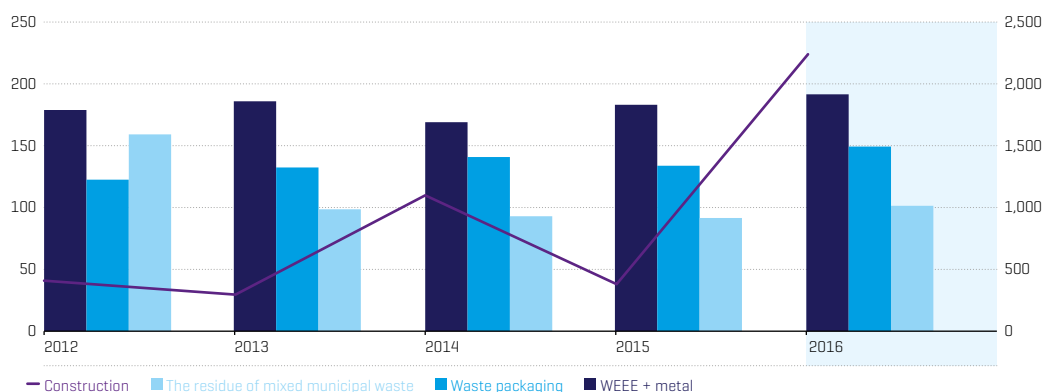
Waste management¹⁰¹

The Telekom Slovenije Group is not considered a major polluter of the environments in which its companies operate. In terms of quantity, the majority of waste generated in 2016 was construction waste. We recorded a significant increase in the latter due to works in the construction of the fibre optic network and base stations in rural areas. No increase in the quantity of the aforementioned waste is expected in 2017.

We forwarded 560 tonnes of separated waste (excluding construction and mixed municipal waste), an increase of around 10% on the average of recent years. The quantity of hazardous waste was likewise up 10% relative to 2015, but still well below the average of recent years. At 17 tonnes, lead batteries accounted for 75% of hazardous waste in terms of weight. Telekom Slovenije consistently separates waste, and thus reduces quantities of mixed municipal waste. We have cancelled waste collection at locations where employees are not present at all times, or have reduced the number of collections or the volume of containers. Employees were notified about waste separation rules, which are published on internal websites.

We have published locations on our website where users can dispose of old mobile phones, chargers and other waste electrical and electronic equipment. We have placed special containers in high-traffic areas at Telekom centres for the collection of used batteries and ensure the environmentally friendly disposal thereof. Users can also dispose of waste packaging from purchased products at points of sale.

Volumes of separated waste at Telekom Slovenije in 2016



* Excluding mixed municipal waste (MMW); WEEE – waste electrical and electronic equipment.

Water management

Water is not one of the predominant resources Telekom Slovenije requires to perform its core activity, nor is the Company a major consumer of water. Due to the Company's presence at locations throughout Slovenia, it is subject to various ordinances regarding the provision of municipal services and to systems for monitoring data on the consumption of drinking water, and the discharge and treatment of communal wastewater and rain water runoff.

Electromagnetic radiation¹⁰²

Telekom Slovenije carried out 252 additional comprehensive measurements of environmental impacts in 2016 (223 in 2015) due to the expansion of the fourth generation mobile network. The level of radiation at base stations upgraded with LTE/4G technology has increased slightly, but remains environmentally acceptable and within the limits established by Slovenian law, which in some respects is even stricter than European law. All reports regarding the measurement of electromagnetic radiation are turned over to the

101 GRI GS 301-1, GS 103-1, 103-2, 103-3, GS 306-2

102 GRI PA8, GRI GS 102-11

Slovenian Environment Agency (ARSO), where the latest data regarding environmental impacts are stored and accessible by all citizens. In cooperation with Forum EMS, the population is informed about radiation and other environmental impacts through brochures at Telekom Slovenije's points of sale. In the scope of the e-card EMS project, Forum EMS developed a mobile application that allows the general public to access data regarding harmful impacts on the environment due to high-frequency electromagnetic radiation and the effect of exposure due to the use of mobile phones: http://www.inis.si/index.php?id=348&no_cache=1#.WIHhbVzNQvU.

With the expansion of the network, electromagnetic radiation measurements are also being carried out by Ipko in Kosovo at 25 base stations. Results indicate that exposure to radiation is well below the recommendations of the ICNIRP.

Paperless operations

Telekom Slovenije promotes the use of electronic operations. It reduces the printing of documents and consumption of paper in operations within and outside the company. The Company thus used 16% less office paper in 2016 than the previous year.

Consumption of office paper at Telekom Slovenije in euros

2016	2015	2014	2013	Index 16/15
19,145	22,830	27,248	30,204	84

Companies in Slovenia encourage suppliers to introduce electronic invoices and increase the proportion of digital documentation. A total of 32% invoices were received by Telekom Slovenije in electronic form in 2016, an increase of 3 percentage points relative to 2015.

We also encourage our users to take a responsible approach to the environment. Through e-services, they are able to reduce their carbon footprint significantly, while subscriber-related documents at Telekom Slovenije are signed using a qualified digital certificate. Users are also able to sign documents using a digital tablet, meaning an increasing proportion of documents retain their original form and remain in electronic form for their entire life cycle.

We also encourage users to select the option to receive electronic invoices via an e-banking application or email. Through paperless operations in the provision of services, we have reduced the costs of paper, printer cartridges and printer maintenance. Our field technicians no longer print documents, and now sign documents electronically. A large proportion of agreements and other documents are sent to users in electronic form after they are signed.

The Company's archive materials represent an important part of its documentary materials and are of permanent importance for its history, the broader environment, science, culture and legal protection. We implemented the project "Internal Rules – Legally Compliant Document Management" with the aim of managing the entire life cycle of documents and ensuring the relevance of internal rules.

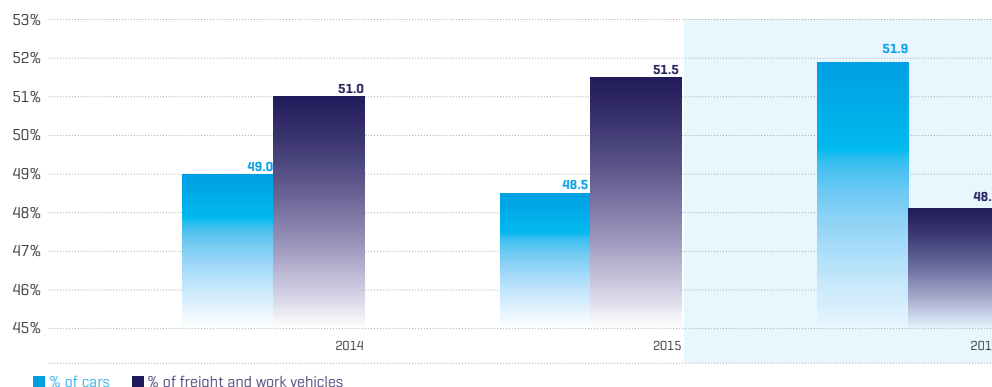
TSmedia also uses e-invoices, as well as electronic forms for procurement and the reservation of company vehicles, while orders are sent to suppliers in electronic form.

Reduction of environmental impacts through efficient procurement and logistics

Several systematic changes were made in the area of procurement and logistics in 2016. Those changes also have positive effects on the environment. We are in negotiations on the possible leasing of electric vehicles for business use, in part to replace the existing form of transportation used to shuttle employees between locations in Ljubljana. We organised safe driver training for a large number of users of company vehicles. In addition to increasing safety, we also raised awareness about fuel consumption and CO₂ emissions. When purchasing new vehicles, we regularly check fuel consumption and CO₂ emissions, which together with safety and price represents the selection criteria.

We established the systematic, electronic transfer of data regarding kilometres, which will reduce the number of paper orders, save time and thus increase employee productivity. In the area of logistics, we intend to introduce full paperless operations in the future, including in connection with the external providers of postal services.

Proportion of cars and freight vehicles at Telekom Slovenije



We take into account the highest energy standards in terms of electricity consumption when purchasing air-conditioning devices. We continuously monitor legislative requirements and replace devices, sometimes on account of new regulations governing the use of harmful cooling gases. To further reduce the consumption of electricity, we are installing temperature regulators in existing air-conditioning devices that monitor temperature and balance the functioning of the aforementioned devices.

Key environmental indicators at other Telekom Slovenije Group companies

The parent company provides the majority of energy and environmental services for companies in Slovenia in operational terms, but subsidiaries are also taking greater responsibility for their own energy and environmental impacts.

Among subsidiaries, GVO is the largest consumer of fuels due to transportation activities and work machinery. The aforementioned company's fuel costs totalled EUR 452 thousand in 2016, a decrease of 4% relative to 2015. The company continued to replace old vehicles with new vehicles driven by more environmentally acceptable motors. It also continued to raise employee awareness about economical and safe driving. The 20 employees who the previous year contributed most to reducing fuel consumption were given the opportunity to participate in a safe driving course organised by the AMZS centre in Vransko. The company also tested electric-powered vehicles, but did not opt to include them in its car fleet because the cars' batteries do not facilitate driving over longer distances. With regard to electricity consumption at functional locations on the open broadband network, GVO ensures that air conditioning devices are appropriately maintained and set at the prescribed modes of operation.

Avtenta implements permanent measures in the premises it leases for both the economical consumption of electricity and the classification of waste. TSmedia leases hybrid company vehicles. Due to its social and environmental importance, Soline remains a symbol of the Telekom Slovenije Group's sustained awareness. Its activities are therefore presented in more detail below.

Soline

Soline manages the Sečovelje Salina Nature Park (SSNP) under a concession agreement concluded with the Republic of Slovenia. All land and other real estate within the park are owned by the government. The park itself measures 750 ha.¹⁰³ The SSNP is on the list of Wetlands of International Importance under the Ramsar Convention, and is part of the EU's Natura 2000 ecological network.

The saltpan ecosystem is specific to the coastal wetlands. The entire salt production process is based on traditional, 700 year-old processes and components from the local environment, and thus does not produce any environmentally harmful by-products. As the administrator of the SSNP, the government requires that Soline continue producing salt using traditional processes, as the latter are crucial for maintaining the cultural landscape and biodiversity. The use of the civil works and traffic infrastructure is kept to a minimum.

Research confirms that invasive exotic species have not been introduced to the saltpans due to the production process. The presence and number of such species are not yet so high as to have significant consequences for ecosystems or communities. The number of species in the Sečovelje Salina Nature Park has not fallen over the last ten years; on the contrary, we have recorded continuous growth in populations. Additional measures aimed at the state of the hydrological regime have led to an increase in the number of natural habitats for which halophilus plants are characteristic. No major changes in ecological processes were seen in 2016.

Key administrative objectives for the period 2011 to 2021 were set out in the plan for managing the Sečovlje Salina Nature Park adopted by the Slovenian government. Those objectives include the preservation of the wetland characteristics of the saltpan ecosystem, its biodiversity and the economic and cultural values of the region.¹⁰⁴ These objectives are achieved by:

- maintaining the saltpan ecosystem;
- preserving traditional salt production processes and centuries-old technological processes; and
- continuing the production of salt, which has been the driving force behind the economic development of the region for ages.

Soline draws up an annual plan and a report on the management of the park, and submits them to the Ministry of the Environment and Spatial Planning for approval. Every activity that exceeds the normal impacts on the environment must be approved by the department responsible for the protection of nature and cultural heritage.

The inclusion of the local community in the raising of awareness and the preservation of cultural heritage is very important. The local community is included in the management of the park through its participation in the Sečovlje Salina Nature Park Committee. This cooperation is also ensured through the organisation of joint events and presentations organised by the local municipality.

There are no endangered species from the IUCN's global list of endangered species present in the SSNP.¹⁰⁵ Around 20 bird species, two species of fish, four amphibious species and one reptilian species are included in the annexes to the EU's Bird and Habitat Directive. At least 45 plants are included on the national list of endangered plant species. The region is one of two that are of national importance to the migration of birds according to the EU's Bird Directive. Many more species are included on national lists of endangered groups and species.

Strict restrictions on the use of motor vehicles in the confines of the SSNP have been kept in place, for both employees and visitors. With the introduction of an electric-powered vehicle, driving within the park is no longer permitted. This applies to both employees and visitors. According to our assessments, the aforementioned measure has led to an annual reduction in CO₂ emissions in the park of 9.45 tonnes. Employees account for 5.85 tonnes of that amount annually.¹⁰⁶

Due to the sensitive environment in which it operates, Soline strives for continuous improvements in energy efficiency. The consumption of electricity has thus been reduced in recent years through changes in the regime for managing cooling and heating devices in visitor buildings. We use videoconferencing and mobile telephones to communicate in the area of international cooperation in the scope of park management, resulting in an annual reduction in work-related travel by 20% to 30%. Soline has not been fined for failure to comply with environmental laws and regulations.¹⁰⁷ Energy consumption was higher in 2016 relative to the previous year as the result of a significant increase in production and sale of salt [by 15%], an increase in the number of visitors [by 25%] and an increase in visits to the Lepa Vida Spa [by 51%].

Energy consumption by Soline¹⁰⁸

Soline	2016	2015	2014	Index 16/15
Consumption of natural gas [in m ³]	4,467	3,486	4,413	128
Consumption of electricity [in MWh]	380.54	337.27	347.39	113
Consumption of fuel [in litres]	57,500	47,860	51,057	120

We launched the CARS-OUT! project at the beginning of 2015 aimed at environmentally friendly visits to protected areas, which was co-financed by the EEA Financial Mechanism 2009-2014. The project ran until 30 April 2016 and resulted in the arrangement of routes within the Sečovlje Salina Nature Park. The project included the arrangement of access routes, entry into a larger reception area [with the possibility of renting bicycles and video presentations of content], a footpath to the Lepa Vida Thalasso Spa and the purchase of an electric vehicle to visit the museum. The SSNP is thus the first regional park in Slovenia where visits by motor vehicle are no longer possible. The only means for visiting the park are on foot, by bicycle or electric vehicle, or via the sea. Construction works were completed back in 2015, while the most significant investment in 2016 was the purchase of an electric vehicle. Total project costs are EUR 998,442.40, 95% of which is in the form of grants.

104 GRI GS 103-1, 103-2, 103-3

105 GRI GS 304-4

106 GRI GS 305-5

107 GRI GS 307-1

108 GRI GS 302-1

New electric-powered vehicle purchased in the scope of the CARS-OUT! project.

Companies in South-Eastern Europe¹⁰⁹

With the help of environmental and energy bookkeeping and accounting, companies in South-Eastern Europe monitor indicators regarding the consumption of electricity and refined petroleum products. Higher energy costs at Blicnet are partly the result of the expanding scope of operations. The higher proportion of costs accounted for by fuels at Ipko is the result of less stable electricity supply in Kosovo, as generators are used to produce electricity during numerous outages.

Nevertheless, Ipko reduced electricity consumption by 2% and fuel costs by 11% in 2016. It achieved this through the implementation of numerous projects, including a project to improve the control and management of generators (resulting in fuel savings of 36,500 litres) and a project to modernise GSM stations with 3G and LTE/4G equipment that requires less energy. Through the two aforementioned projects, the company reduced total emissions into the atmosphere in 2016 by around 118 tonnes CO₂eq. The total estimated quantity of direct and indirect greenhouse gas emissions (Scope 1 and Scope 2) in 2016 was 4,310 tonnes CO₂eq.



Costs of electricity at companies in South-Eastern Europe

[EUR]	2016	2015	2014	Index 16/15
IPKO	1,313,332	1,338,180	1,209,181	98
Blicnet	128,252	119,304	98,542	108

Costs of fuel at companies in South-Eastern Europe

[EUR]	2016	2015	2014	Index 16/15
IPKO	317,238	356,626	393,964	89
Blicnet*	42,769	49,507	51,140	86

* Includes the cost of district heating.

2.13 RESPONSIBILITY FOR THE SECURITY OF BUILDINGS, SYSTEMS, INFORMATION AND INFORMATION TECHNOLOGIES¹¹⁰

The business environment is exposed to various risks that the Telekom Slovenije Group manages through continuous investments in the development of corporate security.

Security policy implementation

The careful implementation of the security policy ensures the safety of employees, business partners, visitors and the users of our services, as well as the security of business information and Group companies' assets.

Security of information and information technologies

With regard to the security of information and information technologies, we ensure that all employees and contractors are aware of the basic principles and objectives of information security and business continuity. We have information security management and business continuity management systems in place to manage risks in this area, as evidenced by the ISO 27001:2013 and ISO 22301:2012 certificates received. Our objective is the gradual merger of both established processes to form a single, more efficient process.

Security risks are also managed through activities to prevent abuse, through the timely notification of our users and the publication of notifications and instructions that ensure the appropriate protection of the users of our services. Special attention is given to expanding the security culture within the Telekom Slovenije Group. To that end, we organise numerous training events on general security, information security, business continuity and the prevention of abuse. Employees are also tested following the completion of training.

109 GRI GS 302-1, 302-4

110 GRI GS 103-3

2.14 CONTENT ACCORDING TO GRI REPORTING STANDARDS¹¹¹

Content according to GRI GS – basic option [“in accordance” – Core]				
GENERAL STANDARD DISCLOSURES				
GRI standard and disclosure	Description	Reporting boundaries (within and outside the organisation)	Section/page	Comments/external assurance ¹¹¹
GRI 101: Foundation 2016				
GRI 102: General disclosures 2016 Organisational profile 2016				
102-1	Name of the organisation	Telekom Slovenije Group	1.1.1./p. 8	✓
102-2	Brands, products and services	Telekom Slovenije Group	2.6.2/pp. 89–91, 2.6.3/pp. 92–97	✓ There are no limitations for the services marketed by Telekom Slovenije Group companies.
102-3	Location of headquarters	Telekom Slovenije Group	1.1.1./p. 8	✓
102-4	Location of operations	Telekom Slovenije Group	1.6./p. 18	✓ The Telekom Slovenije Group operates in eight countries.
102-5	Ownership and legal form	Telekom Slovenije Group	1.14./pp. 37–41, pp. 50–53	✓
102-6	Markets served (geographical and sectoral breakdown and types of customers)	Telekom Slovenije Group	1.6/p. 18, 2.6.2/pp. 89–91, 2.6.3/pp. 92–97	✓
102-7	Size of organisation	Telekom Slovenije Group	- number of employees 2.10/p. 119 - sales revenue, debt-to-equity 1.2/p. 9, 2.1/p. 56, 2.6.2/p. 89 - products and services 2.6.2/p. 89	✓
102-8	Employees by type of employment, type of contract, region and gender	Telekom Slovenije Group	2.10./pp. 119–120	✓ Data regarding the number of employees with respect to contract type (permanent/temporary) are not reported by gender, nor are data regarding the number of employees with respect to type of employment (full-time/part-time). We do not report on the activities of contracted workers. Data regarding employees is collected via a questionnaire completed by all Group companies.
102-9	Description of the organisation's supply chain	Telekom Slovenije	2.7/pp. 104–105	✓ We do not report on the number of suppliers
102-10	Significant changes regarding the organisation's size, structure, ownership and supply chain	Telekom Slovenije Group, Telekom Slovenije,	- size and structure of the organisation: 1.6/p. 18 - ownership: 1.14/pp. 50–53 - supply chain: 2.7/pp. 104–105	✓
102-11	Clarification whether and how the organisation takes into account the precautionary principle	Telekom Slovenije, IPKO, local and wider environment	2.13./p. 134	

¹¹¹ GRI GS 102-54, 102-55

¹¹² The statement regarding verification of the sustainability report according to the GRI Guidelines may be found in point 2.15 on pp. 150–151.

GRI standard and disclosure	Description	Reporting boundaries (within and outside the organisation)	Section/page	Comments/external assurance ¹¹¹
102-12	External documents, principles and other economic, environmental and social initiatives to which the organisation is a signatory or supports	Telekom Slovenije Group	1.7/p. 19	✓
102-13	Membership in organisations	Telekom Slovenije Group	1.7/p. 19	✓
Strategy and analysis				
102-14	Statement of the highest decision-making body on the importance of sustainable development for the organisation and strategy	Telekom Slovenije Group	1.8.3./p.24	✓ The Group's sustainable development objectives are defined in the Strategic Business Plan of the Telekom Slovenije Group for the period 2016 to 2020, which was adopted by Telekom Slovenije's Management Board. Strategic policies are accessible on the Company's website at http://www.telekom.si/o-podjetju/SPN%20STS%202017-2021_Povzetek_ENG.pdf .
Ethics and integrity				
102-16	Values, principles, standards and norms, such as codes of conduct and ethics	Telekom Slovenije Group, suppliers, local and wider community	1.8.1/p. 21, 2.5.5/p. 80, 2.10/p. 118	✓
Governance				
102-18	Governance structure of the organisation, including committees of the highest governance body	Telekom Slovenije Group	1.12/pp. 34, 35, 37, 38, 40,41	✓
Stakeholder engagement				
102-40	List of stakeholder groups engaged by the organisation	Telekom Slovenije Group	1.9/pp. 28-29	✓
102-41	Percentage of employees covered by collective agreements	Telekom Slovenije Group	2.10/p.119	✓
102-42	Basis for identification and selection of stakeholder groups with whom to engage	Telekom Slovenije Group	1.9/pp. 28-29	✓
102-43	Approaches to stakeholder engagement and frequency of engagement by stakeholder group	Telekom Slovenije Group	- approaches to and methods of engagement of all stakeholder groups 1.9/pp. 28-29, - approaches to and frequency of engagement with regulatory authorities and the media: 1.12/p. 42, - approaches to and frequency of engagement with investors: 1.14/p. 53, - approaches to and frequency of engagement with users: 2.6.4/pp. 97-98, 2.6.5/pp. 100-103 - approaches to and frequency of engagement with employees: 2.10/p. 124	✓ Stakeholders are indirectly and directly included in the preparation of the report. See disclosure 102-46. We do not report on the frequency of engagement with suppliers and the local community.
102-44	Key topics and concerns that have been raised through stakeholder engagement, and how the organisation has responded to them, including through reporting	Telekom Slovenije Group	1.9/pp. 28-29, 1.12/p. 42, 2.5.3/p. 77, 2.6.4/p. 98, 2.6.5/pp. 100-103, 2.10/pp. 124 and 126, 2.10/p. 124	✓ We do not report on responses to suppliers and the local community.

GRI standard and disclosure	Description	Reporting boundaries (within and outside the organisation)	Section/page	Comments/external assurance ¹¹¹
Report profile				
102-45	Entities included in the consolidated financial statements	Telekom Slovenije Group	Note 5 in the financial report (composition of the Telekom Slovenije Group)/pp. 182–184	
102-46	Process of defining report content and aspect boundaries	Telekom Slovenije Group	1.10/p. 30	
102-47	List of material topics	Telekom Slovenije Group	2.14/pp. 140–149	Material topics that the Telekom Slovenije Group has identified are stated in the GRI content index. We do not report on immaterial topics.
102-48	Effects of restatements of information provided in previous reports, and the reasons for such restatements	Telekom Slovenije Group	1.10/p. 30	
102-49	Significant changes from previous reporting periods in the scope of reporting and aspect boundaries	Telekom Slovenije Group	1.10/p. 30	There has been no significant change in the scope of reporting relative to previous reports. The only change is the addition of specific disclosures [305-1, 305-2, 305-3 and 202-1]
102-50	Reporting period	Telekom Slovenije Group	1.10/p. 30	✓
102-51	Date of most recent previous report	Telekom Slovenije Group	1.10/p. 30	✓
102-52	Reporting cycle	Telekom Slovenije Group	1.10/p. 30	✓
102-53	Contact point for questions regarding the report	Telekom Slovenije Group	1.1.1/p. 8	✓
102-54	Claims of reporting in accordance with GRI Standards		2.14/pp. 140–149, 1.10/p. 30	✓
102-55	GRI content index		1.10/p. 30	
102-56	External assurance of reporting	Telekom Slovenije Group	1.10/p. 30, 2.15/p. 150	✓ We regularly submit the annual report for external assurance since 2009, when the GRI Sustainability Reporting Guidelines were first included in the report. The scope and basis of external assurance are evident from the sustainability report verification statement.

SPECIFIC STANDARD DISCLOSURES					
Management approaches and disclosures	Material topics	Reporting boundaries	Page	Reasons for omission/explanations	External assurance
ECONOMIC IMPACT					
GRI 201: Economic performance					
103-1 103-2 103-3	Explanation of the material topic and its boundary	Telekom Slovenije Group	1.3/pp. 13–14		
201-1	Direct economic value generated and distributed	Telekom Slovenije Group, shareholders, local and wider community	- revenues, labour costs payments to shareholders: 1.2/pp. 9–12, - revenues: 2.1/p. 56, 2.6.3/p. 93 - donations and other investments in the community: 2.9/p. 116–117		✓
201-2	Financial implications and other risks and opportunities for the organisation's activities due to climate change	Telekom Slovenije Group, users	2.4/p. 61	Due to the exposure of the Telekom Slovenije Group's equipment, our definition of key risks includes risks associated with the external environment and climate change. Those risks are also present at Soline, and impact salt production and the number of visitors to the Lepa Vida spa. There were no significant changes due to climate change in 2016. Risks are mitigated primarily through the construction of the fibre optic network.	✓
201-3	Defined benefit plan obligations and other retirement plans	Telekom Slovenije Group (employees)	2.10/p. 123		✓
GRI 202: Market presence 2016					
103-1 103-2 103-3	Explanation of the material topic and its boundary		1.3./p. 14		
202-1	Ratios of standard entry level wage by gender compared to local minimum wage	Telekom Slovenije Group	2.10/p. 123		
GRI 203: Indirect economic impacts 2016					
103-1 103-2 103-3	Explanation of the material topic and its boundary	Telekom Slovenije Group	- 103-1, 103-2: 2.3/p. 60, - 103-3: 2.8.1/pp. 108–109		
203-1	Development and impact of infrastructure investments and services supported by the organisation	Telekom Slovenije Group, users, local and wider community	2.3/p. 60, 2.8/pp. 106–108		✓
GRI 205: Anti-corruption 2016					
103-1 103-2 103-3	Explanation of the material topic and its boundary	Telekom Slovenije Group	2.5.5/p. 80	The area of anti-corruption, in connection with the management approach (GRI GS 103-3), is monitored and adapted as required by the compliance and integrity officer.	
205-1	Number and percentage of activities assessed for risks related to corruption and the significant risks identified	Telekom Slovenije Group	2.5.5/p. 80		✓

Management approaches and disclosures	Material topics	Reporting boundaries	Page	Reasons for omission/explanations	External assurance
GRI 206: Anti-competitive behaviour 2016					
103-1 103-2 103-3	Explanation of the material topic and its boundary	Telekom Slovenije Group	2.5.5/p. 80	The area of competition protection, in connection with the management approach [GRI GS 103-3], is monitored and adapted as required by the compliance and integrity officer.	
206-1	Number of legal proceedings for anti-competitive behaviour, anti-trust and monopoly practices and their outcomes	Telekom Slovenije Group	2.5.4/p. 79		✓
ENVIRONMENTAL IMPACTS					
GRI 302: Energy 2016					
103-1 103-2 103-3	Explanation of the material topic and its boundary	Telekom Slovenije Group	2.12/p. 130	The area of energy is governed in Slovenia by the Energy Act adopted in 2014 and changes adopted to that act in 2015 [EZ-1A]. We also have an established system in accordance with international standards ISO 50001 – Energy management systems and ISO 14001 – Environmental management systems.	
302-1	Energy consumption within the organisation	Telekom Slovenije, TSmedia, Avtenta, Ipko, Blicnet, Soline	2.12/pp. 134-138		✓
302-4	Reduction of energy consumption	Telekom Slovenije, TSmedia, Avtenta, Ipko, Blicnet, Soline	2.12/p. 139		✓
GRI 304: Biodiversity 2016					
103-1 103-2 103-3	Explanation of the material topic and its boundary	Soline	2.12/p. 136		
304-1	Location and size of land owned, leased or managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	Soline, local and wider community	2.12/p. 137		✓
304-4	Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk	Soline, local and wider community	2.11/p. 138		✓

Management approaches and disclosures	Material topics	Reporting boundaries	Page	Reasons for omission/explanations	External assurance
GRI 305: Emissions 2016					
103-1 103-2 103-3	Explanation of the material topic and its boundary	Telekom Slovenije, local and wider community		The majority of greenhouse gases generated by the Telekom Slovenije Group are generated indirectly through the consumption of electricity and directly on account of heating and the car fleet. In terms of greenhouse gases, the Group is bound in Slovenia by Regulation [EC] No 1005/2009 on substances that deplete the ozone layer and Regulation [EC] 842/2006 on certain fluorinated greenhouse gases, and the Regulation on the use of ozone-depleting substances and fluorinated greenhouse gases.	
305-1	Direct (Scope 1) GHG emissions		2.12/p. 134		
305-2	Energy indirect (Scope 2) GHG emissions		2.12/p. 134		
305-3	Other indirect (Scope 3) GHG emissions		2.12/p. 134		
305-5	Reduction of greenhouse gas (GHG) emissions	Soline, local and wider community	2.12/p. 138		✓
GRI 306: Effluents and waste 2016					
103-1 103-2 103-3	Explanation of the material topic and its boundary	Telekom Slovenije	2.12/p. 133		
306-2	Total weight of waste by type and disposal method	Telekom Slovenije	2.12/p. 135	Quantitative data regarding disposal methods are not included.	✓
GRI 307: Environmental compliance 2016					
103-1 103-2 103-3	Explanation of the material topic and its boundary	Telekom Slovenije	2.5.5/p. 80 2.12/p. 135	Regular and transparent reporting to the regulatory body and other government authorities (e.g. ARSO, SORS, CARS/FARS, AKOS, ETNO and Intrastat) also represent an important element of the Group's energy and environmental activities.	
307-1	Value of significant fines and non-monetary sanctions for non-compliance with environmental laws and regulations	Telekom Slovenije, Soline	2.5.5/p. 81 2.12/p. 138		✓
SOCIAL IMPACT					
GRI 401: Employment 2016					
103-1 103-2	Explanation of the material topic and its boundary	Telekom Slovenije Group	2.10/p. 118	103-3: The Code of Ethics is amended on the basis of periodic reviews by the compliance and integrity officer.	
401-1	Total number and rate of new employee hires and employee turnover	Telekom Slovenije Group	2.10/pp. 118–119	Data by gender are not disclosed.	✓
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees by significant locations of operation	Telekom Slovenije, GVO, TSmedia, Avtenta	2.10/p. 123		✓
401-3	Return to work and retention rates after parental leave, by gender	Telekom Slovenije Group, Telekom Slovenije,	2.10/p. 126	We do not report on the number of persons entitled to parental leave, the number of person who were employed for an additional 12 following their return from parental leave or on the retention rate of employees who exercised their right to parental leave.	✓

Management approaches and disclosures	Material topics	Reporting boundaries	Page	Reasons for omission/explanations	External assurance
SOCIAL IMPACT					
GRI 402: Labour/management relations 2016					
103-1 103-2 103-3	Explanation of the material topic and its boundary	Telekom Slovenije	2.10/p. 125		
402-1	Minimum notice period regarding significant operational changes, including whether these are specified in the collective agreement	Telekom Slovenije	2.10/p. 124		✓
GRI 403: Occupational health and safety 2016					
103-1 103-2 103-3	Explanation of the material topic and its boundary	Telekom Slovenije Group	2.10/p. 125		
403-1	Percentage of employees in health and safety committees that help advise on and monitor occupational health and safety programmes	Telekom Slovenije	2.10/p. 125	The Group does not report on this indicator in numerical terms.	✓
403-2	Occupational injury rate	Telekom Slovenije Group	2.10/p. 125	Reporting relates to the number of incidents.	✓
403-3	Workers with high incidence or high risk of diseases related to their occupation	Telekom Slovenije Group	2.10/p. 125		✓
403-4	Health and safety topics covered in formal agreements with trade unions (collective agreement)	Telekom Slovenije, GVO	2.10/p. 125		✓
GRI 404: Training and education 2016					
103-1 103-2 103-3	Explanation of the material topic and its boundary	Telekom Slovenije Group	2.10/p. 121		
404-1	Average hours of training per year per employee by gender and by employee category	Telekom Slovenije Group, Telekom Slovenije,	2.10/p. 121	Data are not disclosed by employee category.	✓
404-2	Programmes for training and lifelong learning	Telekom Slovenije Group	2.10/p. 122	We do not report on lifelong learning programmes.	✓
404-3	Percentage of employees receiving regular performance and career development reviews by gender	Telekom Slovenije Group	2.10/p. 124	We do not report by employee category. We do not report by gender, as we do not make a distinction in this regard.	✓
GRI: 405: Diversity and equal opportunity 2016					
103-1 103-2 103-3	Explanation of the material topic and its boundary	Telekom Slovenije Group	2.10/p.121		
405-1	Composition of governance bodies and the breakdown of employees by employee category (gender, age, minority group membership and other relevant indicators of diversity)	Telekom Slovenije Group	2.10/p. 120	We report on the number of employees by gender.	✓
405-2	Ratio of basic salary and remuneration of women to men, by significant locations of operation	Telekom Slovenije	2.10/p. 123		✓

Management approaches and disclosures	Material topics	Reporting boundaries	Page	Reasons for omission/explanations	External assurance
SOCIAL IMPACT					
GRI 412: Human rights assessment 2016					
103-1 103-2 103-3		Telekom Slovenije	2.10/p. 121 103-3: 2.13/p. 139		
412-2	Total hours of employee training on policies and procedures concerning human rights topics that are relevant to operations, including the percentage of employees trained	Telekom Slovenije	2.10/p. 122	Training on human rights focused on the protection of personal data The Group does not report on the percentage of employees included in training.	✓
GRI 406: Non-discrimination 2016					
103-1 103-2 103-3	Explanation of the material topic and its boundary	Telekom Slovenije Group	2.10/p. 118	103-3: The Code of Ethics is amended on the basis of periodic reviews by the compliance and integrity officer.	
406-1	Total number of incidents of discrimination and corrective actions taken	Telekom Slovenije Group	2.10/p. 118		✓
GRI 408: Child labour 2016					
103-1	Explanation of the material topic and its boundary	Telekom Slovenije Group	2.10/p. 118	This topic is material for the Telekom Slovenije Group, as it also operates on markets outside of Slovenia.	
408-1	Operations and significant suppliers identified as having significant risk for incidents of child labour, and measures taken to contribute to the effective abolition of child labour	Telekom Slovenije Group	2.10/p. 118	The majority of the Telekom Slovenije Group's suppliers are from European countries.	✓
GRI 409: Forced or compulsory labour 2016					
103-1	Explanation of the material topic and its boundary	Telekom Slovenije Group	2.10/p. 118	This topic is material for the Telekom Slovenije Group, as it also operates on markets outside of Slovenia.	
409-1	Operations and significant suppliers identified as having significant risk for incidents of forced or compulsory labour, and measures to contribute to the elimination of all forms of forced or compulsory labour	Telekom Slovenije Group	2.10/p. 118	The majority of the Telekom Slovenije Group's suppliers are from European countries.	✓
GRI 415: Public policy 2016					
103-1 103-2 103-3	Explanation of the material topic and its boundary	Telekom Slovenije Group	103-3: 2.5.5/p. 80	In terms of public policies, the risk of pressure from the regulatory body regarding price-related, technical and technological obligations exists for Telekom Slovenije. Telekom Slovenije proactively participates in all regulatory proceedings by submitting remarks, positions and the appropriate analyses. Telekom Slovenije issued a Corporate Governance Statement (section 1.14 of the annual report) on compliance with corporate integrity guidelines and on the prevention of conflicts of interest by members of the Supervisory Board and Management Board. Rules on the Treatment and Approval of Sponsorships and Donations.	
415-1	Political contributions	Telekom Slovenije Group	2.5.5/pp. 80-81		✓

Management approaches and disclosures	Material topics	Reporting boundaries	Page	Reasons for omission/explanations	External assurance
SOCIAL IMPACT					
GRI 419: Socioeconomic compliance 2016					
103-1 103-2 103-3	Explanation of the material topic and its boundary	Telekom Slovenije Group	2.5.5/p. 80	The area of socioeconomic compliance, in connection with the management approach (GRI GS 103-3), is monitored and adapted as required by the compliance and integrity officer.	
419-1	Monetary value of fines and number of non-monetary sanctions for non-compliance with laws and regulations in the social and economic area	Telekom Slovenije Group	2.5.5/p. 81		✓
GRI 417: Marketing and labeling of products 2016					
103-1 103-2 103-3	Explanation of the material topic and its boundary	Telekom Slovenije, TSmedia, Ipko, users	2.6.6/p. 102		
417-3	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion and sponsorship, by type of non-compliance and by outcomes	Telekom Slovenije, TSmedia, Ipko, users	2.6.6/p. 103		✓
SPECIFIC SECTOR INDICATORS – MEDIA					
Accessibility to media content					
DMA		Telekom Slovenije, TSmedia, users, local and wider community	2.6.4/p. 99		
G4-M4	Measures to improve accessibility to media content and the protection of vulnerable audiences	Telekom Slovenije, TSmedia, users, local and wider community	2.6.4/p.99		

Management approaches and disclosures	Material topics	Reporting boundaries	Page	Reasons for omission/explanations	External assurance
SPECIFIC SECTOR INDICATORS (TELECOMMUNICATIONS)					
Internal operations					
I01	Infrastructure investments in the telecommunications network by region	Telekom Slovenije Group, users, local and wider community	2.3/p. 60, 2.8.1/p. 108		
I03	Health and safety measures for field personnel	Telekom Slovenije, Ipko, Blicnet	2.10/p. 125		
Provision of access to ICT products and services					
PA1	Policies and practices for providing access to the telecommunications infrastructure, products and services to the population in remote, less populated regions	Telekom Slovenije, Ipko, Blicnet, users, local and wider community	2.6.4/p. 100		
PA2	Policies and practices for overcoming obstacles in accessing and using telecommunication products and services relating to the language, culture, illiteracy, deficient education, revenues, special needs and age	Telekom Slovenije, users	2.6.4/p. 100		
PA3	Policies and practices for ensuring the availability and reliability of telecommunications products and services	Telekom Slovenije	2.8.2/p. 110		
PA4	Quantitative level of available telecommunication products and services in operating regions	Telekom Slovenije, Ipko	2.6.3/p. 92, 2.6.4/p.100		
PA6	Programmes for providing and maintaining telecommunication links and services in extraordinary circumstances and in the event of natural disasters	Telekom Slovenije	2.8.2/p. 109		
PA8	Policies and practices to publicly communicate on EMR-related issues	Telekom Slovenije, Ipko, users, local and wider community	2.12/p. 135		
PA10	Initiatives to ensure the clarity of charges and tariffs	Telekom Slovenije, users	2.6.4/pp. 98-99		
Technological applications					
TA2	Examples of telecommunication products, services and applications that can replace some physical form of use [e.g. online telephone directories, video conferences, etc.]	TSmedia, users	2.6.3/p. 96-97		

2.15 STATEMENT OF THE INDEPENDENT AUDITOR REGARDING THE SUSTAINABILITY REPORT¹¹³



Sustainability report assurance statement

Objective and scope of assurance

On the basis of the 2016 GRI Sustainability Reporting Standards, SIQ was commissioned by Telekom Slovenije, d. d., Cigaletova 15, 1000 Ljubljana, Slovenia to perform external assurance with respect to the Sustainability Report, which is an integral part of the annual report of the Telekom Slovenije Group and Telekom Slovenije, d. d. for 2016. The Company voluntarily submitted to the external assurance with respect to the Sustainability Report. The objective of assurance was to assess whether the facts and data stated in the report are credible and reflect the current state of sustainable development at the Company and the Group.

Limitations

The Sustainability Report relates to the Telekom Slovenije Group and the parent company Telekom Slovenije, d. d., to the extent and limitations set out in section 1.10 of the annual report and in individual disclosures. Although the report was drawn up for the Group, certain disclosures relate solely to the parent company Telekom Slovenije or to the Telekom Slovenije Group. The majority of known stakeholders did not participate directly in the drafting of the report, but were represented by 42 experts who performed a materiality analysis in the scope of five working groups. Their work is described in section 1.10. The interests of suppliers were captured using a specific-purpose questionnaire. The data for the Telekom Slovenije Group were likewise collected using three specific-purpose questionnaires. We were unable to verify the direct source of certain data, as the contracting authority did not facilitate this. The fact that external stakeholders did not participate directly in workshops could have an impact on the principles of materiality and comprehensiveness of the report. Because the report was still being drafted during verification, we only verified the accuracy of references to sections of the report in the GRI content index (section 2.14).

Assurance methodology

Stakeholders did not participate in the assurance process, as this was not requested or ensured by the Company. The assurance process therefore involved a review of the Sustainability Report included in the annual report of the Company and the Group, interviews with responsible Company representatives, and assurance with respect to documentation and other data at the Company's registered office. The data in the audited financial statements were not re-audited.

Responsibility

The management of Telekom Slovenije, d. d. and the Telekom Slovenije Group is responsible for the data presented in the Sustainability Report and for setting assessment criteria. It is also responsible for collecting, classifying and certifying data, and for reporting. SIQ and its representatives were not involved in the processing and presentation of reported data. SIQ representatives are responsible for external assurance with respect to the Sustainability Report's compliance with the GRI Guidelines and the actual situation, and for drawing up an opinion regarding the Sustainability Report.

Independence and Impartiality

SIQ is a professional, independent and impartial institution that provides comprehensive solutions in the areas of product testing and certification, management systems assessment, metrology and training. Numerous accreditations and memberships in international certification schemes and associations are evidence of the international recognition and high professional level of SIQ's work. The assessors who performed the assurance process are registered auditors of quality management systems, environmental management systems and the Eco-Management and Audit Scheme (EMAS), and occupational health and safety management systems.

Findings

The assessors carefully examined compliance with reporting guidelines and principles, and the mandatory disclosures for the basic level of reporting. Sustainable development is defined as an integral part of the strategy set out in the Telekom Slovenije Group's Strategic Business Plan for the period 2016 to 2020. In its report, the Company presented 48 disclosures in 26 areas, of which 11 were sectoral indicators (Telecommunications and Media). Disclosures on management approaches and the results of performance indicators confirm the sustainability oriented nature of the management of the Company and Group. Based on our findings, we hereby declare that the facts and data stated in the Sustainability Report are reliable and reflect the current state of management systems and the sustainable operations of Telekom Slovenije, d. d. and Telekom Slovenije Group. Taking into account the aforementioned limitations and assurance methodology, we hereby find that the Sustainability Report, which is an integral part of the annual report of the Telekom Slovenije Group and Telekom Slovenije, d. d. for 2016, meets the requirements of the 2016 GRI Sustainability Reporting Standards, basic level. With its decision to have external assurance performed with respect to the Sustainability Report for the parent company and the Telekom Slovenije Group, the management of Telekom Slovenije, d. d. raises awareness regarding the importance of sustainable development, and thus contributes to the establishment of internationally comparable best practices relating to sustainable development reporting.



113 GRI GS 102-56



Recommendations

Several opportunities were identified during the assurance process to improve operations and reporting in the area of sustainable development. These are noted in the assurance report. To that end, we hereby highlight recommendations regarding the active inclusion of stakeholders in the drafting of the report and the assurance process relating thereto, the improved clarity of references, the increased transparency and directness of presentations, and a more precise description of the selection of materiality and management approaches (GRI 103).

In the name and on behalf of SIQ

Ljubljana, 15 March 2017

Miloš Seražin
Management Systems Assessment



Igor Bizjak



A man in a dark suit and tie is shown in profile, looking towards a woman whose hair is visible on the right side of the frame. They appear to be in a modern office with large windows in the background. The image has a professional, corporate feel. There are some decorative blue and teal circular shapes overlaid on the left side of the image.

EVERY AGREEMENT **BEGINS WITH** **GOOD THOUGHTS**

Superior results are driven by good thoughts
that we conscientiously and
dedicatedly turn into deeds.



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3. ACCOUNTING REPORT OF THE TELEKOM SLOVENIJE GROUP AND TELEKOM SLOVENIJE, D. D. FOR THE FINANCIAL YEAR 2016

3.1 INTRODUCTORY NOTES

In addition to the introductory notes, the accounting report herein comprises two major sections:

- Accounting Report of Telekom Slovenije Group, and
- Accounting Report of Telekom Slovenije, d. d.

The accounting report of the Telekom Slovenije Group and Telekom Slovenije, d.d. was prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU.

The auditing firm KPMG SLOVENIJA, d. o. o. has audited both accounting reports and issued separate independent auditor's reports, which are enclosed to each accounting report.

3.2 ACCOUNTING REPORT OF THE TELEKOM SLOVENIJE GROUP

3.2.1 Financial Statements of the Telekom Slovenije Group

Consolidated Income Statement of Telekom Slovenije Group as at 31 December 2016

EUR thousand	Note	2016	2015 restated*
Revenue	7	701,748	728,279
Other operating income	8	9,433	17,663
Cost of goods sold		-62,304	-65,486
Cost of material and energy		-14,706	-16,312
Cost of services	9	-301,402	-314,361
Employee benefits expense	10	-116,053	-130,215
Amortisation and depreciation expense	15, 16, 20	-163,142	-155,555
Other operating expenses	11	-17,452	-13,188
Total operating expenses		-675,059	-695,117
Profit from operations		36,122	50,825
Finance income	12	23,557	39,224
Finance costs	12	-19,396	-18,805
Share in profit or loss of associates and joint ventures	12, 17	-6,415	-6,271
Profit before tax		33,868	64,973
Income tax expense	13	-541	-243
Deferred tax	13	6,613	3,829
Profit for the period		39,940	68,559
Earnings per share – basic and diluted (in EUR)	14	6,14	10,54

* Adjustments are outlined in point e. Changes in accounting policies and retrospective restatement, in Section 2 Basis of preparation. Notes on pages from 163 to 225 are a constituent part of these financial statements.

Consolidated Statement of Comprehensive Income as at 31 December 2016

EUR thousand	Note	2016	2015 restated*
Profit for the period		39,940	68,559
Other comprehensive income that may be reclassified subsequently to profit or loss			
Translation reserve		-1	1,205
Change in the fair value for actuarial deficits and surpluses		-435	-395
Change in fair value of available-for-sale investments	26	1	-14
Deferred tax	13	0	3
Change in reclassifying the fair value of available-for-sale investments to profit or loss	26	-300	0
Deferred tax on reclassifying the fair value of available-for-sale investments to profit or loss	13	51	0
Change in deferred tax due to recalculation of the tax rate	13	-17	0
Change in fair value of available-for-sale investments (net)		-265	-11
Other comprehensive income for the period after tax		-701	799
Total comprehensive income for the period		39,239	69,358

* Adjustments are outlined in point e. Changes in accounting policies and retrospective restatement, in Section 2 Basis of preparation. Notes on pages from 163 to 225 are a constituent part of these financial statements

Consolidated Balance Sheet as at 31 December 2016

EUR thousand	Note	31 Dec 2016	31 Dec 2015 restated*	1 Jan 2015 restated*
ASSETS				
Intangible assets	15	211,757	198,608	191,869
Property, plant and equipment	16	690,140	721,080	751,264
Investments in a joint venture	17	124	141	127
Other investments	18	3,177	9,574	13,440
Other non-current assets	19	30,320	29,238	28,027
Investment property	20	4,180	5,021	4,076
Deferred tax assets	13	36,141	29,001	24,108
Total non-current assets		975,839	992,663	1,012,911
Assets held for sale	21	1,818	913	95,338
Inventories	22	23,512	27,134	29,837
Trade and other receivables	23	150,823	150,962	150,888
Short-term deferred costs and accrued income	24	53,057	35,797	32,321
Income tax credits		145	128	69
Current investments	18	119,670	103,356	1,320
Cash and cash equivalents	25	42,554	10,614	23,902
Total current assets		391,579	328,904	333,675
Total assets		1,367,419	1,321,567	1,346,586
EQUITY AND LIABILITIES				
Called-up capital	26	272,721	272,721	272,721
Capital surplus	26	181,488	181,488	181,488
Revenue reserves	26	238,773	218,543	218,492
Legal reserves		51,612	51,612	51,561
Treasury share reserve		3,671	3,671	3,671
Treasury shares and interests		-3,671	-3,671	-3,671
Statutory reserve		54,854	54,854	54,854
Other revenue reserve		132,307	112,077	112,077
Retained earnings	26	14,788	29,602	26,253
Retained earnings from previous periods		-4,922	-38,957	22,011
Profit for the period		19,710	68,559	4,242
Fair value reserve	26	-1,304	-604	-198
Translation reserves	26	-24	-23	-1,228
Non-controlling interest		-580	0	0
Total equity and reserves		705,862	701,727	697,528
Long-term deferred income	27	10,794	10,474	11,545
Provisions	28	38,586	43,992	78,299
Non-current operating liabilities	29	11,572	2,056	5,150
Interest-bearing borrowings	30	156	5,604	35,827
Other non-current financial liabilities	31	99,861	1,433	309,753
Deferred tax payables	13	1,280	1,140	998
Total non-current liabilities		162,249	64,699	441,572
Liabilities held for sale		0	0	22,592
Trade and other payables	32	140,664	129,933	122,742
Income tax payable		341	82	161
Interest-bearing borrowings	30	304,379	80,747	23,765
Other current financial liabilities	33	4,330	303,194	98
Short-term deferred income	34	9,407	10,081	10,937
Accrued costs and expenses	35	40,187	31,104	27,191
Total current liabilities		499,308	555,141	207,486
Total liabilities		661,557	619,840	649,058
Total equity and liabilities		1,367,419	1,321,567	1,346,586

* Adjustments are outlined in point e. Changes in accounting policies and retrospective restatement, in Section 2 Basis of preparation. Notes on pages from 163 to 225 are a constituent part of these financial statements.

Consolidated Statement of Changes in Equity as at 31 December 2016*

EUR thousand	Called-up capital	Capital surplus	Revenue reserves					Retained earnings		Fair value reserve for financial instruments	Reserve for actuarial gains and losses	Translation reserve	Total	Non-controlling interest	total
			Treasury share reserve	Treasury shares	Statutory reserves	Other revenue reserves	Legal reserves	Retained earnings from previous period	Profit for the period						
Balance at 1 Jan 2016	272,721	181,488	3,671	-3,671	54,854	112,077	51,612	-38,957	68,559	943	-1,547	-23	701,727		701,727
Profit for the period								39,940					39,940		39,940
Other comprehensive income for the period										-265	-435	-1	-701		-701
Total comprehensive income for the period	0	0	0	0	0	0	0	0	39,940	-265	-435	-1	39,239	0	39,239
Dividends paid								-32,527					-32,527		-32,527
Transactions with owners	0	0	0	0	0	0	0	-32,527	0	0	0	0	-32,527	0	-32,527
Transfer of profit or loss from previous period to retained earnings or losses								68,559	-68,559				0		0
Transfer to other reserves pursuant to Management's decision						20,230		-20,230					0		0
Changes within the Group								-1,997					-1,997	-580	-2,577
Balance at 31 Dec 2016	272,721	181,488	3,671	-3,671	54,854	132,307	51,612	-4,922	19,710	678	-1,982	-24	706,441	-580	705,862

* More details in Note 26

Consolidated Statement of Changes in Equity as at 31 December 2015

EUR thousand	Called-up capital		Capital surplus	Revenue reserves				Retained earnings		Fair value reserve for financial instruments	Reserve for actuarial gains and losses	Translation reserve	Total
				Treasury share reserve	Treasury shares	Statutory reserves	Other revenue reserves	Retained earnings from previous period	Profit for the period				
Balance at 1 Jan 2015 initially reported													
	272,721	181,488	51,561	3,671	-3,671	54,854	112,077	22,175	1,506	954	-1,152	-1,228	694,956
Impact of the changed accounting policy													
Adjustment of error													
								4,425					4,425
								-1,854					-1,854
Balance at 1 Jan 2015 restated*													
	272,721	181,488	51,561	3,671	-3,671	54,854	112,077	22,175	4,077	954	-1,152	-1,228	697,527
Profit for the period													
								68,559					68,559
Other comprehensive income for the period													
										-11	-395	1,205	799
Total comprehensive income for the period													
	0	0	0	0	0	0	0	0	68,559	-11	-395	1,205	69,358
Dividends paid													
								-65,198					-65,198
Transactions with owners													
	0	0	0	0	0	0	0	-65,198	0	0	0	0	-65,198
Transfer of profit or loss from previous period to retained earnings or losses													
								4,077	-4,077				0
Transfer to legal reserves													
			51					-51					0
Other													
								40					40
Balance at 31 Dec 2015 restated*													
	272,721	181,488	51,612	3,671	-3,671	54,854	112,077	-38,957	68,559	943	-1,547	-23	701,727

* Adjustments are outlined in point e. Changes in accounting policies and retrospective restatement, in Section 2 Basis of preparation. Notes on pages from 163 to 225 are a constituent part of these financial statements.

Consolidated Statement of Cash Flows as at 31 December 2016

EUR thousand	Note	2016	2015 restated*
Cash flows from operating activities			
Net profit for the period		39,940	68,559
Adjustments for:			
Depreciation and amortisation expense associated with intangible assets and property, plant and equipment	15, 16, 20	163,142	155,555
Impairment and write-offs of property, plant and equipment, intangible assets, and investment property		2,183	1,386
Gain or loss on disposal of property, plant and equipment		669	-3,470
Finance income	12	-23,557	-39,224
Finance costs	12	25,811	25,076
Tax on profit with deferred taxes		-6,072	-3,586
Cash flows from operating activities prior to changes in current operating assets and provisions		202,116	204,296
Change in trade and other receivables		2,745	3,146
Change in deferred costs and accrued income		-11,509	-3,476
Change in other non-current assets		-1,077	-1,211
Change in inventories		3,638	3,264
Change in provisions		-5,436	-34,307
Change in long-term and short-term deferred income		-354	-1,868
Change in accrued costs and expenses		9,083	3,913
Change in trade and other payables		14,942	2,793
Income tax paid		-314	-661
Net cash from operating activities		213,834	175,889
Cash flows from investing activities			
Receipts from investing activities		8,605	58,695
Proceeds from sale of property, plant and equipment		1,061	5,552
Dividends received		168	174
Interest received		121	1,267
Gain on sale of investment property		195	0
Gross proceeds from disposal of non-current investments		6,689	51,068
Gross proceeds from disposal of current investments		371	634
Disbursements from investing activities		-160,122	-193,449
Acquisition of property, plant and equipment		-84,032	-82,076
Acquisition of intangible assets		-63,706	-37,818
Acquisition of investments		-3,620	-2
Investments in subsidiaries and associates		-1,081	-66,819
Loans given		-7,683	-6,734
Net cash used in investing activities		-151,517	-134,754
Cash flows from financing activities			
Receipts from financing activities		420,000	273,000
Non-current borrowings		300,000	0
Current borrowings		20,000	273,000
Proceeds from issued bonds		100,000	0
Disbursements from financing activities		-450,377	-327,423
Costs for approving borrowings and issue of bonds		-1,313	0
Repayment of current commercial paper		0	-44
Repayment of current borrowings		-70,500	-222,500
Repayment of non-current borrowings		-30,222	-23,760
Repayment of issued bonds		-300,000	0
Interest paid		-15,890	-15,967
Dividends paid		-32,452	-65,152
Cash flow used in financing activities		-30,377	-54,423
Net increase/decrease in cash and cash equivalents		31,940	-13,288
Closing balance of cash		42,554	10,614
Opening balance of cash		10,614	23,902

* Adjustments are outlined in point e. Changes in accounting policies and retrospective restatement, in Section 2 Basis of preparation. Notes on pages from 163 to 225 are a constituent part of these financial statements.

3.2.2 Notes to the consolidated financial statements

1. Reporting entity

The Telekom Slovenije Group [hereinafter: 'Group' or 'Telekom Slovenije Group'] comprises the parent company Telekom Slovenije, d. d. [hereinafter: 'Telekom Slovenije' or 'Company'] and its subsidiaries and the joint venture.

Telekom Slovenije with its registered office at Cigaletova 15, Ljubljana, Slovenia, is a public limited company, incorporated and domiciled in the Republic of Slovenia. Its shares are listed on the Ljubljana Stock Exchange.

As at 31 December 2016, the Republic of Slovenia, as the majority shareholder, held 4,087,569 shares, representing a 62.54% equity interest in Telekom Slovenije.

The core activity of the Group is the provision of telecommunications services and products. These include fixed-line and mobile telephony services, internet and television services, the installation and maintenance of telecommunications networks, systems integration of business solutions, digital content and advertising.

2. Basis of preparation

a. Statement of compliance

The accompanying consolidated financial statements of the Telekom Slovenije Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, the interpretations issued by the International Financial Reporting Interpretations Committee of the IASB (IFRIC), and with provisions of the Companies Act [ZGD-1].

The Management Board approved the consolidated financial statements for release on 2 March 2017.

b. Basis of measurement

The consolidated financial statements have been prepared based on the going concern assumption. The Group's operations are not of seasonal nature. The financial statement were compiled by taking into account methods as outlined in the table below.

Significant assets and liabilities disclosed in the consolidated balance sheet by measurement:

Non-current assets	Method of measurement
Intangible assets	
• whereof assets with finite useful life	purchase cost
• whereof assets with infinite useful life – goodwill	purchase cost
Property, plant and equipment	purchase cost
Investments in associates and joint ventures	purchase cost
Other investments	
• whereof available-for-sale assets listed on the stock exchange	fair value
• whereof available-for-sale assets not listed on the stock exchange, whose value cannot be reliably determined	purchase cost
Other non-current assets	purchase cost
Investment property	purchase cost
Deferred tax assets	non-discounted value measured at tax rates
Current assets	Method of measurement
Assets held for sale	lower of purchase cost or recoverable value
Inventories	weighted average price method
Trade and other receivables	amortised cost
Short-term deferred costs and accrued income	Purchase cost
Current investments	amortised cost
Cash and cash equivalents	purchase cost

Non-current liabilities	Method of measurement
Long-term deferred income	purchase or estimated value
Provisions	
• whereof for jubilee premiums and retirement benefits	present value of estimated future payments based on actuary calculation
• other provisions	present value of future settlements
Long-term operating liabilities	amortised cost
Long-term borrowings and loans	amortised cost
Other long-term financial liabilities	amortised cost
Deferred tax liabilities	non-discounted value measured at tax rates
Current liabilities	Method of measurement
Trade and other payables	amortised cost
Current borrowings and loans	amortised cost
Other current financial liabilities	amortised cost
Short-term deferred income	purchase cost or estimated value
Accrued costs and expenses	purchase cost or estimated value

c. Functional and presentation currency

The consolidated financial statements are presented in euro, rounded to the nearest thousand, which is the functional and presentation currency of the controlling company. All financial information is presented in euro and rounded to thousand unless otherwise defined.

d. Use of significant estimates and judgements

The preparation of the financial statements requires management to make certain judgements, estimates and assumptions that impact the carrying values of assets and liabilities of the Group and the disclosure of possible liabilities at the reporting date and the balances of income and expenses of the Group for the period then ended.

Future events and their effects cannot be perceived with certainty. Accordingly, the accounting estimates made require the exercise of judgment, and those used in the preparation of the financial statements will change as new events occur, as more experience is acquired, as additional information is obtained and as the Group's operating environment changes. Actual results may differ from those estimates. The formulation of estimates and related assumptions and uncertainties are discussed in individual items of segment 3. Summary of significant accounting policies.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Assessments

Information on assessments that have the largest impact on Group's financial statements include:

- assessment whether an operating or finance lease is discussed – Note 3.f;
- assessment of revenue recognition [agent or principal] – Note 3.u;
- assessment whether the recorded impairments of individual assets are appropriate or that none of the assets in an individual CGU not subject to impairment is showing indication of impairment – Note 2.c;
- assessment whether contingent liabilities or provisions are considered in the claims – Note 3.p and 28.

Estimates and assumptions

Estimates and assumptions that have the largest impact on the financial statements include:

- useful life of property, plant and equipment, and intangible assets – Note 3.d, 3.e and Note 15 and 16;
- allowances for doubtful receivables – Note 3.l and 23;
- deferred taxes – Note 3.w and 13;
- provisions and contingent liabilities – Note 3.wo and 13;
- estimate of the amount of provisions – Note 3.p and 28.

Change in accounting policies and retrospective restatement

Change in the accounting policy

As at 1 January 2016, the Telekom Slovenije Group voluntarily changed the accounting policy on recognising a part of sales commissions.

Commissions paid to agents for obtaining new customers and retaining the existing ones were prior to the policy's change recognised as costs of sales commissions in the current period. Upon the change, the Group recognises the costs related to obtaining new customers as intangible assets, when:

- the contract with the customer is signed for a definite period of time (useful life of the asset equals the client's subscription time),
- only agents' commissions for concluded subscription contracts with clients are capitalised (reliably defined cost).

Sales commissions are recorded as assets when all above-mentioned terms and conditions are met. In case that terminated subscriptions and subsequent accounting of sales commissions would exceed 5% of the annual capitalised commissions, the Group would adequately decrease the intangible assets relating to sales commissions. The terminations-related estimate is assessed on an annual basis.

IAS 8 allows the Group to change the accounting policy in case that its application ensures more reliable, relevant and suitable information on the effects of the transactions, on other business transactions and balances on the financial result, and the company's cash flows.

Change in the accounting policy for agents' commissions is used for contracts concluded on 1 May 2014, when the Group disposes of proper grounds to monitor the commissions in accordance with the set terms and conditions.

The Group is of the opinion that the change of the accounting policy improves the presentation of the balance sheet and ensures better information on business operations, mostly due to a better comparability of financial statements of other companies that are engaged in the same or equal activity.

As the result of changing the accounting policy, the profit for 2015 shows an increase by EUR 2,384 thousand. The relevant increase is attributable to lower costs of sales commissions in amount EUR 6,933 thousand and newly recognised amortisations in amount EUR 4,061 thousand and lower deferred taxes by EUR 488 thousand.

The balance sheet total for 2015 has increased due to the changed policy in the amount of EUR 7,204 thousand in connection with higher intangible assets, and declined due to deferred income tax in the amount of EUR 395 thousand.

Due to the amended accounting policy, the net profit is higher by EUR 2,724 thousand (attributable to lower costs of sales commissions in the amount of EUR 9,825 thousand, newly recognised amortisation and depreciation expense in the amount of EUR 8,166 thousand, and the amended deferred taxes in the amount of EUR 1,066 thousand). The balance sheet total is due to the amended accounting policy higher as at 31 December 2016 by the amount of EUR 10,216 thousand (primarily due to intangible assets).

Adjustment of error

During 2016, the Telekom Slovenije Group established an error in the recognition of income, and improper recognition of deferred tax liabilities by the company IPKO in previous years, and an error in the recognition of finance income from relating to the use of the equity method applied by the company Antenna TV SL.

Significant impact of the relevant adjustment on the financial statements of subsidiary IPKO Telecommunications:

- Over-recognised income in 2015. While auditing its data relating to the recognition of income, the company IPKO established that income arising in 2015 from prepaid subscriptions were recognised twice. When issuing the invoice, the company recognised revenue instead of deferred income and upon rendering the service recognised revenue again instead of lowering the deferred income. The company eliminated the error by reducing operating income for 2015 in the amount of EUR 1,264 thousand and increasing the item of deferred income.

- In previous years the company IPKO miscalculated deferred taxes relating to the difference between the operating and tax amortisation of assets. By adjusting the error, the company formed additional deferred tax liabilities for 2014 in the amount of EUR 802 thousand and eliminated deferred tax assets in the amount of EUR 828 thousand, which resulted in lower retained earnings as at 1 January 2015 at EUR 1,630 thousand. The adjustment of error for 2015 is reflected in the additional formation of deferred tax liabilities in the amount of EUR 926 thousand and elimination of deferred taxes at EUR 704 thousand, and total reducing of retained earnings in 2015 in the amount of EUR 1,333 thousand.

Together with other adjustments relating to operating income and costs, the company IPKO lowered as at 1 January 2015 retained earnings by EUR 1,690 thousand and lowered as at 31 December 2015 the profit for 2015 by EUR 1,333 thousand. The adjustment of error results in a total of lower retained earnings by EUR 3,023 thousand. The balance sheet total is thereby lower by EUR 1,230 thousand as at 31 December 2015.

The associate Antenna TV SL adjusted its financial statements:

- by the improper accounting of amortisation of current software rights in 2013 and partly in 2014 in the amount of EUR 335 thousand, and subsequent impaired goodwill in the amount of EUR 1,200 thousand for 2015.

Due to these corrections, the Group reduced as at 1 January 2015 retained earnings from 2013 and 2014 on a pro rata basis [49%], which amounts to EUR 164 thousand, and adjusted the income statement for 2015 on a pro rata basis [49%] in the amount of EUR 587 thousand. By using the equity method, the Group increased for 2015 the finance costs by the share of the profit or loss of associates and joint ventures.

The table shows the impacts of the changed accounting policies and the adjustments on the consolidated financial statements by individual items:

Consolidated statement of income as at 31 December 2015

EUR thousand	Previously reported	Impact of the changed accounting policy	Impact of corrected error – Antenna TV SL	Impact of corrected error – IPKO Telecom-communication	Restated
Revenue	747,206			-1,264	745,942
Cost of services	-321,246	6,933		-48	-314,361
Amortisation and depreciation expense	-151,494	-4,061			-155,555
Other expenses	-225,201				-225,201
Operating profit	49,265	2,872	0	-1,312	50,825
Finance income	39,224				39,224
Finance expenses	-24,489		-587		-25,076
Profit before tax	64,000	2,872	-587	-1,312	64,973
Income tax	-243				-243
Deferred taxes	4,338	-488		-21	3,829
Total impact on the income statement	68,095	2,384	-587	-1,333	68,559
Earnings per share – basic and restated (in EUR)	10.47				10.54

Consolidated balance sheet as at 1 January 2015

EUR thousand	Previously reported	Impact of the changed accounting policy	Impact of corrected error – Antenna TV SL	Impact of corrected error – IPKO Telecom-munication	Restated
ASSETS					
Intangible assets	187,537	4,332			191,869
Property, plant and equipment	751,264				751,264
Deferred tax assets	24,843	93		-828	24,108
Other non-current assets	45,670				45,670
Other current assets	333,675				333,675
Total assets	1,342,989	4,425	0	-828	1,346,586
EQUITY AND LIABILITIES					
Called-up capital	272,721				272,721
Capital surplus	181,488				181,488
Revenue reserves	218,492				218,492
Retained earnings	23,681	4,425	-164	-1,690	26,253
Fair value reserve	-1,426				-1,426
Total equity and reserves	694,956	4,425	-164	-1,690	697,528
Non-current liabilities	443,119		164		443,283
Deferred tax liabilities	161			802	963
Short-term deferred income	10,878			60	10,937
Current liabilities	193,875				193,875
Total liabilities	648,033	0	164	862	649,058
Total equity and liabilities	1,342,989	4,425	0	-828	1,346,586

Consolidated balance sheet as at 31 December 2015

EUR thousand	Previously reported	Impact of the changed accounting policy	Impact of corrected error – Antenna TV SL	Impact of corrected error – IPKO Tele-communication	Restated
ASSETS					
Intangible assets	191,404	7,204			198,608
Property, plant and equipment	721,080				721,080
Deferred tax assets	30,100	-395		-704	29,001
Other non-current assets	143,974				143,974
Trade and other receivables	152,530			-526	152,004
Other current assets	76,900				76,900
Total assets	1,315,988	6,809	0	-1,230	1,321,567
EQUITY AND LIABILITIES					
Called-up capital	272,721				272,721
Capital surplus	181,488				181,488
Revenue reserves	218,543				218,543
Retained earnings	-41,528	4,425	-164	-1,690	-38,957
Profit and loss for the period	68,095	2,384	-587	-1,333	68,559
Fair value reserve	-627				-627
Total equity and reserves	698,692	6,809	-751	-3,023	701,727
Non-current liabilities	66,871		751		67,622
Deferred tax liabilities	193			947	1,140
Short-term deferred income	9,155			926	10,081
Current liabilities	541,077			-80	540,997
Total liabilities	617,296	0	751	1,793	619,840
Total equity and liabilities	1,315,988	6,809	0	-1,230	1,321,567

3. Summary of significant accounting policies

a. Basis for consolidation

The consolidated financial statements comprise the financial statements of Telekom Slovenije and its subsidiaries and the joint venture as at 31 December 2016. Financial statements of subsidiaries are prepared for the same reporting year as the financial statements of the parent company using consistent accounting policies. In the event of inconsistencies in accounting policies, individual companies make the relevant modifications in their financial statements, which form the basis for the consolidated financial statements.

Subsidiaries

Subsidiaries are entities controlled indirectly or directly by Telekom Slovenije, d. d. The Group controls the subsidiary when it is exposed, or has rights, to variable returns from its involvement with the company to its participation in this company. Control exists when the Group has the ability to make financial and business decisions about the company in order to obtain benefits from its operations.

Business combinations are accounted for by using the acquisition method on the date when the Group company controls the subsidiary.

Financial statements of subsidiaries are included in the consolidated financial statements from the date of the control's start. Subsidiaries are de-consolidated from the date that control of the parent company or the Group company over the subsidiary ceases. If control over a subsidiary ceases during the year, the consolidated financial statements include the results of the subsidiary until the date that such control

over the subsidiary still existed. Upon Group's loss of control, the assets and liabilities of the subsidiary is eliminated and the profit or loss due to the elimination recognised in the income statement.

All inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated from consolidated financial statements.

Investments in associates and the joint venture

Associate is an entity, in which Telekom Slovenije has significant influence but not control over their financial and operating policies. Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies. Joint venture is a joint arrangement, which is jointly controlled by Telekom Slovenije and another entity. Joint control is the contractually agreed sharing of control over the arrangement, which exists when important decision-making depends on the consent of both parties that jointly control the arrangement. Investments in associates and joint ventures are accounted for using the equity method.

After the equity method is applied, investments in an associate or joint venture are initially recognised in the income statement at cost, whereas the carrying amount is increased or decreased by the share in profit or loss that belongs to this entity.

b. Foreign currencies

Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the daily exchange rate prevailing on the transaction date. Monetary assets, receivables and liabilities in foreign currency are translated at the exchange rate of the functional currency prevailing at the date of the statement of financial position. Non-monetary assets and liabilities expressed in a foreign currency and measured at historical cost are translated by using the exchange rate applicable on the date of transaction. Non-monetary assets and liabilities expressed in a foreign currency and measured at fair value are valued by using the exchange rate at the date when the fair value was determined. Exchange differences are recognised in the income statement, except for differences that arise on restatement of capital instruments classified as available for sale and are recognised directly in other comprehensive income.

Companies conducting business operations in foreign currencies

Foreign operations, whose functional currency is not euro, translate their financial statements into euro as at the reporting date by using the exchange rate of the European Central Bank (ECB), while for the income statement they apply the average exchange rate of the reporting period.

Until the foreign operations is disposed, exchange differences that occur on the translation from the functional into the presentation currency are recorded directly within equity as translation reserve in the statement of other comprehensive income; upon the disposal, these exchange differences are transferred from the translation reserve to the income statement.

c. Cash generating unit (CGU)

A cash generating unit (CGU) is the individual group company on the Group level. Group companies that incurred a negative operating result and disclosed negative capital were subject to assessing the need for impairment.

Impairment testing applied with investments

The Group monitors the plans and the realisation of operating ratios in subsidiaries. Based on verifying indications of impairment, the Group carried out a valuation of fair values of non-current investments in its subsidiary Antenna TV SL, TSmedia and IPKO.

Antenna TV SL

As at 31 October 2016, a certified appraiser carried out a valuation of the company Antenna TV SL. The value was defined based on the present value of expected free cash flow method, which is founded on company's 5-year projections. The 2017 revenue projection for Antenna TV SL is founded on additional revenue arising from the amended business model, for which it is assessed that revenue would in the second half of 2017 amount to EUR 300 thousand per month, while in the coming years a material revenue growth is anticipated to be generated under this title. The possible failure of achieving the EBITDA projections based on the amended business model could have a material impact on the value.

A discount rate of 11.9% was applied with the projections, while the estimate of long-term growth rate was set at 2%. The sensitivity analysis relating on weighted average costs of total equity in the range from 10.9% to 12.9% [applied discount rate from -1.0% to + 1.0%] and the long-term growth rate varying from 1.0% to 3.0% of the impact on the changed value of expected future cash flows, as evident in the sensitivity analysis table below.

Sensitivity analysis – change in the recoverable value of the ownership equity		
Impact of the change assumption	-1.0%	+1.0%
g- growth rate	-621	760
WACC –discount rate	1,009	-806

According to the report of the certified appraiser, the Group establishes that with respect to the valuation and sensitivity analysis performed, no indications exist that would require the Group to impair the assets.

TSmedia

During the impairment testing of the TSmedia's value, the method of net present value of expected future cash flows was applied, which is based on the company's 5-year projections. The relevant valuation was carried out by an independent certified appraiser as on 30 September 2016. The discount rate used with projections was 9.49%, the cash flows of over 5 years have been extrapolated with the average growth rate of 2%.

The sensitivity analysis of the recoverable value in relation to the weighted average costs of total equity ranging from 8.49% to 10.49% [used discount rate varied from -1.0% to +1.0%] and the long-term growth rate ranging from 1.0% to 3.0% impacts the change of the expected free cash flows as outlined in the sensitivity analysis table below.

Sensitivity analysis – change in the recoverable value of the ownership equity		
Impact of the change assumption	-1.0%	+1.0%
g- growth rate	-280	366
WACC –discount rate	604	-462

According to the report of the certified appraiser, the Group establishes that with respect to the valuation and sensitivity analysis performed, no indications exist that would require the Group to impair the assets.

IPKO

During the impairment testing of the IPKO's value, the method of net present value of expected future cash flows was applied. The relevant valuation was carried out by an independent certified appraiser as on 31 December 2016. The discount rate used with projections was 12.16%, while the estimated long-term growth rate was 2%. The sensitivity analysis of the recoverable value in relation to the weighted average costs of total equity ranging from 11.16% to 13.16% [used discount rate varied from -1.0% to +1.0%] and the long-term growth rate ranging from 1.0% to 3.0% impacts the change of the expected free cash flows as outlined in the sensitivity analysis table below.

Sensitivity analysis – change in the recoverable value of the ownership equity		
Impact of the change assumption	-1.0%	+1.0%
g- growth rate	-5,697	6,942
WACC –discount rate	13,028	-10,712

According to the report of the certified appraiser, the Group establishes that with respect to the valuation and sensitivity analysis performed, no indications exist that would require the Group to impair the assets

d. Intangible assets

Group companies recognise an item of intangible assets if it is probable that the future economic benefits that are associated with the item will flow to the entity and the cost of the item can be measured reliably.

Intangible assets with finite useful lives are upon initial recognition stated at cost less accumulated amortisation less impairment losses. All intangible assets have finite useful lives, except the item of goodwill.

Goodwill arises upon acquiring a subsidiary or any other entity and is measured at cost less accumulated impairment losses.

Useful lives and residual value of significant items of intangible assets are monitored on an annual basis by administrators of these assets and a working group; if expectations differ significantly from earlier estimates, amortisation rates are restated for the current and future periods. The effect of such a change is explained in the report of the period in which the change occurred.

Intangible assets are **amortised** on a straight-line basis over their estimated useful lives, from the first day of the following month when they are available for use, except for licences, program rights and concessions that are amortised in the month when their use begins.

Estimated useful lives of intangible assets by years

Groups of intangible assets	Useful lives in years
• concessions	3 to 20
• trademarks	10
• licences	1 to 7
• program rights – TV contents	1 to 6
• sales commissions	1 to 2
• customer list	5
• computer software – application software	3 to 5
• other concessions, patents, trademarks and licences	5 to 20

Expenditure on licences for the use of the radio frequency spectrum and computer software is capitalised at cost and amortised on a straight-line basis over its estimated useful life, which is from 3 to 20 years [refer to Note 41].

Capitalised costs comprise costs of material, direct labour costs and other costs that can be directly attributed to assets for intended use. Project administrators monitor and ensure that only those costs are capitalised that follow the criteria defined.

Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset.

The project administrators monitor the progress of individual projects and investments. Their write-off is carried out should the administrators establish that certain projects shall not be finished

Sales commissions are costs directly connected with obtaining new customers and are recorded as intangible assets, when:

- the contract with the customer is signed for a definite period of time [useful life of the asset equals the client's subscription time],
- only agents' commissions for concluded subscription contracts with clients are capitalised [reliably defined cost].

Sales commission are recorded as assets when aforesaid terms and conditions are met. In case that terminated subscriptions and subsequent accounting of sales commissions would exceed 5% of the annual capitalised commissions, the Group would adequately decrease the intangible assets relating to sales commissions. The termination-related estimate is verified on an annual basis.

The Group checks on an annual basis the carrying amounts of significant assets in order to establish whether there is any need to impair an item of intangible assets. Significant intangible assets are those, whose carrying amount exceeds 5% of the carrying amount of total intangible assets, should they account for at least 5% of total assets' value. On an annual basis or as at the date of financial statements, it is checked whether any indications of impairment of intangible assets exist, i.e. it is reassessed whether significant technological

changes, market changes or a significant decrease in interest rates occurred. If so, the recoverable amount of such assets is determined. Impairment is carried out if the recoverable amount of intangible assets significantly exceeds their carrying amount.

The Group plans positive results and cash flows for the current and coming year, therefore the need for impairment was not established.

Impairment of goodwill is established for the cash generating unit (CGU). Impairment of goodwill requires the valuation of CGU's value in use. Determining the present value of future cash flows requires the management to estimate future cash flows from the CGU and set an appropriate discount rate.

Impairment is recognised in the income statement among other operating expenses under the item 'impairment of intangible assets and property, plant and equipment'.

e. Property, plant and equipment

Property, plant and equipment owned by Group companies are upon its acquisition recorded at cost, which includes all expenditures that are necessary to make the asset ready for its intended use.

Estimated costs of restoring locations for broadcasting stations to their original condition are an integral component of the asset's cost and are amortised over the asset's residual useful life. Provisions required for establishing the original condition, discounted to present value, are reported under long-term provisions.

The cost of self-constructed assets includes the cost of material, direct labour and an appropriate proportion of production overheads. Costs of construction of property, plant and equipment that are included in cost are recognised as lower costs within profit or loss. The recognition of these costs is subject to the same criteria as applied with intangible assets.

When an item of property, plant and equipment comprises major components having different useful lives, these components are accounted for as separate items of property, plant and equipment.

Subsequent expenditure relating to property, plant and equipment increase their purchase cost if it is probable that future economic benefits will flow to the group.

The progress of individual projects and investments is on a monthly basis monitored by project administrators. Their write-off is carried out should the administrators establish that certain projects shall not be finished.

Measurement upon recognition

Residual values and useful lives of significant items of property, plant and equipment are reassessed on an annual basis and if expectations differ significantly from earlier estimates, depreciation rates are adjusted for the current and future periods. The effect of the change in estimate is recognised in the financial statements in which the change in estimate occurred.

Depreciation is recognised in the income statement on a straight-line basis over the estimated useful lives of items of property, plant and equipment.

Estimated useful lives of groups of property, plant and equipment by years

Groups of property, plant and equipment	Useful lives in years
• buildings	50
• electrical and machine installation	15 to 30
• cable lines	33.3
• Cable network – air	10
• Cable network – land	20
• exchange switches	5 to 12.5
• other equipment	1 to 15

Land and assets under construction are not depreciated. An item of property, plant and equipment under construction is recognised at cost and depreciated when brought to working condition for its intended use on the first day of the following month.

The Group assesses annually via administrators of fixed assets whether there are any internal or external business circumstances (significant technological changes, market changes, obsolescence or physical condition of the asset) that could provide significant indication on the (non-) suitability of useful life or the indication at an item of property, plant and equipment should be impaired. An item of property, plant and equipment is subject to impairment if its carrying amount exceeds its recoverable amount. The recoverable amount equals the fair value less costs of sale or the value in use of the lowest CGU, whichever is higher. Value in use is assessed as the present value of expected future cash flows, whereby the expected future cash flows are discounted to the present value by the use of the discount rate before taxes.

Impairment is recognised in the income statement among other operating income.

f. Assets given and received for lease

Lease is a contractual relationship in which the lessor conveys to the lessee the rights to use the asset for a definite period of time in exchange for a payment or a series of payments. Finance lease is a lease in which all the significant forms of risk and benefits linked to the asset's ownership are transferred. The ownership right can be transferred or not. Operating lease is a lease other than a finance lease and where the leased assets are not recognised in the balance sheet. The start of the lease is the date, when the lessee can start using the right to the leased asset.

In accordance with criteria defined by the accounting standards, the Group assesses whether it is a finance or operating lease.

All Group's leases are categorised as operating lease. Hence, costs of lease are in case of an operating lease subject to straight-line recognition in the income statement among costs of services.

Assets provided under an operating lease are disclosed by the Group among its property, plant and equipment. The lease payment from the operating lease is recognised as cost (leased assets) or income (assets let out) in the income statement deferred by using a straight-line method.

g. Financial assets

The Group initially recognises loans and receivables at the date of their accrual. Other financial assets are recognised on the contractual date or, when the Group becomes a party to contractual provisions of the instrument. The Group derecognises the financial asset when all contractual rights to cash flows from this asset cease to exist, or when the Group transfers the rights to contractual cash flows from the financial asset on the basis of a deal, in which all risks and benefits arising from the ownership of the financial asset are transferred.

Upon initial recognition, the non-derivative financial assets are classified into following groups:

- financial assets measured at fair value through profit or loss,
- investments in loans and receivables, and
- available-for-sale financial assets.

Financial assets at fair value through profit or loss – this group includes derivatives. Assets are recognised at fair value, while the accompanying costs of transaction are recognised in profit or loss upon accrual. Financial assets are measured at fair value and the amount of the changed fair value is recognised in profit or loss.

Financial assets available for sale include assets that are not classified as aforesaid categories. They are recognised as at the date of purchase. These financial assets are initially measured at fair value and added costs of transaction that arise directly from sale or issue of the financial asset.

Investments in debt and equity securities classified as available-for-sale financial assets are carried at fair value. The fair value of investments in debt and equity securities listed on the stock exchange is their quoted price. If the fair value of financial assets that are not listed on the stock exchange cannot be reliably determined (since the Group has no impact on obtaining information in order to assess the fair value), they are stated at cost and the Group determines on an annual basis whether indication on impairment of these investments exists.

Any gains or losses arising on revaluation are recognised in other comprehensive income and presented directly in capital within the fair value reserve in net amount [i.e. less deferred taxes]. When such an investment is derecognised, accumulated gains or losses previously recognised in equity are reclassified to the income statement.

Interest on debt securities are recognised in the income statement by using the effective interest rate

Investments in loans and receivables are initially measured at historical cost and upon recognition measured at amortised cost using the effective interest method, less impairment losses. The Group recognises loans and receivables as at the date of their accrual [more details in Note I Trade and other receivables].

Impairment of financial assets

The Group assesses at the reporting date whether available for sale financial assets are required to be impaired. An objective evidence that financial assets must be impaired exists in case of major financial problems on the part of the debtor [liquidity issues, company's capital decrease, non-fulfilment of contractual obligations, etc.] or other indications that the debtor may start bankruptcy proceedings. The Group also assesses whether the active market for an individual asset operates and whether sufficient transactions were carried out, which reflect its fair value. As for investments in debt securities, an objective evidence of impairment is considered to exist when the value of an item of financial assets or investments has been significantly [by more than 20% of its cost] or permanently [by more than 12 months] reduced or when there is indication that a company in which the Group holds an interest, may start bankruptcy proceedings. In this case, the allowance of its initially disclosed value is to be charged against revaluation finance costs.

Available-for-sale financial assets

When a decline in the value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity shall be removed from equity and recognised in profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is removed from equity and recognised in profit or loss shall be the difference between the acquisition cost [net of any principal repayment and amortisation] and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss shall not be reversed through profit or loss, unless the fair value of a debt instrument classified as available for sale increases subsequently and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss. The impairment loss shall in such case be reversed, with the amount of the reversal recognised in profit or loss.

Loans

If there is objective evidence that an impairment loss on loans has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The amount of the loss is recognised in profit or loss as finance costs on revaluation and disclosed as a value adjustment of loans.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. The amount of the reversal is recognised in profit or loss as long as the carrying amount of the asset does not exceed the amortised cost at the date of reversal.

Fair value hierarchy

In defining the fair value of financial instruments, the following hierarchy was applied:

Level 1: determination of fair value directly by referencing the official published price on an active market;

Level 2: other models used to determine fair value based on assumptions and significant impact on fair value in line with observed current market transactions with the same instruments either directly or indirectly; and

Level 3: other models used to determine fair value based on assumptions and significant impact on fair value that are not in line with observed current market transactions with the same instruments and investments.

h. Other non-current assets

Prepaid rentals include mostly leases of premises and land for setting up base stations, and lease of optical fibres. Rentals are deferred over the contract period and are on a straight-line basis transferred to rental expenses, whereas transfer to costs starts on the date of the contract. Long-term leases of optical fibres refers to contracts concluded for a certain period of time i.e. 15 to 25 years.

Sales incentives given to subscribers are recognised in the amount of the negative difference between the selling and the average sliding price of assets that are subject to sales incentives. The negative difference between the selling price and the average sliding price of assets that are subject to impairment is reported within deferred costs, depending on the anticipated subscription period. Over the period of the subscription agreement, deferred costs are amortised on a monthly basis proportionally to the cost of sales incentives within the costs of services. If a subscription agreement is terminated or a subscriber is disconnected from the network due to the non-payment of invoices, subsidies are impaired accordingly at least once a year.

Other non-current assets comprise discounts, which are deferred in the anticipated duration of the subscription period, and the sale of goods with deferred payment that falls due in a period longer than 12 months.

i. Investment property

Investment property is initially stated at cost comprising the purchase price and costs that may be directly attributed to the acquisition. Subsequent to initial recognition, investment property is stated at cost less accumulated depreciation and impairment losses.

Depreciation is calculated on a straight-line basis over the useful lives of the assets. Land is not depreciated.

Useful life of investment property equals the useful lives of property, plant and equipment.

Indication of impairment at investment property is assessed in the same way as for property, plant and equipment.

j. Assets held for sale

Assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale or distribution rather than through continuing use, are classified as held for sale. The sale of these assets must be highly probable and anticipated in the coming 12 months. The sale is highly probable when the Group receives a written commitment for purchasing the assets and the management adopts the decision on the sale.

Assets are classified among non-current assets (or as assets held for sale) at the lower of their carrying amount and fair value less costs to sell. Assets held for sale are not subject to depreciation.

Impairment losses on assets held for sale are recognised in the income statement among other operating expenses, impairment of intangible assets and property, plant and equipment (Note 11).

The Group checks on an annual basis whether the asset meets the requirement for being classified as held for sale. If the asset no longer meets this criteria, the Group reclassifies it back as an item of property, plant and equipment.

This type of assets is measured at the lower of the following value:

- carrying amount prior to the asset's classification among assets held for sale, adjusted for possible depreciation that would have been recognised in case the assets would not be classified as asset held for sale,
- recoverable amount on the day of the subsequent decision that the assets shall not be sold.

The Group includes adjustments of carrying amounts of assets, which are no longer treated as assets held for sale, in the profit or loss for the period when the recognition criteria are no longer met.

k. Inventories

Inventories is initially recognised at cost comprising the purchase price inclusive of discounts granted, import duties and other non-refundable purchase duties, as well as costs directly attributable to the acquisition.

Inventories are accounted for using the sliding average price method.

Slow-moving, obsolete or damaged inventories are written off to their net realisable value, which is lower from the carrying amount or the estimated sales value in the ordinary course of business, less the estimated costs of completion and costs of selling the quantity unit.

l. Trade and other receivables

Trade receivables are recognised at historical cost. Upon initial recognition, receivables are recorded at amortised cost less impairments. In view of maturity, receivables are classified among current financial assets [maturity of up to 12 months] or non-current financial assets [maturity over 12 months].

The Group forms allowances for receivables collectively in terms of previous experience and expectations for the future based on the creditworthiness of individual customers by means of an internal credit rating model, which is based on the combination of an external credit rating and the payment discipline of customers that are companies, as well as the payment history of customers that are individuals [Note 40 Financial risk management – Credit risk].

Receivables for which individual assessment of collectability was made by management based on reasonable grounds are not taken into account while forming group allowances for trade receivables. Individual assessment of collectability is carried out by taking into account the size of the receivable, in addition to the existence of receivables and liabilities due from the same business partner, and additional information and analysis on the partner's financial situation and business operations.

Receivables for which allowances are formed are recorded as disputed receivables. Loss on impairment of receivables is recognised in the income statements and as an allowance of receivables.

m. Short-term deferred costs and accrued income

The item of short-term deferrals and accruals includes mostly deferred costs, accrued income for services already rendered and goods supplied but not invoiced, accrued income and deferred costs in connection with international services, and short-term portion of sales incentives. Short-term deferred costs and accrued income include also short-term discounts which are deferred in the anticipated period of subscription.

n. Cash and cash equivalents

Cash and cash equivalents include cash in hand and available bank balances, short-term deposits with 3-month maturity, where the risk of fair value change is minimal.

o. Long-term deferred income

Long-term deferred income comprises co-locations billed in advance [collocation is a service that enables other operators roaming in the Group's premises for installing their own telecommunication equipment], the lease of fibre optics network and co-financed projects. Long-term deferred income from co-locations and leases is recognised among operating revenue over the contractually agreed term of lease or co-location.

p. Provisions

Provisions are recognised in the financial statements when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. If material, provisions are determined by discounting the expected future cash flows.

Group companies' treatment of obligations with uncertain timing and amount depends on management's estimation of the amount and timing of the obligation and the probability of an outflow of resources embodying economic benefits that will be required to settle the obligation, either legal or constructive.

Contingent liabilities are not recognised as their exact amount could not be established or their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group companies.

Management of each Group company assesses on a monthly basis contingent liabilities continually to determine whether an outflow of resource embodying economic benefits has become probable. If it becomes probable that an outflow of future economic benefits will be required for an item previously dealt with as a

contingent liability, provisions are recognized in the financial statements of the period in which the change in probability occurs.

Provisions are reduced directly by costs or expenses for covering the purpose for which they were created.

Material judgements of the parent company's management are necessary while measuring and recognising the Group's exposure to contingent liabilities that arise from unsolved litigations.

Provisions for probable liabilities from legal actions are formed on the basis of the estimate made by the relevant departments of the actions' outcome. The formation of provisions is assessed by the Group individually in view of the amount of the legal action, its subject matter, the plaintiff's assertions and the course of each individual procedure. Due to uncertainty, the actual liabilities may differ from the initially assessed. Management's estimates may change if the Group receives new information. Amendments to these estimates can have an essential impact on the business results. The effects and detailed information relating to legal actions and provisions formed for individual lawsuits was designated by the management as business secret and hence remains undisclosed. The amount of provisions formed for legal actions is disclosed in Note 28 Provisions.

Provisions for retirement benefits and jubilee premiums

In accordance with the statutory requirements, the collective agreement, and the internal rules and regulations, the Group is obliged to pay jubilee premiums and retirement benefits. Employee benefit liabilities are calculated by a certified actuary. Liabilities are formed in the amount of estimated future payments of retirement benefits and jubilee premiums discounted at the reporting date. A calculation is made per individual employees taking into account the cost of retirement benefits and the cost of all expected jubilee premiums by the time of retirement. At each year-end, the amount of provisions is assessed and either increased or decreased accordingly. This applies mostly for determining the discount rate, the estimate of staff fluctuation and the wage growth. The estimate on these liabilities can change in the future due to the complexity of the actuarial calculation and its long-term nature. Assumptions applied are disclosed in Note 28.

Provisions for costs of removal of base stations

Provisions are made for costs of the removal of base stations and the restoration of leased property to its original condition. Provisions are considered the best estimate for the removal of base stations and formed by applying the discount rate during the concession's duration. The used discount rate is based on the long-term return rate of the risk-free securities. The cost analysis on the removal of base stations, which is compiled every three years, is used as basis for the estimate. As at the year-end, the Company assesses whether the amount of formed provisions is sufficient; if not the value is properly adjusted.

Provisions for restructuring the company refer to severance payments upon the staff restructuring are formed when they become part of a strategic business plan and the dynamics of employment-related changes [changed number of staff] is known.

q. Interest-bearing borrowings

Interest-bearing borrowings are recognized initially at their fair value less possible costs.

Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any differences between cost and the redemption value being recognised in the income statement over the period of the loans on an effective interest rate basis.

Interest-bearing borrowings are derecognised when all contractual obligations and liabilities are fulfilled, annulled or statute-barred.

r. Other financial liabilities

The item of other financial liabilities includes liabilities arising on bonds profit distribution (dividends), and liabilities for repurchasing an equity stake, where the valuation model used was designated by the management as business secret and hence remains undisclosed.

Dividends are recognised as a liability in the period in which they are declared during the General Meeting of Shareholders.

Other financial liabilities are upon recognition measured at fair value less possible costs of transaction. Bonds are upon initial recognition measured at amortised cost by using the effective interest rate method.

s. Trade and other payables

Trade and other payables are initially stated at cost. Subsequent to initial recognition, trade and other payables are stated at amortised cost.

t. Short-term accrued costs and deferred income

The item of short-term deferred income comprises deferred income from international services valued by turnover for which calculations were not yet confirmed, short-term portion of colocations, deferred income from sale of prepaid phone cards, deferred income from customer loyalty programme, and other deferred income from invoiced services and goods.

Accrued costs comprise costs of staff holidays not taken, accrued payroll costs, awards and costs of international services assessed on the basis of services rendered for which invoices have not yet been issued, and other costs. Differences between accrual and actual costs are included in profit or loss upon the receipt of invoices. If no invoice is received for the already accrued costs, the Group eliminates them upon the expiry of 3 years upon recognition. The latter does not apply in case of costs accounted for international services, whose elimination is assessed individually.

u. Revenue

The item of revenue includes the sales value of goods sold and services rendered in the accounting period. Revenue from services is recognised when services are rendered and there are no significant uncertainties regarding recovery of the consideration due. Revenue from sale of goods and material is recognised upon sale. In case of selling services with added value, the Group acts as agent, hence the revenue is recognised on the net basis.

Revenue is recognised exclusive of value added tax, other taxes and through sale of related possible discounts.

Revenue relating to the mobile segment includes revenue from connection fees, subscriptions, messages, data transfer, roaming out and additional services [adequate service with added value, M-pay], and revenue from sale of mobile phones and additional equipment.

Revenue from sale of prepaid cards is deferred and recognised in the period when the customer uses its prepaid services. Should the customer fail make use of them [benefit], the revenue is recognised when the validity of an individual prepaid account expires.

Revenue from the fixed-line segment comprises revenue from connection fees, subscriptions, conversations, and revenue from the sale of merchandise. Fixed-line services account for revenue from broadband services, classic fixed-line phone services and Centrex, fixed-line data services [services with added value] data communication, IT-services and goods, convergence services and goods, and revenue from other telecommunications services.

Connection fees in the mobile and fixed-line segment are recorded in the period, when the connection of the customer is completed. The subscriptions are accounted by the Group on a monthly basis. During sales promotions, when the customers are offered a discount on the monthly subscription [provided that contracts are concluded for a definite period], the discounts are deferred throughout the entire subscription period. Revenue from services with added value is recorded and disclosed on the net basis in the amount of the contractual commission. Revenue from IT services and goods [e.g. system integrations, cloud computing, management of integrated IT solutions] is recorded in relation to the contractual relationship with the customer. In case of providing maintenance services, the revenue is charged on a monthly basis and deferred in the contract period. Revenue generated from the sale of licences or IT products is recognised in the period when the sale is made.

Revenue from wholesale market comprises broad-band access, stream broad-band access, network interconnection, lease of network, national tracking, and inter-operator services.

Revenue from network interconnection are recognised on the basis of the estimated value in view of the traffic that was performed in the previous month. Monthly differences between estimates and actual revenue arise mostly as a result of the tolerance allowed with data about traffic, and the price changes. The tolerance allowed is different in individual contracts but can exceed mostly up to 2% of the contractual value. The said differences are included in profit or loss when the actual balance of revenue is established. Revenue is recognised on the gross basis, as the Group provides services by means of own network and equipment and contractually defined prices. Revenue is recognised in the period when the services are rendered.

Other revenue and other merchandise include revenue generated through construction and maintenance of network by the company GVO, business IT solutions provided by the company Avtenta, sales and related products of the company Soline, and multi-media contents of the company TSmedia.

Revenue from new services

Revenue from new services comprise income from electricity and finance income [Moneta]. Electricity-related income are recognised on the gross basis. Excise duty, contributions and use of network for electricity are not included in sales revenue but as deducted liability.

The Group in all previously mentioned cases observes the policy of concurrent recognition of revenue and costs in the period when the service is rendered or goods supplied, regardless of when the payment was made.

v. Finance income and finance costs

Interest income and costs are recognised in the income statement with respect to the previous period in the period when they occurred on the basis of the contractually set interest rate.

Dividend income of other Group companies is recognised on the day when the company becomes entitled to the dividend.

w. Income tax expense

Income tax for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case it is recognised in other comprehensive income or directly in equity

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the reporting date, and any adjustments to tax payable in respect of previous years.

Deferred tax is calculated using the statement of financial position liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amounts of assets and liabilities, using tax rates expected in future periods.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised.

Deferred tax is charged or credited directly to equity, if the tax relates to items that are credited or charged, in the same or a different period, directly to equity.

x. Statement of cash flows

The statement of cash flows is compiled using the indirect method based on data from the balance sheet as at 31 December 2016 and 31 December 2015, the income statement for the financial year 2016, and additional information necessary to make adjustments of cash inflows and outflows.

y. New standards, amendments, interpretations and changes adopted but not yet effective

The Telekom Slovenije Group companies have not prematurely used any standards or interpretations that are not yet effective and shall enter into force in the future.

New standards, amendments, interpretations and changes stated below are not yet effective and were not taken into account when compiling the annual financial statements for the financial year that ended 31 December 2016:

IFRS 9 – Financial instruments

[Effective for annual periods beginning on or after 1 January 2018. Effective for annual periods beginning on or after 1 January 2018; to be applied retrospectively with some exemptions. The restatement of prior periods is not required, and is permitted only if information is available without the use of hindsight. Early application is permitted.]

This Standard replaces IAS 39, Financial Instruments: Recognition and Measurement, except that the IAS 39 exception for a fair value hedge of an interest rate exposure of a portfolio of financial assets or financial liabilities continues to apply, and entities have an accounting policy choice between applying the hedge accounting requirements of IFRS 9 or continuing to apply the existing hedge accounting requirements in IAS 39 for all hedge accounting.

Although the permissible measurement bases for financial assets – amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit and loss (FVTPL) – are similar to IAS 39, the criteria for classification into the appropriate measurement category are significantly different.

A financial asset is measured at amortized cost if the following two conditions are met:

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and,
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

In addition, for a non-trading equity instrument, a company may elect to irrevocably present subsequent changes in fair value (including foreign exchange gains and losses) in OCI. These are not reclassified to profit or loss under any circumstances.

For debt instruments measured at FVOCI, interest revenue, expected credit losses and foreign exchange gains and losses are recognised in profit or loss in the same manner as for amortised cost assets. Other gains and losses are recognised in OCI and are reclassified to profit or loss on derecognition.

The impairment model in IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model, which means that a loss event will no longer need to occur before an impairment allowance is recognised.

IFRS 9 includes a new general hedge accounting model, which aligns hedge accounting more closely with risk management. The types of hedging relationships – fair value, cash flow and foreign operation net investment – remain unchanged, but additional judgment will be required.

The standard contains new requirements to achieve, continue and discontinue hedge accounting and allows additional exposures to be designated as hedged items.

Extensive additional disclosures regarding an entity's risk management and hedging activities are required

The Group does not expect the IFRS 9 to have a significant impact on financial statements when initially applied. The classification and measurement of Group's financial instruments will not materially change while taking into account provisions of IFRS 9.

The Group has not yet completed the impairment methodology that will be used in compliance with IFRS 9.

IFRS 15 – Revenue from contracts with customers

[Effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted. This pronouncement is not yet endorsed by the EU.]

The new Standard provides a framework that replaces existing revenue recognition guidance in IFRS. Entities will adopt a five-step model to determine when to recognise revenue, and at what amount. The new model specifies that revenue should be recognised when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised:

- over time, in a manner that depicts the entity's performance; or
- at a point in time, when control of the goods or services is transferred to the customer.

IFRS 15 also establishes the principles that an entity shall apply to provide qualitative and quantitative disclosures which provide useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer

The new standard requires a uniform method of recognising revenue from contracts with customers that is founded on a five-stage model. This standard will primarily replace IAS 18 – Revenue and IAS 11 – Construction contracts. During the standard's first application, the company must fully assert the changes in the current year. This includes the retrospective use of the contracts that have not yet matured at the end of the reporting period. As for transitional periods, the standard allows either to fully apply the changes retrospectively [with certain limitations] or apply the changes in the opening balance of equity during the standard's first use [at the beginning of the current reporting period]. The Group assesses that the standard will affect its financial statements.

It is expected that the new standard, when initially applied, will have a significant impact on the financial statements, since the measurement of its revenue is expected to change. The impacts will primarily be evident at the contracts including more elements [e.g. combination of a subscription to mobile services with the purchase of a mobile phone]. In case of such contracts, the share of revenue from sale of goods on the account of revenue from sales of services will increase if compared to the existing method of revenue recognition. The Group is currently engaged in implementing the new standard and introducing the new IT support for the new standard. Changes in terms of value will be analysed throughout the project, thus no reliable estimates on the impact can be provided until it is completed.

IFRS 16 – Leases

[Effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted if the entity also applies IFRS 15 – Revenue from contracts with customers. This pronouncement is not yet endorsed by the EU.]

IFRS 16 supersedes IAS 17 Leases and related interpretations. The Standard eliminates the current dual accounting model for lessees and instead requires companies to bring most leases on-balance sheet under a single model, eliminating the distinction between operating and finance leases.

Under IFRS 16, a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For such contracts, the new model requires a lessee to recognise a right-of-use asset and a lease liability. The right-of-use asset is depreciated and the liability accrues interest. This will result in a front-loaded pattern of expense for most leases, even when the lessee pays constant annual rentals.

The new Standard introduces a number of limited scope exceptions for lessees which include:

- leases with a lease term of 12 months or less and containing no purchase options, and
- leases where the underlying asset has a low value ['small-ticket' leases]

Accounting of leases by lessors does not significantly change. The lessee defines the lease either as an operating or a finance lease. The lease is classified as a finance lease if all significant risks and benefits relating to the asset's ownership are transferred. Otherwise, it is an operating lease.

It is expected that the amendment, when initially applied, will have a significant impact on the financial statements, since it will require the Group to recognise in its statement of financial position liabilities relating to operating leases for which the Group acts as a lessee.

Amendments to IFRS 2 – Share-based Payment: Classification and Measurement of Share-based Payment Transactions

[Effective for annual periods beginning on or after 1 January 2018; to be applied prospectively. Early application is permitted. This pronouncement is not yet endorsed by the EU.]

The amendments clarify share-based payment accounting on the following areas:

- the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- share-based payment transactions with a net settlement feature for withholding tax obligations; and
- a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity settled.

The Group expects that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements of the entity because it does not enter into share-based payment transactions.

Amendments to IFRS 10 – Consolidated Financial Statements and IAS 28 – Investments in Associates and Joint Ventures: Investments in Sale or contribution of assets between an investor and its associate or joint venture

[The effective date has not yet been determined by the IASB, however earlier adoption is permitted.]

The Amendments clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business, such that:

- a full gain or loss is recognised when a transaction between an investor and its associate or joint venture involves the transfer of an asset or assets which constitute a business [whether it is housed in a subsidiary or not], while
- a partial gain or loss is recognised when a transaction between an investor and its associate or joint venture involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

The Group does not expect that the amendments, when initially applied, will have material impact on the financial statements as it has no subsidiaries, associates or joint ventures.

Amendments to IAS 7 – Cash Flow Statement

[Effective for annual periods beginning on or after 1 January 2017, to be applied prospectively. Early application is permitted. This pronouncement is not yet endorsed by the EU.]

The amendments require new disclosures that help users to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes [such as the effect of foreign exchange gains or losses, changes arising from obtaining or losing control of subsidiaries, changes in fair value].

The Group expects that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements of the Group.

Amendments to IAS 12 – Income Tax: Recognition of Deferred Tax Assets for Unrealised Losses

[Effective for annual periods beginning on or after 1 January 2017; to be applied prospectively. Early application is permitted. This pronouncement is not yet endorsed by the EU.]

The amendments clarify how and when to account for deferred tax assets in certain situations and clarify how future taxable income should be determined for the purposes of assessing the recognition of deferred tax assets.

The Group expects that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements of the Group because it already measures future taxable profit in a manner consistent with the Amendments.

Amendments to IAS 40 Transfers of Investment Property

[Effective for annual periods beginning on or after 1 January 2018; to be applied prospectively. This pronouncement is not yet endorsed by the EU.]

The amendments reinforce the principle for transfers into, or out of, investment property in IAS 40 Investment Property to specify that such a transfer should only be made when there has been a change in use of the property. Based on the amendments a transfer is made when and only when there is an actual change in use – i.e. an asset meets or ceases to meet the definition of investment property and there is evidence of the change in use. A change in management intention alone does not support a transfer.

The Group does not expect that the amendments will have a material impact on the financial statements because the Group transfers a property asset to, or from, investment property only when there is an actual change in use/the entity does not have investment property.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

[Effective for annual periods beginning on or after 1 January 2018. This pronouncement is not yet endorsed by the EU.]

The Interpretation clarifies how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income [or part of it] on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. In such circumstances, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

The Group does not expect that the Interpretation, when initially applied, will have material impact on the financial statements as the Group uses the exchange rate on the transaction date for the initial recognition of the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

Annual improvements

Annual improvements to IFRSs 2014-2016 cycle were issued on 8 December 2016 and introduce two amendments to two standards and consequential amendments to other standards and interpretations that result in accounting changes for presentation, recognition or measurement purposes. The amendments on IFRS 12 Disclosure of Interest in Other Entities are effective for annual periods beginning on or after 1 January 2017 and amendments on IAS 28 Investments in Associates and Joint Ventures are effective for annual periods beginning on or after 1 January 2018; to be applied retrospectively. Earlier application is permitted.

4. Fair value determination

In view of the Group's accounting policy and itemisation, the fair value of financial and non-financial assets and liabilities is to be determined in certain cases. The fair values of individual groups of assets were defined by the Group for the purpose of measurement and reporting by using methods as described below. With reference to assumptions for determining fair values, additional clarifications are required and thereby stated in the breakdown to individual items of Group's assets and liabilities.

Investment property

Fair values of investment property must be disclosed on an annual basis. The Group establishes the fair value with the support of external valuers of real properties. The fair value defined as the price that would be received in case of the assets' sale or paid for the transfer in an agreed transaction among the market participants as at the date of measurement is used as the basis for assessing the value. During the value's assessment, the suitability of all valuation methods used for measuring the values of ownership rights (i.e. market valuation method, the income approach and the cost-based valuation method) was examined.

Investments available for sale

Fair value of available-for-sale investments that are listed on the stock exchange is defined on the basis of the closing stock exchange rate as at the reporting date.

Trade and other receivables

Current trade receivables are not discounted due to their short-term nature, whereby impairments to fair value are taken into account.

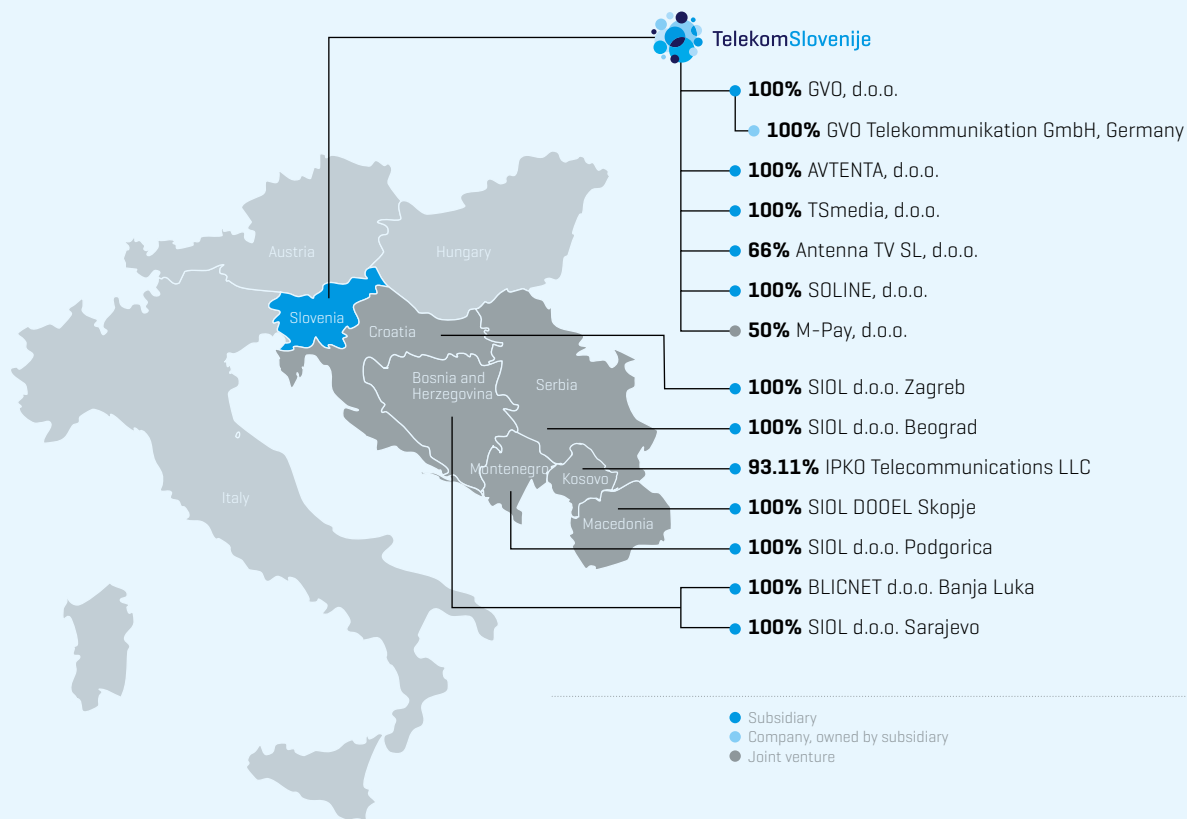
Financial liabilities

For the reporting purposes, the financial liabilities arising on bonds are determined on the basis of the stock exchange quotation as at the reporting date.

5. Composition of the Telekom Slovenije Group

f. Subsidiaries and the joint venture ¹

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



¹ GRI GS 102-45

SUBSIDIARIES

Company	Address	Country	Core activity	Tax rate	Share in equity [%]	Share in voting rights [%]	Share in voting rights [%]	Carrying amount of equity as at	Profit or loss
					31 Dec 2016	31 Dec 2015	31 Dec 2015	31 Dec 2016	31 Dec 2015
SLOVENIA									
1	GVO, gradnja in vzdrževanje telekomunikacijskih omrežij, d. o. o.	Slovenia	building and maintenance works on telecommunication networks	17%	100%	100%	100%	18,988	2,120
2	Avtenta, napredne poslovne rešitve, d. o. o.	Slovenia	systems integrator	17%	100%	100%	100%	1,749	175
3	TSmedia, medijske vsebine in storitve, d. o. o.	Slovenia	multimedia and internet services	17%	100%	100%	100%	-2,939	-1,592
4	SOLINE Pridelava soli, d. o. o.	Slovenia	production of salt and preservation and management of a natural park	17%	100%	100%	100%	2,666	-233
5	Debitel, d. d.*	Slovenia	telecommunication services	17%	100%	0%	100%	0	0
6.	Antenna TV SL, d. o. o.**	Slovenia	television-related services	17%	66%	66%	49%	-1,650	-13,074
OTHER COUNTRIES									
6	IPKO Telecommunications, LLC	Kosovo	telecommunication services	10%	93%	93%	93%	-4,472	-6,003
7	Blicnet d. o. o., Banja Luka	Bosnia and Herzegovina	telecommunication services	10%	100%	100%	100%	15,038	1,167
8	ONE, d. o. o., Skopje***	Macedonia	telecommunication services	10%	0%	0%	0%	0	0
9	Digi Plus Multimedia, d. o. o. e. l., Skopje***	Macedonia	digital TV services	10%	0%	0%	0%	0	0
10	SIOL, d. o. o., Zagreb	Croatia	telecommunication services	20%	100%	100%	100%	610	20
11	SIOL, d. o. o., Sarajevo	Bosnia and Herzegovina	telecommunication services	10%	100%	100%	100%	1,747	22
12	SIOL, d. o. o., Podgorica	Montenegro	telecommunication services	9%	100%	100%	100%	2,701	61
13	SIOL, d. o. o., Skopje	Macedonia	telecommunication services	10%	100%	100%	100%	1,195	129
14	SIOL, d. o. o., Palilula, Beograd	Serbia	telecommunication services	15%	100%	100%	100%	225	65
15	GVO Telecommunication GmbH	Germany	building and maintenance works on telecommunication networks	15%	100%	100%	100%	-58	-3

* part of the Group since 1 October 2015; the company was as at 1 January 2016 joined to Telekom Slovenije d. d.

** part of the Group since 31 December 2016

*** part of the Group until 31 July 2015

ASSOCIATES AND THE JOINT VENTURE

Company	Address	Country	Core activity	Tax rate	Share in equity [%]	Share in voting rights [%]	Share in voting rights [%]	Carrying amount of equity as at	Profit or loss
					31 Dec 2016	31 Dec 2015	31 Dec 2015	31 Dec 2016	31 Dec 2015
1. M-Pay, Družba za mobilno plačevanje, storitve in trgovino, d. o. o.	Vita Kraigherja 3, Maribor	Slovenia	processing of mobile phone payments	17%	50%	50%	50%	243	9
2. SETCCE, d. o. o. ****	Tehnološki park 21, Ljubljana	Slovenia	research and development services on other fields of nature and technology	17%	0%	0%	36%	446	-39

**** part of the Group until 30 November 2016

Telekom Slovenije holds a 100% equity interest in the company IPKO upon an agreement with minority holders on the purchase of the residual stake. The Group economically controls the company Ipko and therefore not discloses liabilities to minority holders in the consolidated financial statements.

At the end of the reporting period, the Telekom Slovenije Group records a joint venture i.e. 50% equity interest in the company M-Pay, which is engaged in mobile payment services and shop-related services.

The investment in the joint venture is included in the Telekom Slovenije Group's financial statements by using the equity method.

Changes in the composition of the Group

Antenna TV SL

The TSmedia company increased the share capital in Antenna TV SL on 16 December in the amount of EUR 144 thousand and thereby became the owner of the controlling interest of 50.1%. Accordingly, the Group reclassified the company Antenna TV SL from an associate to a subsidiary and included it as at 31 December 2016 in its consolidated financial statements. Up until 31 December 2016, the company Antenna TV SL was in the consolidated financial statements considered under the equity method.

As of 21 December 2016, Telekom Slovenije acquired from its subsidiary TSmedia a 50.1 percent equity interest [at book value] in the company Antenna TV SL. Telekom Slovenije has thereupon increased the share capital in Antenna TV SL by means of a non-cash contribution in the amount of EUR 17,813 thousand. The other owner as well cooperated in the relevant share capital contribution by means of non-cash contributions. Based on an additional cash contribution in the amount of EUR 3,460 thousand, Telekom Slovenije became the owner of a 66% interest in Antenna TV SL.

Setcce

As of 8 December 2016, the Telekom Slovenije Group signed a contract on the sale of its equity interest in the Setcce company, which was included in its consolidated financial statements up until November 2016.

6. Segment reporting

Segment reporting disclosures comply with requirements of the management relating to reporting for internal users. The criterion for segment reporting is the registered office where an activity is performed, hence the Group records two segments, namely Slovenia and other countries:

Slovenia – this segment encompasses companies with a registered office in Slovenia and activities in the areas of fixed and mobile telephony telecommunication services, the installation and maintenance of telecommunications network, the provision of multimedia and internet services, and digital content and television. This segment includes Telekom Slovenije, GVO, Avtenta, TSmedia, Soline, Antenna TV SL, and M-Pay as a joint venture.

Other countries – includes all other countries, namely Ipko, Blicnet, SiOL Zagreb SiOL Sarajevo, SiOL Podgorica, SiOL Skopje, SiOL Beograd and GVO Telekommunikation GmbH located in Germany. The core activity of this segment is the provision of telecommunication services.

Sale transactions between individual segments are effected at market values. Intragroup transactions are eliminated in the consolidation procedure and included among eliminations and adjustments.

The Group does not disclose finance income and expenses per segments as the Group's financing is centralised and conducted on the level of the parent company. Disclosures on revenue from external sales relating to reach product and service or each group of similar products and services, is provided in Note 7 Revenue.

Segment's accounting policies equals those applied by the Group, as outlined in Section 3.

Operating segments 2016

EUR thousand	Slovenia	Other countries	Eliminations and adjustments	Consolidated
External sales	634,077	67,671	0	701,748
Intersegment sales	63,070	23,082	-86,152	0
Total segment revenue	697,147	90,753	-86,152	701,748
Other revenue	8,897	1,024	-488	9,433
Cost of goods and material sold	-69,691	-1,094	8,481	-62,304
Cost of material and energy	-19,132	-2,049	6,475	-14,706
Cost of services	-311,927	-51,928	62,453	-301,402
Employee benefits expense	-116,168	-7,335	7,450	-116,053
Amortisation and depreciation expense	-138,313	-26,145	1,316	-163,142
Other operating expenses	-17,705	-618	871	-17,452
Total operating expenses	-672,936	-89,169	87,046	-675,059
Operating profit by segment	33,108	2,608	406	36,122
Share of profit or loss of associates and the joint ventures	-6,415			-6,415
Finance income				23,557
Finance costs				-19,396
Profit before tax				33,868
Income tax expense				-541
Deferred tax				6,613
Profit for the period				39,940

Other data by segment - 31 Dec 2016

EUR thousand	Slovenia	Other countries	Eliminations and adjustments	Consolidated
Segment assets	1,421,016	163,468	-217,065	1,367,419
Impairment and write-off of non-financial assets	4,785	161		4,946
Carrying amount of goodwill	3,603	580		4,183
Investments in associates and the joint venture by applying equity method	-9			-9
Investments in intangible assets	67,187	2,751		69,938
Investments in property, plant and equipment	73,209	12,624		85,833
Segment liabilities	667,564	145,878	-151,885	661,557

Revenue by segment in 2016

EUR thousand	Slovenia	Other countries	Eliminations and adjustments	Consolidated
Mobile services on end-customer market	235,067	31,834	-988	265,913
Fixed-line telephone services on end-customer market	196,507	33,749	-1,000	229,256
New sources of income	2,017			2,017
Wholesale market	188,898	24,935	-30,742	183,091
Other revenue and merchandise	74,658	235	-53,422	21,471
Total revenue	697,147	90,753	-86,152	701,748

Operating segments 2015 restated *

EUR thousand	Slovenia	Other countries	Eliminations and adjustments	Consolidated
External sales	629,067	99,212	0	728,279
Intersegment sales	51,526	33,795	-85,321	0
Total segment revenue	680,593	133,007	-85,321	728,279
Other revenue	17,315	1,930	-1,582	17,663
Cost of goods and material sold	-69,626	-2,414	6,554	-65,486
Cost of material and energy	-16,465	-3,173	3,326	-16,312
Cost of services	-301,484	-83,246	70,369	-314,361
Employee benefits expense	-124,051	-10,390	4,226	-130,215
Amortisation and depreciation expense	-127,222	-30,494	2,161	-155,555
Other operating expenses	-10,983	-2,821	616	-13,188
Total operating expenses	-649,831	-132,538	87,252	-695,117
Operating profit per segment	48,077	2,399	349	50,825
Share of profit or loss of associates and the joint ventures	-6,271			-6,271
Finance income				39,224
Finance costs				-18,805
Profit before tax				64,973
Income tax expense				-243
Deferred tax				3,829
Profit for the period				68,559

* Adjustments are outlined in point e. Changes in accounting policies and retrospective restatement, in Section 2 Basis of preparation.

Other data by segment at 31 Dec 2015 restated*

EUR thousand	Slovenia	Other countries	Eliminations and adjustments	Consolidated
Segment assets	1,386,767	262,736	-327,936	1,321,567
Impairment and write-off of non-financial assets	3,878	275		4,153
Carrying amount of goodwill	3,603	580		4,183
Investments in associates and the joint venture by applying equity method	14			14
Investments in intangible assets	37,807	7,762		45,569
Investments in property, plant and equipment	67,923	17,126		85,049
Segment liabilities	641,041	221,046	-242,247	619,840

* Adjustments are outlined in point e. Changes in accounting policies and retrospective restatement, in Section 2 Basis of preparation.

Revenue by segment in 2015 restated*

EUR thousand	Slovenia	Other countries	Eliminations and adjustments	Consolidated
Mobile services on end-customer market	245,391	52,353	-2,789	294,955
Fixed-line telephone services on end-customer market	200,890	39,806	-2,871	237,825
New sources of income	1,484			1,484
Wholesale market	177,414	39,895	-42,982	174,327
Other revenue and merchandise	55,414	953	-36,679	19,688
Total revenue	680,593	133,007	-85,321	728,279

* Adjustments are outlined in point e. Changes in accounting policies and retrospective restatement, in Section 2 Basis of preparation.

7. Revenue

EUR thousand	2016	2015 restated*
Mobile services on end-customer market	265,913	294,955
Fixed-line telephone services on end-customer market	229,256	237,825
New sources of income	2,017	1,484
Wholesale market	183,091	174,327
Other revenue and merchandise	21,471	19,688
Total revenue	701,748	728,279

* Adjustments are outlined in point e. Changes in accounting policies and retrospective restatement, in Section 2 Basis of preparation.

Revenue have in 2016 been generated in the amount of EUR 701,748 thousand, which is less than the result achieved in 2015; however, it should be taken into account that revenue in 2015 is not directly comparable as the company One was included in the Group only until 31 July 2015 (with EUR 44,138 thousand revenue) and that has an impact on all other revenue-related segments. If comparing the revenue balance in 2015 exclusive of the company One, the revenue generated in 2016 exceeds the revenue of 2015 exclusive of the company One.

As for the mobile services on end-customer market, revenue has decreased over the previous year due to lower revenue from mobile subscribers (transition to the new and for customer more favourable packages with included contents) and prepaid users. Revenue from the sale of mobile merchandise remained on the level achieved in 2015.

Revenue recorded on the **fixed-line phone services on end-customer market** have declined due to the expected decline in the revenue from classical telephony (which is attributable to the decline in classical connections and its replacement through the cheaper IP-telephony. The relevant declined could not be replaced neither by higher revenue from IT services, which grew mostly due to higher revenue from managing overall IT solutions and cloud services.

The item of new **sources of revenue** includes revenue from financial services, financial services and energy, which grew in 2016 over the previous year's result.

Revenue from the **wholesale market** was higher from the 2015 result. As for the domestic market, the revenue increased as a result of more broadband and unbundled connections, domestic tracking, as well as more calls to the mobile network of Telekom Slovenije. Due to the merger of Debitel, the relevant business operations are no longer recorded as wholesale, thus the revenue cannot directly be compared to those generated in 2015. As for the foreign market, lower revenue are attributable to lower revenue from incoming calls in Kosovo, due to the growing use of free web talk applications. Growth of revenue on the international market is the result of higher revenue from the transit of international calls, lease of capacities and international incoming calls on the account of »A number« incoming calls from abroad. The largest share of costs of international calls refers to Austria, Germany and Belgium.

Other revenue and merchandise increased by 9% primarily due to higher income from material and other non-telecommunication services.

8. Other operating income

EUR thousand	2016	2015
Revenue from elimination of provisions	2,675	5,265
Government grants	867	2,664
Gains on disposal of property, plant and equipment	453	4,485
Revaluation operating income	32	328
Other income	5,406	4,921
Total other operating income	9,433	17,663

Revenue from reversal of provisions refer largely to elimination of provisions formed for legal actions.

Most of the profit generated through the sale of property, plant and equipment refers to the sale of the optical network.

The item of other income comprises contractual penalties and court-related expenses.

9. Costs of services

EUR thousand	2016	2015 restated *
Telecommunication services	135,099	128,473
• network interconnection	35,559	27,884
• roaming	8,247	11,436
• international services	90,565	84,976
• other telecommunications services	728	4,177
Costs of leased lines	10,660	9,131
Multimedia services	21,042	26,582
Sales incentives	17,539	23,126
Sales commission	4,004	4,873
Maintenance of property, plant and equipment	25,590	28,956
Lease of property, plant and equipment	13,321	15,908
Cost of fairs, marketing, sponsorships and entertainment	13,742	17,139
Professional and personal services	11,192	12,364
Refund of work-related costs	876	908
Insurance premiums	3,920	3,929
Cost of communications services	2,924	3,417
Banking services	1,135	1,849
Other services	40,358	37,707
Total cost of services	301,402	314,361

* Adjustments are outlined in point e. Changes in accounting policies and retrospective restatement, in Section 2 Basis of preparation.

The consolidation of business operations, the elimination of the company One from the full consolidation [included up until 31 July 2015], and cost optimisation resulted in lower costs of services in all segments except of costs of telecommunication services, which are related to the scope of turnover.

Costs of maintaining property, plant and equipment are lower mostly due to lower costs of maintenance services negotiated with the external service providers and due to optimising IT systems and technologies, and due to gradual closure of certain systems.

Costs of leasing property, plant and equipment are lower if compared to 2015 as a result of optimisation procedures applied with real properties.

Most of costs of other services include the costs of sub-contractors, which increased as the result of broadening the optical network access and due to activities related to the set-up of the electronic toll collection.

10. Employee benefits expense

EUR thousand	2016	2015
Salaries and wage compensation	95,140	99,007
Social security contributions	19,911	21,464
• of which pension insurance contributions	13,319	14,051
Other employee benefits expense	11,695	13,658
Provisions for retirement benefits and jubilee premiums	2,502	7,571
Capitalised own products and services	-13,195	-11,485
Total employee benefits expense	116,053	130,215

Lower employee benefits expense are attributable also to provisions formed for restructuring the company [Note 28 Provisions].

The employee benefits expense account for EUR 14,951 thousand (2015: EUR 13,107 thousand), within the structure of total capitalised own products and services that are recorded in the amount of EUR 13,195 thousand (2015 EUR 11,485 thousand). Services rendered for Group's requirements are capitalised among intangible assets and property, plant and equipment [Note 15 and 16].

Staff structure by education

No. of staff in terms of required education	1 Jan 2016	31 Dec 2016	Changes in 2016	Average no. of staff based on hours worked and in terms of education in 2016*	Average no. of staff based on hours worked and in terms of education in 2015*
Level I	46	45	-1	46	50
Level II	48	47	-1	48	58
Level III	10	17	7	14	12
Level IV	304	293	-11	299	393
Level V	1,267	1,153	-114	1,210	1,312
Level VI	869	869	0	869	878
Level VII	1,113	1,089	-24	1,101	1,252
Master's and PhD degree	146	152	6	149	164
Total	3,803	3,665	-138	3,736	4,119

* calculation on the basis of balances of staff recorded at beginning and end of reporting period

In the reporting period, the average number of employees based on the working hours was recorded at 3,615 (2015: 3,991 employees).

11. Other operating expenses

EUR thousand	2016	2015
Provisions	3,014	260
Loss on disposal of intangible assets and property, plant and equipment	1,122	1,015
Write-off of inventories	2,625	2,767
Impairment and write-off of receivables	7,411	5,684
Impairment of intangible assets and property, plant and equipment	2,183	1,386
Capitalised own products and services	-1,756	-1,622
Other expenses	2,853	3,698
Total other operating expenses	17,452	13,188

Expenses for provisions have increased in 2016 due to additional provisions formed for probable liabilities from legal actions [Note 28].

Other expenses arising from impairment of intangible assets and property, plant and equipment include also the impairment of the property at the Vilharjeva and Hacquetovi street in Ljubljana in the amount of EUR 1,486 thousand [Note 16] and the impairment of the investment property in Sečovelje [mine] in the amount of EUR 610 thousand [Note 20].

12. Finance income and finance costs

EUR thousand	2016	2015 restated*
Income on dividends	168	175
Other income from shares and interests	106	10,676
Interest income	2,231	2,526
Net exchange gains	576	0
Other finance income	20,476	25,847
Total finance income	23,557	39,224
Interest on bonds issued	15,761	15,121
Interest expense	1,875	1,314
Net exchange losses	0	2,027
Impairment and write-off of available-for-sale investments	488	0
Impairment and write-off of loans	2	0
Other finance costs	1,270	343
Total finance costs	19,396	18,805
Financial result	4,161	20,419
Share in the result of associates and the joint ventures	-6,415	-6,271

* Adjustments are outlined in point e. Changes in accounting policies and retrospective restatement, in Section 2 Basis of preparation.

Other income from shares and interests in 2015 in the amount of EUR 10,676 thousand and net exchange losses are the result of eliminating the company ONE from the Group.

Other finance income in 2015 and 2016 arised from the increase in the financial receivables relating to the Group's withdrawal from the company ONE.VIP, which was concluded with the Telekom Austria Group.

13. Income tax expenses, deferred tax assets and deferred tax liabilities

EUR thousand	2016	2015 restated*
Current tax expense	-541	-243
Deferred tax assets/ deferred tax liabilities	6,968	4,313
Other taxes not disclosed in other items	-355	-484
Total tax	6,072	3,586

* Adjustments are outlined in point e. Changes in accounting policies and retrospective restatement, in Section 2 Basis of preparation.

Other taxes not disclosed in other items comprise the write off of the withholding tax paid by the Group abroad.

Adjustment between the actual and accounted tax expenses by taking into account the effective tax rate

EUR thousand	2016	2015 restated*
Profit or loss before tax	33,868	64,973
Income tax using the domestic corporate tax rate	-5,758	-11,045
Tax-free dividends	298	38
Non-taxable profit from disposal of equity interest	9	25
Tax incentives used in the current period	11,626	200
Reversal of tax incentives used in previous periods	-170	-1
Change of the tax rate	3,801	0
Non-deductible expenses	-3,206	16,200
Other	-528	-1,851
Total tax	6,072	3,586
Effective tax rate	0.00%	0.00%

* Adjustments are outlined in point e. Changes in accounting policies and retrospective restatement, in Section 2 Basis of preparation.

A tax relief was utilised in 2016 in the amount of EUR 11,626 thousand. The tax reliefs were in 2015 not used due to the tax loss.

As at the reporting date, the unused tax reliefs amounted to EUR 29,908 thousand.

The Group has not formed in 2016 deferred tax assets in the amount of EUR 2,358 thousand (2015: EUR 1,316 thousand), which arise mostly from the tax losses recorded by Group companies.

In 2016, Slovenia's Corporate Income Tax Act [Official Journal of RS no. 68/2016], which resulted in a change of the tax rate from 17% to 19%. The Group recalculated in 2016 deferred taxes to the rate of 19%. Due to the changed tax rate, the Group recognised higher deferred tax assets to the benefit of the income statement and higher liabilities for deferred taxes chargeable to equity

Deferred tax assets

EUR thousand	2016	2015 restated*	Through profit or loss
Intangible assets, and property, plant and equipment	14,744	10,027	4,717
Investments	970	785	185
Trade receivables	7,001	5,567	1,434
Tax loss	11,494	10,284	1,210
Provisions	1,932	2,338	-406
Deferred tax assets	36,141	29,001	7,140

* Adjustments are outlined in point e. Changes in accounting policies and retrospective restatement, in Section 2 Basis of preparation.

Deferred tax liabilities

EUR thousand	2016	2015 restated*	Through profit or loss	Through comprehensive income
Intangible assets, and property, plant and equipment	1,121	947	-174	0
Investments	159	193	0	34
Deferred tax liabilities	1,280	1,140	-174	34

* Adjustments are outlined in point e. Changes in accounting policies and retrospective restatement, in Section 2 Basis of preparation.

Movement of deferred tax assets

EUR thousand	Deferred tax assets
Balance at 1 Jan 2015	24,843
Change in accounting policy	-735
Balance at 1 Jan 2015 restated*	24,108
Increase in business combinations	441
Elimination/use	-7,448
Formation	11,900
Balance at 31 Dec 2015	29,001
Elimination/use	-4,436
Formation	7,775
Restatement of tax rate to 19%	3,801
Balance at 31 Dec 2016	36,141

* Adjustments are disclosed in Point e. Change in accounting policies and retrospective restatement in Section 2 Basis for preparation-.

14. Earnings per share

Basic earnings per share is calculated by dividing the net profit for the period, which is allocated to ordinary shareholders, with the weighted average number ordinary shares that are enforced in the accounting period.

The weighted average number ordinary shares that are enforced in the accounting period is calculated on the basis of data on the number of ordinary shares enforced by taking into account possible repurchases and sales during the period and by taking into account the time in which the shares contributed to generating profit.

Adjusted net profit per share is not calculated as the Company has no restated possible ordinary shares.

EUR thousand	2016	2015 restated*
Net profit or loss used for profit sharing, owners of Company's ordinary shares	39,940	68,559
Weighted average number of ordinary shares for earnings per share	6,505,478	6,505,478
Earnings per share – basic and diluted (in EUR)	6.14	10.54

* Adjustments are disclosed in Point e. Change in accounting policies and retrospective restatement in Section 2 Basis for preparation

Weighted average number of ordinary share

EUR thousand	2016	2015
Weighted average number of ordinary shares for earnings per share	6,535,478	6,535,478
Less own shares of Company	-30,000	-30,000
Total	6,505,478	6,505,478

15. Intangible assets (IA)

Concessions and licences

Concessions refer primarily to the use of the frequency spectrum GSM, UMTS and LTE mobile telephony on the territory of the Republic of Slovenia, and GSM in Kosovo in the total amount of EUR 101,434 thousand [2015: EUR 76,899 thousand]. Useful lives of individual concessions are disclosed in Note 41 in the table Concessions for mobile phone services.

Other licences refer to the use of computer software.

As at 31 December 2016, the carrying amounts of licences obtained in Slovenia for UMTS amounted to EUR 19,777 thousand [2015: EUR 23,792 thousand], for GSM to EUR 35,192 thousand [2015: EUR 153 thousand], and for LTE to EUR 22,159 thousand [2015: EUR 23,943 thousand]. The carrying amount of GSM concessions amounted to EUR 24,306 thousand [2015: EUR 29,011 thousand].

In 2014, Telekom Slovenije purchased the GSM frequency licence in the amount of EUR 37,705 thousand that is in use since January 2016 [classified as asset under construction in 2015].

The Group recorded also software rights among concessions and licences.

Goodwill in the amount of EUR 3,603 thousand and fair value of the customer list at EUR 4,272 thousand occurred during the takeover of the company Debitel, d.d. in 2015.

Goodwill of EUR 580 thousand occurred during the takeover of companies KI-SISTEMI kompjuterski inženjering [EUR 187 thousand], the company Netkom, Banja Luka [EUR 373 thousand], and the company PROFEL i Pavič-Mamič Tatjana [EUR 20 thousand].

The Group carried out an impairment testing of the customer list that occurred with the takeover of the company Debitel. For the purpose of value estimate, the Group applied the method of excess yields and the estimated value in use. Within the selected method, the Group defines for all recognised assets the yield, which is to be made on these assets. Based on this method, the value of the customer base is assessed at EUR 5,045 thousand with the estimate ranging between EUR 4,775 thousand and 5,320 thousand. The used discount rate was 8.99%, the required yield on assets 10.79%, and the required yield of current working capital 3.3%. It was established that the recoverable value of the customer list exceeds its book value, requiring no impairment to be performed. The Group established no indication of impairment as regards the customer list and therefore no indication of goodwill's impairment.

The Group carried out an impairment testing of the goodwill that occurred during the takeover of companies KI-SISTEMI kompjuterski inženjering, Netkom, Banja Luka and PROFEL i Pavič-Mamič Tatjana. The relevant calculations are based on future cash flow projections made for the aforesaid companies for the period from 2017 to 2021. The main assumptions used include the growth rate of 2% and the discount rate of 15%. The Group established that the recoverable value of the cash generating units [CGUs] does not exceed their book value, requiring no impairment to be carried out for the goodwill.

Group companies have unlimited property rights on intangible assets, which are free of encumbrances.

Contractual obligations for intangible assets amounted as at the reporting date to EUR 4,598 thousand [2015: EUR 2,629 thousand] and predominantly refer to the set-up of computer systems and to software licences.

Movement of intangible assets in 2016

EUR thousand	Good-will	Concession and licences	Sales commi-ssions	Software	Other IA	IA under construction	Other	Total
Cost								
Balance at 1 Jan 2016	108,156	285,232	15,690	123,061	47,824	57,290	61	637,314
Increase	0	731	0	505	1	58,917	0	60,154
Assets generated in-house	0	0	0	0	0	3,552	0	3,552
Increase in business combinations	1,200	0	0	0	4,792	9	230	6,232
Transfer to use	0	62,444	9,825	14,671	4,582	-91,522	0	0
Decrease	0	-19,338	0	-1,759	-15	0	0	-21,112
Write-offs	0	-124	0	-3	0	0	0	-127
Other transfers *	0	318	0	1,313	0	-865	-23	743
Balance at 31 Dec 2016	109,356	329,263	25,515	137,788	57,184	27,381	268	686,756
Accumulated amortisation								
Balance at 1 Jan 2016	103,973	189,643	7,744	108,970	28,106	267	3	438,706
Increase	0	0	60	0	0	0	0	60
Increase in business combinations	1,200	0	0	0	2,267	0	32	3,499
Decrease	0	-19,334	0	-1,699	-14	0	0	-21,047
Write-offs	0	-121	0	-3	0	0	0	-124
Other transfers *	0	-702	0	811	550	0	2	661
Amortisation	0	29,208	8,166	13,244	2,625	0	1	53,244
Balance at 31 Dec 2016	105,173	198,694	15,970	121,323	33,534	267	38	474,999
Carrying amount								
Balance at 1 Jan 2016	4,183	95,589	7,946	14,091	19,718	57,023	58	198,608
Balance at 31 Dec 2016	4,183	130,569	9,545	16,465	23,650	27,114	230	211,757

* Other transfers include transfers between intangible assets and property, plant and equipment, transfers among groups and transfers to inventories.

Movement of intangible assets in 2015 restated*

EUR thousand	Good-will	Concession and licences	Sales com-mi-sions	Software	Other IA	IA under con-struction	Other	Total
Cost								
Balance at 1 Jan 2015 – initially reported	105,472	284,462	0	126,699	43,724	53,525	123	614,005
Impact of the changed accounting policy	0	0	5,017	0	0	0	0	5,017
Balance at 1 Jan 2015 restated*	105,472	284,462	5,017	126,699	43,724	53,525	123	619,022
Difference from restatement to the presentation currency	0	38	0	1	0	1	0	40
Increase	0	6,267	0	576	3	26,241	0	33,087
Assets generated in-house	0	0	0	0	0	4,837	0	4,837
Increase in business combinations	3,603	0	3,730	1,624	5,621	0	0	14,578
Transfer to use	0	6,520	7,030	10,518	124	-24,192	0	0
Decrease	-919	-1,400	-87	-16,937	-8	-15	0	-19,366
Write-offs	0	-6,680	0	-478	-1,640	-241	0	-9,039
Other transfers **	0	-3,975	0	1,058	0	-2,866	-62	-5,845
Balance at 31 Dec 2015 restated*	108,156	285,232	15,690	123,061	47,824	57,290	61	637,314
Accumulated amortisation								
Balance at 1 Jan 2015 – initially reported	104,892	179,227	0	113,896	28,182	267	4	426,468
Impact of the changed accounting policy	0	0	685	0	0	0	0	685
Balance at 1 Jan 2015 restated	104,892	179,227	685	113,896	28,182	267	4	427,153
Difference from restatement to the presentation currency	0	7	0	1	0	0	0	8
Increase in business combinations	0	0	2,832	1,613	0	0	0	4,445
Decrease	-919	-2,347	-87	-16,964	-21	0	0	-20,338
Write-offs	0	-6,628	30	-228	-1,640	0	0	-8,466
Other transfers**	0	-4,171	0	-2,600	0	0	-4	-6,775
Amortisation	0	23,555	4,284	13,252	1,585	0	3	42,679
Balance at 31 Dec 2015 restated *	103,973	189,643	7,744	108,970	28,106	267	3	438,706
Carrying amount								
Balance at 1 Jan 2015 – initially reported	580	105,235	0	12,803	15,542	53,258	119	187,537
Balance at 1 Jan 2015 restated*	580	105,235	4,332	12,803	15,542	53,258	119	191,869
Balance at 31 Dec 2015 restated*	4,183	95,589	7,946	14,091	19,718	57,023	58	198,608

* Adjustments are disclosed in Point e. Change in accounting policies and retrospective restatement in Section 2 Basis for preparation.

** Other transfers include transfers between intangible assets and property, plant and equipment, transfers among groups and transfers to inventories.

16. Property, plant and equipment (PPE)

Significant increases in property, plant and equipment in use refer in 2016 mostly to the construction and upgrade of cable network, to obtaining of cable lines, telecommunications and other equipment. The item of other equipment comprises modems, the setup-box, other equipment at clients, furniture, cars and other equipment.

Increase by internal development includes services that are rendered for the company in connection with the set-up of base stations and modems.

The Group companies have unlimited property rights on property, plant and equipment, which are free of encumbrances.

Contractual obligations for property, plant and equipment were as at 31 December 2016 recorded at EUR 2,382 thousand (2015: EUR 4,109 thousand) and largely refer to the set-up of telecommunications network.

Movement of property, plant and equipment in 2016

EUR thousand	Land, buildings, cables and lines	Cable network	Switching exchanges	Equipment for mobile telephony	Other equipment	PPA under construction	Other	Total
Cost								
Balance at 1 Jan 2016	438,550	964,860	275,464	656,600	458,783	33,496	78	2,827,831
Translation to the presentation currency	0	0	0	0	1	0	0	1
Increase	58	2,893	6	3,041	3,798	63,982	0	73,778
Increase by internal development	0	0	0	0	0	11,399	0	11,399
Increase in business combinations	0	0	0	0	656	0	0	656
Transfer from assets under construction	6,885	12,908	3,938	6,696	35,087	-65,513	0	1
Decrease	-1,092	-17	-443	-13,472	-14,707	-384	0	-30,115
Write-offs	-1,427	-1	-1,256	-31,419	-34,707	-71	0	-68,881
Other transfers *	10	2,059	176	4,398	-323	-7,247	76	-851
Balance at 31 Dec 2016	442,984	982,702	277,885	625,844	448,588	35,662	154	2,813,819
Accumulated depreciation								
Balance at 1 Jan 2016	140,929	766,880	263,944	545,586	378,022	11,390	0	2,106,751
Translation to the presentation currency	0	0	0	0	6	0	0	6
Increase	195	0	2	152	82	0	0	431
Increase in business combinations	0	0	0	0	402	0	0	402
Decrease	-137	-3	-417	-13,293	-12,318	0	0	-26,168
Write-offs	-1,427	-1	-1,256	-31,413	-34,650	0	0	-68,747
Impairment	1,486	0	0	0	0	0	0	1,486
Depreciation	15,362	24,348	3,715	34,720	31,687	0	0	109,832
Other transfers *	1	-6	6	-59	-256	0	0	-314
Balance at 31 Dec 2016	156,409	791,218	265,994	535,693	362,975	11,390	0	2,123,679
Carrying amount								
Balance at 1 Jan 2016	297,621	197,980	11,520	111,014	80,761	22,106	78	721,080
Balance at 31 Dec 2016	286,575	191,484	11,891	90,151	85,613	24,272	154	690,140

* Other transfers comprise transfers between intangible assets and property, plant and equipment, transfers between groups of assets and transfers to inventories.

Movement of property, plant and equipment in 2015

EUR thousand	Land, buildings, cables and lines	Cable network	Switching exchanges	Equipment for mobile telephony	Other equipment	PPA under construction	Other	Total
Cost								
Balance at 1 Jan 2015	432,317	951,661	276,866	661,289	472,696	48,117	119	2,843,065
Translation to the presentation currency	6	2	0	88	19	9	0	124
Increase	1,424	3,115	3	1,831	2,921	66,416	0	75,710
Increase by internal development	0	0	0	0	0	8,270	0	8,270
Increase in business combinations	0	0	0	0	1,067	0	2	1,069
Transfer from assets under construction	11,358	14,138	3,978	19,510	35,252	-84,236	0	0
Decrease	-4,811	1,203	-431	-6,379	-11,430	2,865	0	-18,983
Write-offs	-463	-116	-4,978	-20,967	-38,411	-36	0	-64,971
Other transfers *	-1,281	-5,143	26	1,228	-3,331	-7,909	-43	-16,453
Balance at 31 Dec 2015	438,550	964,860	275,464	656,600	458,783	33,496	78	2,827,831
Accumulated depreciation								
Balance at 1 Jan 2015	129,985	748,760	266,010	537,566	398,090	11,390	0	2,091,801
Translation to the presentation currency	3	0	0	36	16	0	0	55
Increase	34	0	0	-27	29	0	0	36
Increase in business combinations	0	0	0	0	951	0	0	951
Decrease	-4,478	-42	-403	-4,709	-9,031	0	0	-18,663
Write-offs	-462	-115	-4,976	-20,940	-38,343	0	0	-64,836
Impairment	1	0	0	0	0	0	0	1
Depreciation	15,870	25,697	3,313	38,301	29,642	0	0	112,823
Other transfers *	-24	-7,420	0	-4,641	-3,332	0	0	-15,417
Balance at 31 Dec 2015	140,929	766,880	263,944	545,586	378,022	11,390	0	2,106,751
Carrying amount								
Balance at 1 Jan 2015	302,332	202,901	10,856	123,723	74,606	36,727	119	751,264
Balance at 31 Dec 2015	297,621	197,980	11,520	111,014	80,761	22,106	78	721,080

* Other transfers comprise transfers between intangible assets and property, plant and equipment, transfers between groups of assets and transfers to inventories.

In compliance with IAS 36 *Impairment of assets*, the Group is required to verify on the balance sheet date whether there are indications that single items of assets need to be impaired. If such indications exist, the Group is to establish the recoverable value of the asset and impair it if necessary. With respect to the planned change of intended use of the property on the Vilharjeva and Hacquetova street in Ljubljana, the Group has checked the market value of both properties and established that both are required to be impaired. The valuation of properties was carried out by a certified appraiser using the market comparison approach and estimated the sales costs at 2%. Based on this valuation, the Group impaired both properties and recognised other expenses on the impairment of intangible assets and property, plant and equipment [Note 11] in the amount of EUR 1,486 thousand.

17. Investments in associates and joint ventures

In 2016, the Group sold its equity interest in the associate Setcce and generated EUR 104 thousand of profit, which was recognised among finance income from interests and shares.

The Group purchased an additional share in the company Antenna TV SL in 2016 and thereby became an owner of a 66% interest. As at 31 December 2016, the aforesaid company was derecognised as an associate and included in the consolidated financial statements as a subsidiary. The Group thereby incurred a loss of EUR 671 thousand, which is recognised among other finance costs.

The Telekom Slovenije Group includes also the entity M-Pay as a joint venture, which amounted with the written-up profit (accounted under the equity method) to EUR 124 thousand as at 31 December 2016.

The company is not listed on any public stock exchange.

18. Other investments

Non-current investments

EUR thousand	2016	2015
Investments in other shares and interests available for sale	2,423	3,210
Total available-for-sale investments	2,423	3,210
Loans to companies	325	5,785
Loans to employees	429	579
Total loans given	754	6,364
Total non-current investments	3,177	9,574

All investments in shares and interests are classified as available-for-sale investments.

Of the total amount of EUR 2,423 thousand, EUR 1,454 (2015: EUR 1,453 thousand) thousand relates to the investments that are listed on the stock exchange and recognised at the fair value.

Other investments are valued at cost, as they are not listed on the stock exchange and the Group cannot acquire information in order to assess the fair value.

Investments are not pledged as collateral and are free of encumbrances.

Current investments

EUR thousand	2016	2015
Other current loans	474	3,109
Other current investments	118,897	100,010
Bank deposits	299	237
Total current investments	119,670	103,356

The item of other current investments include the Group's receivables due from the sale of the investment in the company ONE.VIP, where it holds a 45% equity interest. Despite the material equity interest, the Group does not control the company ONE.VIP and has no influence over its business operations due to the composition of the management and supervisory bodies; in addition, Telekom Slovenije Group is not entitled to dividends and consequently has no economic impact.

As of the reporting date, the Group recorded a time deposit (31 December 2015: 1 deposit) in the total amount of EUR 299 thousand (2015: EUR 237 thousand) and the maturity at 91 days (2015: 91 days). The annual interest rate is 0.01% (2015: 0.05%).

Loans given

EUR thousand	2016	2015
Non-current loans	754	6,364
Loans given	325	5,785
Loans to employees	429	579
Current loans	474	3,109
Portion of non-current loan that is due within 12 months – loans given	310	2,538
Portion of non-current loan that is due within 12 months – loans to employees	132	170
Current loans and interest	3	364
Current receivables for interest	29	37
Year-end balance of loans given	1,228	9,473

The maturity of current and non-current borrowings as well as other data are disclosed in Note 40. Financial risk management.

The interest rate for loans extended is ranging between 0.78% and 5%, whereas the interest rate for loans given to employees between 3.00% and 6.23%.

19. Other non-current assets

EUR thousand	2016	2015
Prepaid rentals	12,853	11,446
Deferred costs of sales incentives	2,731	3,171
Non-current trade receivables	13,461	13,463
Other long-term deferred costs	1,275	1,158
Total other non-current assets	30,320	29,238

The item of non-current trade receivables includes the phased sale of subsidised goods in the amount of EUR 13,181 thousand (2015: EUR 13,226 thousand), whose maturity exceeds one year. As for receivables arising from instalment payments, the relevant allowances are formed for the short-term portion.

Movement of other non-current assets exclusive of non-current trade receivables and long-term deferred costs

EUR thousand	Rentals	Sales incentives
Balance at 1 Jan 2015	10,230	2,898
Increase in business combinations	0	978
Additions	2,780	15,605
Transfer to costs	-1,564	-16,310
Balance at 31 Dec 2015	11,446	3,171
Increase in business combinations	237	0
Additions	3,169	14,620
Transfer to costs	-1,999	-15,060
Balance at 31 Dec 2016	12,853	2,731

Prepaid rentals include primarily leases of premises and land for setting up base stations, and lease of optical fibres.

20. Investment property

Movement of investment property in 2016

EUR thousand	Land	Buildings	Total
Cost			
Balance at 1 Jan 2016	4,865	1,977	6,842
Decrease	0	-167	-167
Balance at 31 Dec 2016	4,865	1,810	6,675
Accumulated depreciation			
Balance at 1 Jan 2016	1,232	589	1,821
Decrease	0	-2	-2
Impairment	340	270	610
Depreciation	0	66	66
Balance at 31 Dec 2016	1,572	923	2,495
Carrying amount			
Balance at 1 Jan 2016	3,633	1,388	5,021
Balance at 31 Dec 2016	3,293	887	4,180

Movement of investment property in 2015

EUR thousand	Land	Buildings	Total
Cost			
Balance at 1 Jan 2015	4,563	861	5,424
Increase	302	1,116	1,418
Balance at 31 Dec 2015	4,865	1,977	6,842
Accumulated depreciation			
Balance at 1 Jan 2015	961	387	1,348
Impairment	271	149	420
Depreciation	0	53	53
Balance at 31 Dec 2015	1,232	589	1,821
Carrying amount			
Balance at 1 Jan 2015	3,602	474	4,076
Balance at 31 Dec 2015	3,633	1,388	5,021

Group's investment properties are carried at cost.

In 2016, the Group assessed the fair (market) value of properties in Sečovelje. The valuation was carried out by a certified appraiser as at 15 June 2016. The adequacy of used valuation methods applied with land was examined, namely: the market comparison method, the allocation method, the extraction method, the land residual method, the ground rent capitalisation method, the subdivision development method; with respect to the purpose of the valuation, the type of property and available data, the market comparison method was used.

In compliance with the analyses of the real estate market, the conducted valuation methods, assumptions taken into account and limitations, the fair value of the rights to the real property in Sečovelje was established at EUR 2,992 thousand.

Based on the aforesaid valuation, the Group impaired the investment property in Sečovelje in the amount of EUR 610 thousand and recognised expenses in connection with the impairment of intangible assets, and property, plant and equipment (Note 11).

The fair value measurement of investment property was categorised at Level 3.

Revenue generated on investment property in 2016 is recognised in profit or loss in the amount of EUR 181 thousand [2015: EUR 45 thousand]. Expenses relating to investment property are recognised in the income statement for 2016 in the amount of EUR 165 thousand [2015: EUR 153 thousand] and disclosed under 'cost of material and energy', 'cost of services', 'maintenance of property, plant and equipment', under 'costs of other services' (Note 9), and in the item other expenses (Note 11) under 'other operating expenses'.

21. Assets held for sale

As of the reporting date, assets held for sale primarily include land and buildings that Group companies will no longer use for business purposes and that are to be sold in the next 12 months according to decisions adopted by Group companies' management boards

EUR thousand	Assets held for sale
Balance at 1 Jan 2015	95,338
Increase	428
Sale	-91,389
Transfer to property, plant and equipment	-2,827
impairment	-637
Balance at 31 Dec 2015	913
Increase	932
Sale	-27
Balance at 31 Dec 2016	1,818

Assets held for sale increased in 2016 by EUR 932 thousand due to its transfer from 'property, plant and equipment' to 'assets held for sale'.

The decrease in assets held for sale refers in 2015 fully to the sale of the companies ONE and Digi Plus Multimedia.

22. Inventories

EUR thousand	2016	2015
Material	11,133	9,397
Products	584	582
Merchandise	11,773	17,146
Advances for inventories	22	9
Total inventories	23,512	27,134

Inventories of material increased as a result of higher inventories of telecommunication material and equipment for upgrading the base stations.

In 2016, EUR 2,625 thousand of inventories were written off [2015: EUR 2,767 thousand]. Material was valued at its net realisable value at EUR 1,601 thousand [2015: EUR 96 thousand] and merchandise at EUR 465 thousand [2015: EUR 763 thousand]. Other inventories are valued at their initial cost as the purchase cost of these inventories was lower from their net realisable value.

23. Trade and other receivables

EUR thousand	2016			2015
	Gross value	Allowances	Net value	Net value
Trade receivables	142,160	-25,693	116,467	121,095
Receivables due from foreign operators	23,566	-3,709	19,857	16,988
Receivables due from domestic operators	20,077	-14,324	5,753	6,047
Total trade receivables	185,803	-43,726	142,077	144,130
Advances and collaterals	2,143	0	2,143	1,478
VAT and other tax receivables	5,711	0	5,711	4,537
Other receivables	898	-7	891	817
Total other receivables	8,753	-7	8,746	6,832
Total trade and other receivables	194,555	-43,733	150,823	150,962

Trade receivables are non-interest bearing.

Allowances for receivables

EUR thousand	2016	2015
Balance at 1 Jan	-41,013	-39,004
Acquisition of new companies	-107	-1,541
Allowances	-15,067	-17,563
Reversal of allowances	8,542	12,365
Write-off	3,912	4,226
Exchange differences	0	504
Balance at 31 December	-43,733	-41,013

The method of forming allowances for receivables has not changed with respect to the previous year.

24. Short-term deferred costs and accrued income

EUR thousand	2016	2015
Deferred costs	11,886	8,432
Accrued income for services rendered and goods supplied (not yet invoiced)	8,266	5,034
Accrued income and deferred costs – international services	15,969	10,685
Current portion of sales incentives	11,752	10,603
Other	5,184	1,043
Total deferred costs and accrued income	53,057	35,797

Deferred costs relate largely to leases of premises for base stations, lease of lines, maintenance of equipment and software, and deferred costs for radio frequencies.

25. Cash and cash equivalents

EUR thousand	2016	2015
Cash in hand and bank balances	42,538	9,438
Bank deposits with a maturity of up to three months	16	1,176
Total	42,554	10,614

Bank balances bear interest at bank rates for positive cash balances, while over-night deposits bear interest at contractually agreed rates.

Short-term deposits are made for varying periods of between one to three months. Deposits bear interest at the respective short-term deposit rates.

As at 31 December 2016, the Group disclosed open credit lines or revolving loans for balancing liquidity in the amount of EUR 95.5 million or lines that were not utilised. The Group has also concluded agreements with the banks on bank overdrafts in the amount of EUR 9 million, which remained unutilised as well.

Credit lines are outlined in Note 30 Interest-bearing borrowings.

26. Equity and reserves

EUR thousand	31 Dec 2016	31 Dec 2015 restated*	1 Jan 2015 restated*
EQUITY AND RESERVES			
Called-up capital	272,721	272,721	272,721
Capital surplus	181,488	181,488	181,488
Revenue reserves	238,773	218,543	218,492
Legal reserves	51,612	51,612	51,561
Treasury share reserve	3,671	3,671	3,671
Treasury shares and interests	-3,671	-3,671	-3,671
Statutory reserves	54,854	54,854	54,854
Other revenue reserves	132,307	112,077	112,077
Retained earnings or losses	14,788	29,602	26,253
Retained earnings or losses from previous periods	-4,922	-38,957	22,011
Profit or loss for the period	19,710	68,559	4,242
Fair value reserve for financial instruments	678	943	954
Reserve for actuarial gains and losses	-1,982	-1,547	-1,152
Translation reserve	-24	-23	-1,228
Non-controlling interest	-580	0	0
Total equity and reserves	705,862	701,727	697,528

* Adjustments are outlined in point e. Changes in accounting policies and retrospective restatement, in Section 2 Basis of preparation.

Called-up capital

Authorised, issued and fully paid-up capital amounts to EUR 272,721 thousand and is divided into 6,535,478 ordinary shares. Ordinary shares are stated at par value. Each ordinary no-par value share has the same share and attributable amount in the share capital.

Ownership structure

Shareholder	31 Dec 2016		31 Dec 2015	
	No. of shares	Share [%]	No. of shares	Share [%]
Republic of Slovenia	4,087,569	62.54	4,087,569	62.54
Slovenski državni holding d.d. (SDH)	277,839	4.25	277,839	4.25
Individual shareholders	794,839	12.16	768,131	11.75
Other domestic companies	211,488	3.24	237,996	3.64
Kapitalska družba d.d.	365,175	5.59	365,175	5.59
Financial companies and funds	445,871	6.82	500,870	7.66
Foreign companies	322,697	4.94	267,898	4.10
Treasury shares	30,000	0.46	30,000	0.46
Total	6,535,478	100	6,535,478	100.00

The balances and changes in equity are illustrated in the Statement of Changes in Equity. The number of issued shares did not change in the reporting period.

At the end of 2016, capital surplus amounted to EUR 181,488 thousand and can be used under terms and conditions as defined by the legislation. Capital surplus is not to be used for appropriation. Movements in capital surplus are outlined in the statement of changes in equity.

Legal reserves are formed in an amount so that the sum of legal reserves and the capital surplus amounts to 20% of their share capital. As at the reporting date, the Group's legal reserves were recorded at EUR 51,612 thousand.

In accordance with the Companies Act, revenue reserves and legal reserves can in their excess amount be used for the share capital increase based on company's assets and for the coverage of retained losses, if revenue reserves are not simultaneously used for payout of profits to shareholders.

As at 31 December 2016, the parent company recorded 30,000 treasury shares (own shares) representing 0.46% of equity. The number of treasury shares has not changed since their acquisition in 2003. Treasury shares in the amount of EUR 3,671 thousand are disclosed as equity's deductible item and at their cost. Reserves for own share are formed in the same amount in compliance with legal requirements.

The Group may acquire treasury shares for purposes as defined by provisions of Article 247 of the Companies Act (ZGD-1).

Statutory reserves are used for forming the treasury share reserve, for covering losses, for share capital increases, and for covering diverse operating and other risks. Group companies form statutory reserves until their amount reaches 20% of each company's share capital. These reserves can be used in accordance with the articles of association, namely for the share capital increase, for the coverage of current and brought forward loss if this loss cannot be settled by means of any other sources, and for creating treasury shares if no other funds are available.

While compiling the Annual Report, the Group can form other revenue reserves up to 50% of the profit for the year, less amounts used for statutory or legal reserves. Other revenue reserves can be used for any purpose in accordance with the law, the Company's Act and Articles of Association, business policy and resolutions adopted by the General Meeting of Shareholders.

Retained earnings or losses

Retained earnings include retained earnings from previous periods and profit for the period.

Based on the resolution adopted on 13 May 2016 by the General Meeting of Shareholders, the accumulated profit for 2015 in the amount of EUR 42,254 thousand was used in for dividend pay-out in the amount of EUR 32,527 thousand i.e. EUR 5.00 gross per share [in 2015, dividends for the fiscal year 2014 were paid out in the amount of EUR 65,055 thousand or EUR 10.00 per share]. The residual part in the amount of EUR 9,726 thousand and is transferred to the next year.

Dividends were paid to the shareholders, which were two working days after the resolution's adoption by the company's General Meeting of Shareholders registered in the share register as stock holders with the right to dividends i.e. within 90 days after the adoption of this resolution at the General Meeting of Shareholders.

Proposed dividend pay-out for 2015

Amount of dividend paid: EUR 32,527,390.00

Dividend per ordinary share: EUR 5.00

Fair value reserve for financial instruments

Fair value reserve for financial instruments includes the change in the fair value of investments available for sale.

Change in the fair value of available-for-sale investments

EUR thousand	2016	2015
Balance at 1 Jan	943	954
Revaluation of available-for-sale investments (increase in value)	1	-14
Deferred taxes	0	3
Reclassification of revaluation of available-for-sale of investments to profit or loss	-300	0
Deferred taxes on reclassification of revaluation of available-for-sale of investments to profit or loss	51	0
Change in deferred taxes due to tax rate restatement	-17	0
Balance at 31 Dec	678	943

Reserves for actuarial deficits and surpluses

Reserve for actuarial surplus or deficit includes changes in the present value of payables to employees due to changed actuarial assumptions and on the basis experience-based adjustments.

As at the reporting date, it declined by EUR -435 thousand [2015: EUR -395 thousand] and as at 31 December 2016 amounted to EUR -1,982 thousand [2015: EUR -1,547 thousand].

Translation reserve

The translation reserve arises from foreign currency differences arising upon consolidation of financial statements of subsidiaries. In 2016, the translation reserve decreased by EUR -1 thousand and at the year-end of 2016 amounted to EUR -24 thousand [2015: -23 thousand].

27. Long-term deferred income

EUR thousand	2016	2015
Co-location billed in advance	7,366	6,603
Other long-term deferred income	3,428	3,871
Total long-term deferred income	10,794	10,474

Accrued co-locations relate to payments received in advance for renting certain premises and equipment to other operators.

28. Provisions

EUR thousand	2015	Increase in business combinations	Utilisation	Reversal	Formation	Change in discount rate	2016
Provisions for probable payments resulting from legal actions	20,689	0	-1,438	-2,030	2,987	0	20,208
Provisions for retirement benefits and jubilee premiums	11,340	30	-284	-405	774	195	11,650
Provisions for estimated costs of base stations removal	3,155	0	-9	1	66	232	3,445
Other provisions	1,264	0	-265	-623	189	0	565
Provisions for restructuring	7,544	0	-7,544	0	2,718	0	2,718
Total	43,992	30	-9,540	-3,057	6,734	427	38,586

EUR thousand	2014	Increase in business combinations	Utilisation	Reversal	Formation	Change in discount rate	2015
Provisions for probable payments resulting from legal actions	55,276	0	-30,255	-4,563	231	0	20,689
Provisions for retirement benefits and jubilee premiums	10,961	105	-464	-63	627	174	11,340
Provisions for estimated costs of base stations removal	3,032	0	-4	-7	24	110	3,155
Other provisions	1,730	0	-346	-412	292	0	1,264
Provisions for restructuring	7,300	0	-7,300	0	7,544	0	7,544
Total	78,299	105	-38,369	-5,045	8,718	284	43,992

Provisions for probable payments resulting from legal actions

Provisions for probable payments resulting from legal actions are created on the basis of the estimated outcome of the actions, conducted with great caution. The date of payment cannot be determined. The relevant actions refer among others to the alleged abuse of holding a controlling market position, where Telekom Slovenije conducts its business operations, for which the Competition Protection Office of the Republic of Slovenia [AVK] began several ex officio processes in previous years. Actions in relation to which provisions were formed are at various stages. The Group was primarily successful in cases that finally concluded up to this date, which is also published in accordance with the Stock Exchange's rules. On the basis of management's estimate and obtained legal opinions, provisions in the amount of EUR 20,208 thousand [2015: EUR 20,689 thousand] were formed.

Total damages claimed by pending legal actions brought against Telekom Slovenije Group companies amount to EUR 264,380 thousand [2015: EUR 308,629 thousand]; for more details refer to Note 37 Contingent liabilities.

Provisions for retirement benefits and jubilee premiums

Provisions for retirement benefits upon retirement are based on actuarial calculations. The calculations applied the discount rate of 1.75%, which equals the 2016 year-end yield on 15-year gilt-edged bonds from euro area issuers [2015: the discount rate was 2.15%]. The rate of fluctuation takes account of the age interval ranging from 0% to 3.5% [2015: discount rate ranged from 0% to 3.5%]. Liabilities recorded by individual Group companies equal their present value of estimated future payments.

Provisions for estimated costs of the removal of base stations

Provisions were formed in the amount of the estimated cost of removal discounted to present value by using the discount rate of 1.75% p.a. [2015: 2.15% p.a.] which equals the 2016 year-end yield on 15-year gilt-edged bonds from euro area issuers.

Provisions for restructuring activities

In 2016, the Group fully used provisions for restructuring the companies in the amount of EUR 7,544 thousand that were created in the previous reporting year. Pursuant to the business plan, the Group created provisions in the amount of EUR 2,718 thousand for restructuring activities that shall be used for severance pay. The relevant provisions will be reversed in 2017.

29. Non-current operating liabilities

EUR thousand	2016	2015
Contractual liabilities for software rights – TV contents	9,702	1,793
Microsoft licences	1,803	0
Other	67	263
Total non-current operating liabilities	11,572	2,056

Liabilities for software rights increased in 2016 due to new recognised contracts for ensuring TV-contents.

30. Interest-bearing borrowings

This note provides information about the contractual terms of the Group's interest-bearing borrowings. For more information relating to interest rate and foreign currency risk management refer to Note 40 Financial risk management.

EUR thousand	2016	2015
Long-term borrowings		
Borrowings from banks	156	5,604
Total long-term portion	156	5,604
Short-term borrowings		
Bank borrowings	0	50,500
Current maturity of long-term borrowings	304,378	30,222
Interest	1	25
Total short-term portion	304,379	80,747

Contractual provisions of long-term borrowings

EUR thousand	Long-term portion 31 Dec 2016	Short-term portion 31 Dec 2016	Agreed interest rate	Last payment due	Collateral
Long-term liabilities to banks	156	305.387	3-month EURIBOR + 0.083%	2017	unsecured
			3-month EURIBOR + 0.105%	2017	unsecured
			6-month EURIBOR + 1.65%	2023	blank bills of exchange
			6-month EURIBOR + 1.70%	2021	blank bills of exchange
			6-month EURIBOR + 1.60%	2018	blank bills of exchange
			6-month EURIBOR + 3.574%	2020	right of lien on the property

The Group records short-term credit lines or revolving loans, which are secured by blank bills of exchange. Short-term credit lines or revolving loans mature in 2017 and are subject to fixed or variable interest rates and a mark-up ranging from 0.90% to 3.00%. In addition, the Group concluded agreements with banks on bank-account overdrafts subject to an interest rate ranging from 1.60% to 3.8%. All borrowings from foreign and domestic banks are recorded in euro [EUR] and subject to variable interest rates.

Banks that have approved non-current loans require that Telekom Slovenije Group's financial ratios specified in loan agreements be maintained, including: share of servicing the debt, share of servicing the interest, the

debt/equity ratio, the net financial debt/EBIDTA ratio, the equity's share in the sum of total liabilities and equity, and the EBIDTA/finance costs ratio. Failure to achieve these covenants may result in a demand for early repayment of these borrowings. As at 31 December 2016, all financial covenants on the Group level were achieved. Solely one of the remaining contractual provisions was breached, hence the Group transferred the non-current liability of EUR 300,000 thousand as at 31 December 2016 to current liabilities. The lending banks already issued a waiver with respect to the breach provision.

31. Other non-current financial liabilities

EUR thousand	2016	2015
Bonds	99,857	0
Other	4	1,433
Total other non-current financial liabilities	99,861	1,433

Telekom Slovenije issued in June 2016 bonds in the par value of EUR 100,000 thousand with a fixed annual interest rate of 1.95% and the maturity on 10 June 2021. The total issue comprises 100,000 denominations per EUR 1,000. The interest are due for payment on an annual basis, whereby the par value in a full single amount. The bonds are valued at the amortised value by applying the effective interest rate of 1.994%.

32. Trade and other payables

EUR thousand	2016	2015
Trade payables	92,758	86,561
Payables to domestic operators	4,597	3,499
Payables to foreign operators	14,844	12,207
VAT and other tax payables	5,649	6,499
Payables to employees	8,615	10,069
Payables for advances and securities	1,188	1,076
Other payables	13,013	10,022
Total trade and other payables	140,664	129,933

Trade payables are non-interest bearing and are generally settled between 8 and 120 days. Payables to operators are non-interest bearing and are normally settled in an agreed-upon term between 10 and 90 days from the date of the invoice's issue.

33. Other current financial liabilities

EUR thousand	2016	2015
Liabilities under bonds issued	1,053	299,911
Other financial liabilities	3,277	3,283
Total other current financial liabilities	4,330	303,194

The bond issued by Telekom Slovenije in December 2009 at the par value of EUR 300,000 thousand was repaid in December 2016.

34. Short-term deferred income

EUR thousand	2016	2015
Deferred income from the sale of prepaid cards	6,087	6,902
Subscriptions billed in advance and short-term co-locations	1,621	1,832
Current portion of government grants for property, plant and equipment	234	123
Other deferred income	1,465	1,224
Total short-term deferred income	9,407	10,081

35. Accrued costs and expenses

EUR thousand	2016	2015
Accrued costs and expenses for services rendered and goods supplied	20,454	14,941
Accrued costs and deferred income – international services	12,833	10,272
Accrued wages and bonuses	2,301	1,132
Accrued costs for unused vacation days	4,245	4,170
Other	354	589
Total accrued costs and expenses	40,187	31,104

36. Carrying amounts and fair values

The note hereof contains data on the classification in terms of fair value hierarchy solely for financial assets and financial liabilities that are measured at fair value or those whose fair value is disclosed.

Carrying amounts and fair values of financial instruments as at 31 December 2016

EUR thousand	Carrying amount	Fair value	Level 1	Level 2	Level 3
Investment property	4,180	4,180			4,180
Non-current financial assets					
Available-for-sale financial assets	1,454	1,454	1,454		
Loans given	754	754			754
Current financial assets					
Loans given	474	474			474
Non-current financial liabilities					
Bonds	99,857	104,000	104,000		
Interest-bearing borrowings	156	156			156
Current financial liabilities					
Bonds	-42	-42			
Interest on bonds	1,095	1,095			1,095
Interest-bearing borrowings	304,379	304,379			304,379
Other financial liabilities	3,277	3,277			3,277

The Group did not have any transitions among the fair value levels in 2016.

Carrying amounts and fair values of financial instruments as at 31 December 2015

EUR thousand	Carrying amount	Fair value	Level 1	Level 2	Level 3
Investment property	5,021	5,021			5,021
Non-current financial assets					
Available-for-sale financial assets	1,453	1,453	1,453		
Loans given	6,364	6,364			6,364
Current financial assets					
Loans given	3,109	3,109			3,109
Non-current financial liabilities					
Interest-bearing borrowings	5,604	5,604			5,604
Other financial liabilities	1,433	1,433			1,433
Current financial liabilities					
Bonds	299,471	308,640	308,640		
Interest on bonds	440	440			440
Interest-bearing borrowings	80,747	80,747			80,747
Other financial liabilities	3,283	3,283			3,283

The respective table is exclusive of trade receivables and liabilities as they are explicitly of current nature and generally settled in less than 180 days.

Further, the table is exclusive of investments that are valued by the Group at cost. The value of these investments is as at 31 December 2016 recorded at EUR 969 thousand [2015: EUR 1,757 thousand].

Assets and liabilities whose fair values are not established are not grouped in any fair value category.

37. Contingent liabilities

Liabilities and receivables under the operating lease

Group companies as the lessee

Liabilities from operating leases include property, plant and equipment and primarily relate to leased lines, business premises leases and base stations leases.

Lease payments for cable lines abroad are formed with respect to the demand and offer and by taking account of framework fees that apply for domestic operators. Inter-operator leases in Slovenia are defined by published price lists. Long-term leases are subject to conclusion of contracts with a fixed-term period of maximum 15 years. Lease contracts for current leases are concluded for the period of 12 months with an automatic 1-month prolongation. The customer can cancel the contract or order in compliance with provisions of the contract or order. In case of premature cancellation, the customers are charged penalties.

Lease payments for business premises and base stations are defined on the basis of the lessor's price list. Lease contracts are concluded for an indefinite period of time or for 15 years with the possibility of prolongation if negotiated so by parties. Contracts concluded for an indefinite period can be terminated when following terms and conditions exist:

- the lessee can terminate the contract within 3 months in case the respective asset does not meet the technical requirements or is no longer required;
- the resolatory condition or if the lessee fails to obtain the permit for constructing the base station within the period of 2 years;
- the owner of the property can submit a consensual termination in case the local people are against the construction of the base station (after negotiations and providing clarification regarding the base station's working);

- the owner can terminate the contract without observing a notice period if the lessee destroys the building;
- a notice period of 3 to 12 months applies in case the lessee violates provisions of the concluded contract;
- the possibility of termination by the owner within 1 year pursuant to provisions of the Code of Obligations and the Office Buildings and Business Premises Act.

In case of significant lease contracts, where the leased objects could be sold, same terms and conditions for purchase apply for the Group as lessee.

Group companies as lessees

Payable in	2016	2015
• 1 year	21,583	17,709
• 1 to including 5 years	77,452	66,268
• more than 5 years	85,784	70,722

In 2016, the Group recorded in the income statement EUR 19,578 thousand (2015: EUR 19,372 thousand) of lease costs from operating lease contracts.

Group companies as the lessors

Receivables from operating leases relate to the lease of property, plant and equipment. They refer primarily to co-locations, lease of business premises and base stations. For the purpose of determining possible lease payments, sample contracts are provided for regular services whereby commercial tariffs are applied for unconventional services.

Group companies as lessors

Payable in	2016	2015
• 1 year	37,616	36,998
• 1 to including 5 years	143,089	144,847
• more than 5 years	177,881	179,747

The bases for lease payments are compiled on the same terms and conditions as when the Group acts as lessee. Lease contracts for joint use of premises, co-locations and base stations are concluded for an indefinite period of time. The period of notice is defined at 2 to 12 months.

As at 31 December 2016, total income from operating leases recognised in the income statement amounted to EUR 40,919 thousand (2015: EUR 39,366 thousand).

Contingencies from legal actions

EUR thousand	2016	2015
Contingencies from legal actions	264,380	308,629

At the reporting date, the Group recorded 70 (2015: 83) pending legal actions brought against it, whereof the largest three refer to T-2 (EUR 129,557 thousand), to Telemach or former Tušmobil (EUR 87,392 thousand) and SKY NET (EUR 33,047 thousand).

Based on the agreement made in February 2017, the exposure of Telekom Slovenije arising on legal actions will decline by EUR 87,392 thousand (Note 42 Events after the reporting date).

The relevant cases are at various stages, namely:

- in the business dispute filed by T-2 against Telekom Slovenije, the claim of T-2 was finally refused. T-2 filed revision against the judgement of the Higher Court in Ljubljana, yet the Supreme Court of the Republic of Slovenia has not yet ruled on that matter. The proposal of T-2 for renewing the closing proceedings was finally refused in 2016.
- Telemach (former Tušmobil) filed against Telekom Slovenije a claim for the payment of EUR 28,176 thousand, which was finally refused in the amount of EUR 26,784 thousand. As for the difference (i.e. EUR

1,392 thousand], the Higher Court in Ljubljana reversed the judgement and returned it to the District Court for a new trial with a new judge.

- as for the legal action filed by Telemach [former Tušmobil] against Telekom Slovenije due to the payment of EUR 86,000 thousand, proceedings are currently at the first instance level where charges are filed by both parties.
- in the business dispute of SKY NET against Telekom Slovenije regarding the payment of a compensation of EUR 25,960 thousand, the primary claim of SKY NET-a was finally refused. The District Court will in a new trial decide on a sub-ordinate claim i.e. implementation of a contract.
- in the business dispute of SKY NET against Telekom Slovenije regarding the implementation of a contract worth EUR 7,087 thousand, the District Court in Ljubljana has based on a decision merged the relevant legal action with the trial mentioned in the previous line; hence both are now conducted under the same case.

Based on the obtained legal opinions and the estimate of the management, the Group formed provisions for legal actions in the amount of EUR 20,208 thousand [Note 28 Provisions].

Given the proceedings' progress, it is difficult to provide an estimate of the completion of individual matter.

Guarantees issued

The Group provides following guarantees:

EUR thousand	2016	2015
Performance bonds and guarantees for repairs	7,142	4,725
Other securities	448	2,896
Total guarantees	7,590	7,621

Supporting letter given to the subsidiaries

The parent company Telekom Slovenije undertook in written form to ensure the companies TSmedia, IPKO Telecommunications and Antenna TV SL in the period up to 31 December 2017 financial support in a scope required to provide for adequate capital structure and solvency of the subsidiaries so that they can in due time settle all their due liabilities.

None of the stated liabilities meets the terms for recognition among balance sheet items. Thus, no related material consequences are expected.

38. Related party transactions

Related entities are individuals or companies that are linked to the Telekom Slovenije Group.

Transactions with individuals

Natural persons or individuals [the President and members of the Management Board, and the Chairman and members of the Supervisory Board members] hold a total of 1,542 shares in the Company, representing an equity holding of 0.02361%.

No loans were extended to related individuals in 2016.

Data on groups of persons

EUR thousand	Total gross receipts	Receipts as profit pay-outs based on the resolution of the Shareholders' Meeting	Loans	
			Unpaid portion at 31 Dec 2016	Repayments in 2016
Total Management Board members	713	-	-	-
• Rudolf Skobe	177	-	-	-
• Tomaž Seljak	164	-	-	-
• Aleš Aberšek	120	-	-	-
• Ranko Jelača	124	-	-	-
• Vesna Lednik	113	-	-	-
• Mateja Božič	14	-	-	-
Supervisory Board members	254	-	-	-
Members of Supervisory Board Committees	23	-	-	-
Other managers and staff employed under individual contracts that are not subject to the tariff part of the collective agreement	5,039	-	16	6

Loans to other managers and employees under individual employment contracts were approved at interest rates ranging from 4.01% to 4.13% p.a. with a repayment period of up to 15 years.

The Group has not granted any advances or guarantees to the respective groups of persons and does not record any write-offs or remitted amounts.

Remuneration paid to Management Board members (breakdown)

v EUR	Salary	Variable earnings*	Reimbursement of costs	Vacation bonus	Insurance premiums	Benefits	PDPZ	Total gross**	Total net***
Rudolf Skobe [1 Jan - 31 Dec]	141,012	21,200	2,321	1,100	721	8,210	2,819	177,383	75,255
Tomaž Seljak [1 Jan - 31 Dec]	141,012	9,994	2,146	1,100	721	6,292	2,819	164,084	71,214
Aleš Aberšek [15 Mar - 31 Dec]	106,063	-	1,228	825	2,742	6,900	2,114	119,872	48,164
Ranko Jelača [15 Mar - 31 Dec]	112,068	-	1,296	825	677	7,421	2,114	124,401	54,322
Vesna Lednik [1 Jan - 31 Dec]	98,702	2,499	1,289	1,100	721	5,709	2,819	112,839	49,685
Mateja Božič [1 Jan - 12 Jan]	4,529	9,445	43	-	61	169	89	14,336	6,519
Total	603,386	43,138	8,323	4,950	5,643	34,701	12,774	712,915	305,159

* Variable earnings refer to the performance bonus paid for previous years, namely:

- Rudolf Skobe: for 2013 and 2015

- Tomaž Seljak: for 2015, while for 2013 he received an annual bonus for holding the office as Division Manager

- Vesna Lednik: for 2015

- Mateja Božič: for 2013

** The total gross amount includes all types of employee benefits expense (reimbursement of costs), insurance premiums, benefits and voluntary supplementary pension insurance (PDPZ).

*** The total net amount comprises the sum of net earnings of Management Board members, inclusive of insurance premiums and benefits, which actually reduce the net earnings of Management Board members, and exclusive of PDPZ, which is remitted to the pension company.

Members of the Management Board did not receive any shares in profit, options, commissions or other earnings.

Liabilities to related parties

The company Telekom Slovenije d.d. records liabilities to related entities arising from earnings that have not yet been paid out (company's liabilities for performance bonuses for 2015) and amount as follows:

EUR thousand	Total amount of liabilities
Management Board members	11
Other managers and staff employed under individual contracts that are not subject to the tariff part of the collective agreement	0

Remuneration paid to Supervisory Board members (breakdown)

In EUR	Attendance fees	Basic payment for performing the job	Committees	Travel allowance	Liability insurance	Total gross*	Total net**
External members							
Borut Jamnik [1 Jan - 31 Dec]	4,345	28,000	2,655	0	322	35,322	25,455
Tomaž Berločnik [1 Jan - 31 Dec]	4,785	19,250	660	0	322	25,017	17,961
Adolf Zupan [1 Jan - 31 Dec]	5,020	22,400	1,980	1,221	322	30,943	22,271
Bernarda Babič [1 Jan - 31 Dec]	4,345	19,250	2,655	3,112	322	29,684	21,355
Marko Hočevar [1 Jan - 31 Dec]	3,920	21,000	3,080	0	322	28,322	20,364
Matej Golob Matzele [1 Jan - 12 May]	2,255	7,677	1,100	0	0	11,032	8,024
Dimitrij Marjanovič [13 May-31. Dec]	2,255	11,798	1,320	0	322	15,695	11,181
Notranji člani							
Primož Per [1 Jan - 31 Dec]	5,020	17,500	1,980	0	322	24,822	17,819
Samo Podgornik [1 Jan - 31 Dec]	5,060	17,500	660	0	322	23,542	16,888
Dean Žigon [1 Jan - 31 Dec]	4,345	22,400	2,655	0	322	29,722	21,383
Total	41,350	186,775	18,745	4,333	2,898	254,101	182,701

* The total gross amount includes the sum of all attendance fees, basic salaries for holding the office, payments by committees, including net earnings (travel allowance) and liability insurance.

**The total net amount represents the sum of net earnings of Supervisory Board members, inclusive of liability insurance, which actually reduces net earnings of Supervisory Board members, and travel expenses.

Members of the Supervisory Board received no other payments.

Remuneration of members of the Supervisory Board Committees [breakdown]

in EUR	Attendance fees	Basic payment for performing the job	Committees	Travel allowance	Liability insurance	Total gross*	Total net**
External members							
Barbara Nose [1 Jan - 31 Dec]	0	8,750	3,080	0	0	11,830	8,604
Mladen Kaliterna [1 Apr - 30 Apr]	0	583	660	0	0	1,243	904
Miha Kerin [1 Jul - 31 Dec]	0	3,500	660	0	0	4,160	3,026
Alenka Stanič [1 Apr - 30 Apr, 1 Jul - 31 Dec]	0	4,083	1,320	0	0	5,403	3,930
Total	0	16,916	5,720	0	0	22,636	16,464

* The total gross amount includes the sum of the basic salary for holding the office and payments by committees.

** The total net amount refers to net earnings of the Supervisory Board Committee member.

Transactions with owners and their related parties

The largest owner of Telekom Slovenije is the Republic of Slovenia, which together with the Slovenski državni holding (SDH) holds a 66.75% share in the company Telekom Slovenije d.d.

Companies related to the owners are those, in which the Republic of Slovenia and the SDH hold in total at least a share of 20%. The list of these companies is published on the web site of SDH (<http://www.sdh.si/sl-si/upravljanje-nalozb/seznam-nalozb>).

Total value of transactions is outlined in the table below.

Receivables and liabilities

EUR thousand	2016	2015
Outstanding operating receivables	1,615	1,823
Outstanding operating liabilities	1,036	1,003

Income and expenses

EUR thousand	2016	2015
Operating income	14,809	8,101
Purchase costs of material and services	7,383	7,878

Related party transactions are carried out by applying the market prices.

39. Auditor's fee

EUR thousand	2016	2015
Auditor's fee	111	166
Other services of providing assurance	14	4
Other non-audit services	6	1
Total auditor's fee	131	171

Costs hereunder include the fee for the auditor of Telekom Slovenija Group's annual report of. In 2016, Telekom Slovenije had additional costs in connection with non-audit services rendered by the network of KPMG audit companies in the amount of EUR 160 thousand (2015: EUR 32 thousand).

40. Financial risk management

The most significant among financial risks are the credit risk, the long-term and short-term liquidity risk, and the interest-rate risk. Exposure to individual risks and measures for their management is conducted by the Telekom Slovenije Group on the basis of effects on cash flows and finance costs. Exposure to foreign currency risk is estimated as low, hence solely natural hedging methods are applied for balancing the risks. The most significant financial risks, which are assessed in line with the adopted policy on an ongoing basis as well as the adequacy of measures adopted for their management, are outlined below.

Credit risk

Credit risk is the risk that one party to a contract will fail to settle its liabilities and cause the other party to incur a financial loss.

The maximum exposure to credit risk equals the carrying amount of financial assets that as at 31 December 2016 amounts as follows:

Credit risk exposure

EUR thousand	31 Dec 2016	31 Dec 2015 restated*
Loans given	1,228	9,473
Other current investments	119,196	100,247
Trade and other receivables	150,823	150,962
• whereof trade receivables	142,077	144,130
Cash and cash equivalents	42,554	10,614
Total	313,801	271,296

* Adjustments are outlined in point e. Changes in accounting policies and retrospective restatement, in Section 2 Basis of preparation.

The credit risk or failure to meet obligations by the counter-party refers to non-payment of liabilities by customers (retail sale) and by operators (wholesale). Trade receivables represent the highest exposure to credit risk. They amounted as at 31 December 2016 to EUR 142,077 thousand and indicate a decline over 2015 by EUR 2,053 thousand. Most of Group's trade and other receivables refer to Telekom Slovenije d.d.

The Group companies introduced various procedures for managing receivables that include the monitoring of business partners' credit rating, collateralisation of receivables, the monitoring of subscribers' traffic, and the collection of bad debts. The collection procedure is conducted according to pre-defined time schedule, whereby the external collection is carried out via specialised agencies. To enter or change a subscription, purchase goods and defer of payment requires in Telekom Slovenije a preliminary authorisation. As an additional measure for managing credit risk, the larger Group companies implemented systems to prevent frauds i.e. Fraud Management System (FMS), and those with a higher number of post-paid customers also the Credit Management System (CMS) was introduced.

As the result of introduced procedures for managing receivables and creating allowances, the Group assesses credit risk as manageable.

The Telekom Slovenije Group monitors the credit risk also on other segments of business operations. Bank balances are allocated by the principle of minimising risks and observing proper dispersal of investments. Cash surplus is allocated also within the Group in compliance with the financial requirements. The Group is also exposed to risk in relation to deferred sale of the investment in the company ONE.VIP and loans given to third parties and employees. Loan-related risk is managed by means of diverse insurance instruments in loan contracts such as right of lien on real properties and assets, withdrawal from existing and future receivables, pledges on equity interests, suretyship statements and other adequate forms of insurance.

EUR thousand	31 Dec 2016			31 Dec 2015		
	Gross value	Allowance	Net value	Gross value	Allowance	Net value
Total trade receivables	185,803	-43,726	142,077	185,136	-41,006	144,130
Undue trade receivables	122,392	-4	122,388	122,267	-17	122,250
Due						
less than 30 days	11,768	-6	11,762	13,671	-8	13,663
31 to and including 60 days	4,113	-7	4,106	3,739	-14	3,725
61 to and including 90 days	1,384	-18	1,366	1,511	-36	1,475
91 to and including 120 days	1,042	-644	397	1,880	-408	1,472
more than 121 days	45,105	-43,047	2,058	42,068	-40,523	1,545
Total due trade receivables	63,411	-43,722	19,690	62,869	-40,989	21,880
Other trade receivables	8,753	-7	8,746	6,839	-7	6,832
Total receivables	194,555	-43,733	150,823	191,975	-41,013	150,962

Maturity profile of loans and borrowings

EUR thousand	31 Dec 2016	31 Dec 2015
Due	60	60
Undue:	1,168	9,413
• less than 3 months	86	566
• 3 to 12 months	328	2,483
• 1 to 2 years	322	5,612
• 2 to 5 years	319	640
• more than 5 years	113	112
Total	1,228	9,473

Aging structure of loans given as at 31 December 2016

EUR thousand	Undue	Past due					Total
		Less than 3 months	3 to 12 months	1 to 2 years	2 to 5 years	More than 5 years	
Loans given	1,168	18	13	0	29	0	1,228

Aging structure of loans given as at 31 December 2015

EUR thousand	Undue	Past due					Total
		Less than 3 months	3 to 12 months	1 to 2 years	2 to 5 years	More than 5 years	
Loans given	9,413	30	0	30	0	0	9,473

Short-term and long-term liquidity risk

Group's liquidity is the result of an active planning and managing of cash flows, provision of adequate maturity and financial debt dispersal, the financing within the Group, and the optimisation of the working capital and cash. The liquidity risk is on the Group level managed by the parent company, which plans and monitors the cash requirements of subsidiaries and provides them the necessary funds. Short-term imbalance in cash flows is regulated by means of short-term revolving lines bank overdrafts. The total liquidity reserve in form of short-term revolving lines and bank overdrafts amounted as at 31 December 2016 to EUR 105.5 million.

A relative low indebtedness is disclosed on the Group level, which is a good basis for achieving an adequate credit rating and thereby lower cost of borrowing. Most of Group's financial liabilities refer to the long-term syndicated loan in the amount of EUR 300 million and the issue of bonds at EUR 100 million.

Upon their maturity in December 2016, the company repaid the liabilities arising on the issue of bonds in the amount of EUR 300 million. The liabilities were refinanced by means of a long-term syndicated loan in the equal amount. The loan agreement was signed in March 2016. Accordingly, Telekom Slovenije prematurely ensured the required funds and thereby eliminated the risk of refinancing and took advantage of favourable borrowing conditions on the bank market.

In compliance with requirements of the applicable accounting standards, liabilities arising on loans and borrowings were at the year-end of December 2016 classified in accounting records as current liabilities, due to breach of provisions of a loan contract. The lending banks issued a waiver to the Company in February 2017, thus no risks in this relation exist.

In June 2016, Telekom Slovenije issued new bonds on the domestic market in the amount of EUR 100 million for the purpose of financing investments and thereby additionally improved the financing source structure. The related risks accordingly declined.

Maturity profile of Group's liabilities as at 31 December 2016 and 31 December 2015 based on contractual undiscounted payments

EUR thousand	Past due	On demand	Less than 3 months	3 to 12 months	1 to 2 years	2 to 5 years	More than 5 years	Total
2016								
Loans and borrowings	0	0	0	305,450	0	156	0	305,606
Anticipated interest on loans	0	0	0	4,941	0	0	0	4,941
Other financial liabilities	3,267	0	0	1,105	4	100,000	0	104,376
Anticipated interest 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
2015								
Loans and borrowings	0	0	72,606	8,141	5,449	155	0	86,351
Anticipated interest on loans	0	0	120	23	0	0	0	143
Other financial liabilities	198	0	3,059	299,937	1,419	0	14	304,627
Anticipated interest on bonds	0	0	0	14,625	0	0	0	14,625
Trade payables	36,404	1,137	82,310	10,082	1,250	806	0	131,989
Total	36,602	1,137	158,095	332,808	8,118	961	14	537,735

Interest-rate risk

Interest-rate risk is the risk of the negative impact of changes in market interest rates on the results of the Group's operations. As at the reporting date, the Group's interest rate exposure arises from the possible increase of the Euribor reference interest rate as the Group records more interest sensitive liabilities than investments.

The Telekom Slovenije Group observes the target rate between the variable interest-bearing and fixed-interest bearing or hedged financial liabilities, which lies around 50% of the debt with the fixed or hedged interest rate.

In the structure of Group's interest-bearing financial liabilities, the liabilities relating to borrowings and the finance lease, which bear the variable interest rates of 3- and 6-month Euribor, account as at 31 December 2016 a share of 75.3%. The remaining liabilities arising on bonds issued are subject a fixed interest rate.

The interest-rate exposure was in 2016 not hedged as Telekom Slovenije draw the borrowing of EUR 300 million (which in the structure of interest-sensitive financial liabilities accounts for a 98.2 percent share) in the second half of December 2016. The interest-rate hedging under this borrowing was concluded in 2017, namely in the amount of 2 tranches i.e. 7-year basis (EUR 100 million) and 5-year basis (EUR 100 million), for the entire duration of each individual tranche.

Interest rate exposure

EUR thousand	2016	2015
Financial instruments at variable interest rate		
Financial receivables*	561	19,732
Financial liabilities	305,618	86,367
Net financial receivables/liabilities	305,058	66,635

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

The table is exclusive of non-interest bearing financial instrument and instruments bearing the fixed interest rate, as they are not exposed to interest rate risk.

Sensitivity analysis

The following table illustrates the sensitivity analysis of the changed interest rate as at the reporting date on the Group's profit before tax, whereby all other variables are constant.

Interest-rate risk

	Increase/decrease in basic interest rate	Effect on profit or loss before tax (EUR thousand)
2016		
EUR0	+100 bp	-3,051
EUR0	-100 bp	3,051
2015		
EUR0	+100 bp	-666
EUR0	-100 bp	666

The EURIBOR reference interest rate is not expected to significantly increase in 2017.

EURIBOR interest rate

EURIBOR	Value at 31 Dec 2015	Value at 31 Dec 2016	Change of interest rate (in %)
3-month	-0.132	-0.319	-141.67
6-month	-0.042	-0.221	-426.19

Capital management

The capital adequacy primarily aims at capital adequacy and consequently Group's long-term liquidity and financial stability, which ensures the best possible credit rating for the further financing of Group's operations and development and thereby maximising shareholder value.

The Group monitors changes in equity by using a debt/equity ratio and equity interest/ balance sheet total ratio. The Group's net debt includes interest-bearing borrowings and other financial liabilities less current investments and cash. In addition, the Group observes also financial covenants under loan contract while adopting decisions relating to capital management

EUR thousand	2016	2015 restated*
Interest-bearing borrowings and other financial liabilities	408,726	390,978
Less current investments and cash with short-term deposits	-162,224	-113,970
Net debt	246,502	277,008
Equity	705,862	701,727
Balance sheet total	1,367,419	1,321,567
Debt/equity ratio	34.9%	39.5%
Equity/balance sheet total ratio	51.6%	53.1%

* Adjustments are outlined in point e. Changes in accounting policies and retrospective restatement, in Section 2 Basis of preparation.

41. General authorisation and the rights to use radio frequency and block numbers

Fixed-line and mobile operations

The Group has a general authorisation for providing the electronic communications network or electronic communication services. Prior to the commencement of the provision of public communication networks or services, notification must be given in writing to the Agency for Communication Networks and Services [hereinafter: the Agency]. An undertaking is not required to obtain an explicit decision or any other administrative act by the national regulatory authority before exercising the rights stemming from the authorisation

The Group is obliged to pay an annual compensation in the amount of EUR 545 thousand (2015: EUR 893 thousand) in connection with following electronic communication services:

- public voice services in the fixed public telecommunications network,
- voice services in the public mobile network,
- inter-operator services and transit,
- data-related services and internet access,
- lease of public communication network, and
- provisions of public communication networks.

The amount of the fee paid is defined by a tariff in a general act of the Agency.

Group companies on an annual basis pay right-of-use fees for radio frequencies, for telephony numbering space, and other rights for rendering fixed-line and mobile operations.

The total amount of compensations is in 2016 recorded at EUR 8,861 thousand (2015: EUR 9,749 thousand).

Group's concessions for mobile phone services

Concession agreement	Starting date	Period	Concession fee
Concession agreement for use of the radio frequency spectrum for rendering services UMTS/IMT-2000	27 November 2001	until 21 September 2021	Initial amount of the compensation at EUR 91,804 thousand
Concession agreement for use of the radio frequency spectrum for mobile services GSM 900	3 April 2013	until 3 January 2016	Initial amount of the compensation at EUR 4,302 thousand
Decision on allocating the radio frequencies for LTE 800 MHz, UMTS 2100 MHz	26 May 2014	from 31 May 2014 to 31 May 2029	Initial amount of the compensation at EUR 26,835 thousand
Decision on allocating the radio frequencies for GSM 900 in 1800 MHz, LTE 2600 MHz	26 May 2014	from 4 January 2016 to 4 January 2031	Initial amount of the compensation at EUR 37,705 thousand
Concession agreement for the set-up, maintenance and operation of the other GSM generation in the mobile network on the territory of Kosovo	6 March 2007	until 5 March 2022	Initial amount of the compensation at EUR 75,000 thousand
Concession obtained on the basis of the decision 726 AKREP (2 x 10 Mhz to 1800Mhz) for the territory of Kosovo	6 December 2015	until 30 July 2019	Initial amount of the compensation at EUR 5,926 thousand

42. Events after the reporting date

January

The credit rating agency S&P Global Ratings gave Telekom Slovenije a long-term credit rating of BB+, assessed the future prospects as stable. The credit rating agency S&P estimates that Telekom Slovenije, which copes on the domestic market with strong competition and pressure on its prices and margins, will keep its market position with further investments in the network's development and that the company's business operations will remain stable also in the future.

February

A number of banks, as required based on a contract, issued as at 14 February 2017 a waiver from one contractual provision in the loan contract relating to a borrowing of EUR 300,000 thousand.

As at 27 February 2017, Telekom Slovenije signed with Telemach an agreement on settling mutual relations. The relevant agreement serves for settling outstanding matters, so that the companies no longer record liabilities arising on disputed relationships. Telekom Slovenije shall not disclose details of the signed agreement.

March

As of 1 March 2017, Simon Furlan, MSc, is the head of Blicnet. Simon Furlan, MSc, previously the Marketing Director of Telekom Slovenije, was appointed by the company Supervisory Board to a two-year term office of the Managing Director of Blicnet. On 1 March 2017 the previous Managing Director of Blicnet, Igor Bohorč, MSc, took up the position of the Director of B2B strategic business unit at Telekom Slovenije.

3.2.3 Independent Auditor's Report



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Independent Auditor's Report¹

To the owners of Telekom Slovenije, d.d.

Opinion

We have audited the consolidated financial statements of the Telekom Slovenije d.d. and its subsidiaries («the Group»), which comprise the consolidated statement of financial position as of 31 December 2016, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of cash flows, and the consolidated statement of changes in equity for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements give true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union ("IFRS as adopted by the EU").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibility for the Audit of consolidated Financial Statements* section of our report. We are independent of the Group in accordance with both the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the consolidated financial statements in Slovenia and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KPMG Slovenija, podjetje za revidiranje, d.o.o., slovenska družba
z omejeno odgovornostjo in članica KPMG mreže neodvisnih družb
člane, ki so povezane s finančnim združenjem KPMG International
Cooperative ("KPMG International")

TRR: SI 56 2500 0000 1851 102
vpis v sodni register: Okrožno sodišče v Ljubljani
Št. reg. vr: 061/12062100
osnovni kapital: 54.802,00 EUR
ID za DDV: SI20437145
matična št.: 5648556



Revenue recognition

Revenue for the year ended 31 December 2016; EUR 701.748 thousand (31 December 2015: EUR 728.279 thousand).

We refer to the financial statements: Note 3.2.2 point 3.u Revenues (accounting policy) and Note 3.2.2 point 7 (disclosure note).

Key audit matter	Our response
<p>The Group's core revenue streams relate to mobile and fixed services on a retail market and to wholesale market (such as: network interconnection, inter-operator services, broad-band access).</p> <p>Products and services from different revenue streams are contracted within single arrangements (bundled). Different products and services within such arrangements can be treated differently under relevant accounting standards (e.g. leasing arrangements, principle vs. agent considerations). Given the requirement of the relevant accounting standards to unbundle multiple elements within complex contractual arrangements, significant judgment is required in determining the appropriate measurement and timing of revenue.</p> <p>Also complex billing systems are used to process and record high volume of individually low value transactions. Due to that fact, and also in view of changing pricing models, tariff structures and incentives, the accuracy of revenue amounts recorded is an inherent industry risk.</p> <p>Significant risk is also associated with the application of revenue recognition accounting in respect of transactions executed outside of the normal billing process, such as revenue arising from the wholesale market.</p> <p>In view of the above-mentioned factors, we consider revenue recognition to be a key risk in our audit.</p>	<p>Our audit procedures included, among others:</p> <ul style="list-style-type: none"> • Using our own IT specialists, testing of controls over the billing systems including those controls over access rights, set-up of customer accounts, pricing data and rate changes, segregation of duties, and the linkage to usage data that drives revenue recognition; • Assessing the appropriateness of the Group's revenue recognition policy for all core products and services against the relevant accounting standards; • Testing reconciliation from billing systems to the general ledger; • For a sample of contracts, which typically represent key revenue streams, entered into during the year: <ul style="list-style-type: none"> • challenging the Group's identification of revenue components; • assessing management's judgement used to determine the appropriate allocation of contract consideration in multiple-element arrangements; • critically assessing the Group's judgments with regards to accounting for specific elements of analyzed contracts, such as lease arrangements, agency relationships, and timing of revenue recognition. • Inspecting manual journal entries posted to revenue accounts as well as the underlying documentation with particular focus on the journal entries after the balance sheet date.



Provisions for legal and administrative proceedings and contingent liabilities

The carrying amount of provisions for legal and administrative proceedings as at 31 December 2016: EUR 20.208 thousand (31.12.2015: EUR 20.689 thousand); contingent liabilities with regards to legal and administrative proceedings as at 31 December 2016: EUR 264.380 thousand (31.12.2015: EUR 308.629 thousand).

We refer to the financial statements: Note 3.2.2 point 3.p Provisions (accounting policy), Note 11 Other operating expense, Note 28 Provisions and Note 37 Contingent liabilities (disclosure notes).

Key audit matter	Our response
<p>In the normal course of the Group's business, potential exposures may arise from legal and regulatory proceedings.</p> <p>As discussed in Note 28 Provisions and in Note 37 Contingent liabilities, as at 31 December 2016, the Group's most significant exposure related to the regulatory proceeding before the Competition Protection Office of the Republic of Slovenia regarding the alleged abuse of the monopoly position on some of the markets in which the Group conducts its operations. Related court actions were also brought against the Group by Telemach and T-2. Other significant exposure relates to SKY NET disputes.</p> <p>Whether a liability is recognized or contingent liability is disclosed in the financial statements is inherently uncertain and is dependent on a number of significant assumptions and judgments exercised by the Group. The amounts involved are potentially significant and determining the amount, if any, to be recognized or disclosed in the financial statements, is inherently subjective.</p>	<p>Our audit procedures included, among others:</p> <ul style="list-style-type: none"> • Reading minutes of the meetings of the supervisory board, audit committee and the management board and also inspecting correspondence with regulators; • Attending the year-end supervisory board meeting where the status of ongoing proceedings was presented by the Group's external lawyers; • Obtaining and evaluating the external lawyers' responses to our audit inquiry letters and discussing selected matters with the lawyers, including proceeding before the Competition Office of the Republic of Slovenia and disputes with Telemach, T-2 and SKY-NET; • Using our internal legal specialists, critically assessing the Group's assumptions and estimates in respect of claims, including the liabilities recognized or contingent liabilities disclosed in the financial statements. This involved assessing management's estimates of the probability of an unfavorable outcome of a given proceeding and the reliability of management's estimates of the related obligation; • Where applicable, assessing whether the Group's position to present limited disclosures, as allowed by relevant financial reporting standards, is appropriate.



Carrying amounts of property, plant and equipment

The carrying amount of property, plant and equipment (PPE) as at 31 December 2016: EUR 690.140 thousand (31 December 2015: EUR 721.080 thousand); impairment loss recognized in 2016: EUR 1.486 thousand.

We refer to the financial statements Note 3.2.2 point 3.e Property, plant and equipment (accounting policy), Note 11 Other operating expense and Note 16 Property, plant and equipment (disclosure notes).

Key audit matter	Our response
<p>Property, plant and equipment, comprised primarily of land, buildings, cable network, cables and lines, represent a significant part of the total assets reported in the statement of financial position. As the Group operates in the industry characterized by rapid technological progress and constantly changing market conditions, the key aspects of accounting for property, plant and equipment include the determination of the useful lives of these assets, the identification of potential impairment indicators and measurement of the related recoverable amounts.</p> <p>Estimated useful lives are reviewed by the Group annually taking into consideration various market and technical factors which may affect the useful life expectancy of the assets and therefore could have a material effect on any impairment charges or the depreciation charge for the year.</p> <p>Assets are reviewed for impairment either on a stand-alone basis or as part of a wider cash-generating unit (CGU), using either a value in use or fair value less costs to sell model. The outcome of these impairment reviews could vary significantly if different assumptions were applied in the model.</p> <p>Further, the carrying amount of the Group's net assets as at 31 December 2016 exceeded its market capitalization, which represents an impairment indicator for non-financial assets under relevant accounting standards.</p> <p>Due to the factors presented above, this area considered by us to be associated with a significant audit risk.</p>	<p>Our procedures included, among others:</p> <ul style="list-style-type: none"> Assessing and testing internal controls designed to identify impairment indicators in respect of PPE and the controls over the annual review of asset lives; Challenging the reasonableness of the estimates made in respect of asset lives by means of inquiries of the Group's technical and engineering personnel and considering our knowledge of the business and practice in the telecoms industry; Evaluating the appropriateness of the Group's judgments regarding allocation of assets to CGUs and identification of assets or CGUs which may be impaired; Where an asset or a CGU required impairment testing, critically assessing the Group's assumptions and estimates, applied to determine the assets' or CGUs' recoverable amounts, using our internal valuations specialists. Our assessment covered, among other things: <ul style="list-style-type: none"> evaluating the appropriateness of the valuation technique used for the assets in question; assessing competence and objectivity of external valuation experts engaged by the Group; challenging the reasonableness of the assumptions applied by external valuation experts, such as growth rates, country risk rates and WACC; evaluating the historic reliability of the Group's forecasts by comparing actual performance against previous forecasts. Evaluating the Group's analysis of the sensitivity of the impairment tests' results to changes in key assumptions.



	<ul style="list-style-type: none">• Assessing the adequacy and appropriateness of the Group's disclosures related to the significant judgments and the sensitivity of the outcome of the impairment assessment to changes in key assumptions.
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Other Information

Management is responsible for other information. The other information comprises the "About the Telekom Slovenije Group" and Business Report included in the Annual report, but does not include the consolidated financial statements and our auditor's report thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the Business Report, we have considered whether the Business Report includes the disclosures required by the Company's Act (hereafter referred to as "the applicable legal requirements").

Based solely on the work required to be undertaken in the course of the audit of the consolidated financial statements and the procedures above, in our opinion:

- the information given in the Business Report for the financial year for which the consolidated financial statements are prepared, is consistent with the consolidated financial statements; and
- the Business Report has been prepared in accordance with the applicable legal requirements.

In addition, in light of the knowledge and understanding of the Group and its environment in which it operates, obtained in the course of our audit, we are required to report if we have identified material misstatements in the Business Report and other information. We have nothing to report in this respect.

Responsibility of Management and Supervisory Board for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the IFRS as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using of the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board is responsible for overseeing the Group's financial reporting process.



Auditor's Responsibility for the Audit of Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.]

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

On behalf of the auditing company

KPMG SLOVENIJA,
podjetje za revidiranje, d.o.o.

Damjan Ahčin, FCCA
Certified auditor

Katarina Sitar Šuštar, MBA
Certified auditor
Partner

Ljubljana, March 2, 2017

KPMG Slovenija, d.o.o.
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¹ The Independent Auditor's Report hereof is a translation of the original Independent Auditor's Report in Slovene, issued on the financial statements and the notes thereto in Slovene and is not to be signed. This translation is provided for reference purposes only.

3.3 ACCOUNTING REPORT OF TELEKOM SLOVENIJE, D.D.

3.3.1 Separate Financial Statements of Telekom Slovenije, d.d.

Separate Income Statement of Telekom Slovenije, d.d. as at 31 December 2016

EUR thousand	Note	2016	2015 restated*
Revenue	5	639,471	634,105
Other operating income	6	6,963	13,796
Cost of goods sold		-69,186	-68,543
Cost of material and energy		-10,433	-10,825
Cost of services	7	-285,864	-279,730
Employee benefits expense	8	-96,896	-105,907
Amortisation and depreciation expense	13, 14, 18	-134,946	-123,897
Other operating expenses	9	-16,765	-9,620
Total operating expenses		-614,090	-598,522
Profit from operations		32,344	49,379
Finance income	10	30,710	37,238
Finance costs	10	-29,364	-42,566
Profit before tax		33,690	44,051
Current Income tax expense	11	0	0
Deferred tax benefit (expense)	11	6,770	4,258
Profit for the period		40,460	48,309
Earnings per share – basic and diluted (in EUR)	12	6.22	7.43

* Adjustments are outlined in point e. Changes in accounting policies and retrospective restatement, in Section 2 Basis of preparation.
Notes on pages from 240 to 300 are a constituent part of these financial statements.

Separate Statement of Other Comprehensive Income of Telekom Slovenije, d.d. as at 31 December 2016

EUR thousand	Note	2016	2015 restated*
Profit for the period		40,460	48,309
Other comprehensive income that may be reclassified subsequently to profit or loss			
Change in fair value of actuarial deficits and surpluses		-355	-445
Change in fair value of available-for-sale investments	24	1	-14
Deferred tax	11	0	3
Change in reclassifying the fair value of available-for-sale investments to profit or loss	24	-300	0
Deferred tax on reclassifying the fair value of available-for-sale investments to profit or loss	11	51	0
Change in deferred tax due to recalculation of the tax rate	11	-17	0
Change in fair value of available-for-sale investments (net)		-265	-11
Other comprehensive income for the period, net of tax		-620	-456
Total comprehensive income for the period		39,840	47,853

* Adjustments are outlined in point e. Changes in accounting policies and retrospective restatement, in Section 2 Basis of preparation.
Notes on pages from 240 to 300 are a constituent part of these financial statements.

Separate Balance Sheet of Telekom Slovenije, d.d. as at 31 December 2016

EUR thousand	Note	31 Dec 2016	31 Dec 2015 restated*	1. Jan 2015 restated*
ASSETS				
Intangible assets	13	161,775	133,556	136,608
Property, plant and equipment	14	590,826	617,867	644,877
Investments in subsidiaries	15	33,371	49,224	45,781
Investments in joint ventures	15	63	65	65
Other investments	16	126,468	134,088	138,048
Other non-current assets	17	33,272	32,380	32,549
Investment property	18	4,180	5,021	4,076
Deferred tax assets	11	35,656	28,105	23,363
Total non-current assets		985,611	1,000,306	1,025,367
Assets held for sale	19	1,818	914	80,788
Inventories	20	19,258	22,552	25,549
Trade and other receivables	21	145,198	142,550	148,172
Short-term deferred costs and accrued income	22	45,443	35,081	31,411
Income tax credits		125	0	22
Current investments	16	132,526	111,769	8,504
Cash and cash equivalents	23	34,448	5,020	19,032
Total current assets		378,816	317,886	313,478
Total assets		1,364,427	1,318,192	1,338,845
EQUITY AND LIABILITIES				
Called-up capital	24	272,721	272,721	272,721
Capital surplus	24	180,956	180,956	180,956
Revenue reserves	24	237,272	217,042	217,042
Legal reserves		50,434	50,434	50,434
Treasury share reserve		3,671	3,671	3,671
Treasury shares and interests		-3,671	-3,671	-3,671
Statutory reserves		54,544	54,544	54,544
Other revenue reserve		132,294	112,064	112,064
Retained earnings		36,256	49,063	65,770
Retained earnings from previous periods		16,026	754	43,507
Profit for the period		20,230	48,309	22,263
Fair value reserve	24	-1,150	-521	-65
Total equity and reserves		726,055	719,261	736,424
Long-term deferred income	25	9,869	9,523	10,572
Provisions	26	35,992	40,652	74,740
Non-current operating liabilities	27	11,401	2,056	5,150
Interest-bearing borrowings	28	0	5,387	35,547
Other non-current financial liabilities	29	99,857	0	302,530
Deferred tax payables	11	159	193	196
Total non-current liabilities		157,278	57,811	428,735
Trade and other payables	30	125,937	120,163	117,850
Interest-bearing borrowings	28	306,316	82,637	23,703
Other current financial liabilities	31	4,320	303,167	64
Short-term deferred income	32	4,610	4,926	7,279
Accrued costs and expenses	33	39,911	30,227	24,790
Total current liabilities		481,094	541,120	173,686
Total liabilities		638,372	598,931	602,421
Total equity and liabilities		1,364,427	1,318,192	1,338,845

* Adjustments are outlined in point e. Changes in accounting policies and retrospective restatement, in Section 2. Basis of preparation.
Notes on pages from 240 to 300 are a constituent part of these financial statements

Separate Statement of Changes in Equity of Telekom Slovenije, d.d. as at 31 December 2016*

EUR thousand	Called-up capital	Capital surplus	Revenue reserves				Retained earnings		Fair value reserve for financial instruments	Reserve for actuarial deficits and surpluses	Total
			Legal reserves	Treasury share reserve	Treasury shares	Statutory reserves	Other revenue reserves	Retained earnings from previous periods			
Balance at 1 Jan 2016	272,721	180,956	50,434	3,671	-3,671	54,544	112,064	754	48,309	-1,464	719,261
Profit for the period								40,460			40,460
Other comprehensive income for the period									-265	-355	-620
Total comprehensive income for the period	0	0	0	0	0	0	0	0	40,460	-355	39,840
Dividends paid								-32,527			-32,527
Transactions with owners	0	0	0	0	0	0	0	-32,527	0	0	-32,527
Transfer of profit or loss from previous period to retained earnings or losses								48,309	-48,309		0
Increase in business combinations								-510		-9	-519
Transfer to other reserves pursuant to Management's decision							20,230		-20,230		0
Balance at 31 Dec 2016	272,721	180,956	50,434	3,671	-3,671	54,544	132,294	16,026	20,230	-1,828	726,055

*More details in Note 24

Separate Statement of Changes in Equity of Telekom Slovenije, d.d. as at 31 December 2015

EUR thousand	Called-up capital	Capital surplus	Revenue reserves				Retained earnings		Fair value reserve for financial instruments	Reserve for actuarial deficits and surpluses	Total
			Legal reserves	Treasury share reserve	Treasury shares	Statutory reserves	Other revenue reserves	Retained earnings from previous periods			
Balance at 1 Jan 2015 - initially reported	272,721	180,956	50,434	3,671	-3,671	54,544	112,064	43,507	954	-1,019	731,999
Impact of the changed accounting policy								4,425			4,425
Balance at 1 Jan 2015 restated*	272,721	180,956	50,434	3,671	-3,671	54,544	112,064	43,507	954	-1,019	736,424
Profit for the period								48,309			48,309
Other comprehensive income for the period									-11	-445	-456
Total comprehensive income for the period	0	0	0	0	0	0	0	0	-11	-445	47,853
Dividends paid								-65,055			-65,055
Transactions with owners	0	0	0	0	0	0	0	-65,055	0	0	-65,055
Transfer of profit from previous period to retained earnings								22,263			0
Other								39			39
Balance at 31 Dec 2015 restated*	272,721	180,956	50,434	3,671	-3,671	54,544	112,064	754	943	-1,464	719,261

* Adjustments are outlined in point e. Changes in accounting policies and retrospective restatement, in Section 2. Basis of preparation.
Notes on pages from 240 to 300 are a constituent part of these financial statements

Separate Statement of Cash Flows of Telekom Slovenije, d.d. as at 31 December 2016

EUR thousand	Note	2016	2015 restated*
Cash flows from operating activities			
Profit before tax		40,460	48,309
Adjustments for:			
Depreciation and amortisation expense	13, 14, 18	134,946	123,897
Impairment and write-offs of property, plant and equipment, intangible assets, and investment property		2,163	1,059
Gain or loss on disposal of property, plant and equipment		523	-3,986
Finance income	10	-30,710	-37,239
Finance costs	10	29,364	42,567
Tax on profit with deferred taxes	11	-6,770	-4,258
Cash flows from operating activities prior to changes in current operating assets and provisions		169,976	170,349
Change in trade and other receivables	21	956	4,580
Change in deferred costs and accrued income	22	-11,388	-2,628
Change in other non-current assets	17	885	-776
Change in inventories	20	3,786	2,997
Change in provisions	26	-4,783	-34,088
Change in long-term and short-term deferred income	25, 32	-135	-3,403
Change in accrued costs and expenses	33	9,494	5,437
Change in trade and other payables	30	15,334	1,464
Income tax paid		-126	-199
Net cash from operating activities		183,999	143,733
Cash receipts from investing activities			
Receipts from investing activities		34,842	76,330
Proceeds from sale of property, plant and equipment		635	5,098
Proceeds from sale of investment property		195	0
Dividends received		168	234
Interest received		6,563	9,498
Gross proceeds from non-current investments		26,747	61,285
Gross proceeds from current investments		534	215
Disbursements from investing activities		-160,348	-181,990
Acquisition of property, plant and equipment		-70,691	-65,910
Acquisition of intangible assets		-60,108	-28,474
Acquisition of investments		-3,610	0
Investments in subsidiaries and associates		-3,816	-65,862
Loans given		-22,123	-21,744
Net cash used in investing activities		-125,506	-105,660
Cash flows from financing activities			
Receipts from financing activities		420,000	274,950
Non-current borrowings		300,000	0
Current borrowings		20,000	274,950
Proceeds from bonds issued		100,000	0
Disbursements from financing activities		-450,259	-327,035
Costs of loan approval and issue of bonds		-1,313	0
Repayment of bonds issued		-300,000	0
Repayment of current commercial paper		0	-44
Repayment of current borrowings		-70,450	-222,500
Repayment of non-current borrowings		-30,160	-23,698
Interest paid		-15,884	-15,785
Dividends paid		-32,452	-65,008
Cash flow used in financing activities		-30,259	-52,085
Net increase/decrease in cash and cash equivalents		28,234	-14,012
Closing balance of cash	23	34,448	5,020
Opening balance of cash	23	6,214	19,032

* Adjustments are outlined in point e. Changes in accounting policies and retrospective restatement, in Section 2. Basis of preparation.
Notes on pages from 240 to 300 are a constituent part of these financial statements.

3.3.2 Notes to separate financial statements of Telekom Slovenije, d.d.

1. General information

Telekom Slovenije, d.d. [hereinafter also 'Company'], with its registered office at Cigaletova 15, Ljubljana, Slovenia, is a public limited company. Its shares are listed on the Ljubljana Stock Exchange. As at 31 December 2016, the Republic of Slovenia, as the majority shareholder, held 4,087,569 shares which equals a 62.54% equity interest in the Company.

As of 1 June 2016, Telekom Slovenije entered into the Register of companies the merger with the company Debitel, d.d. With respect to the merger contract, the entire assets and liabilities of Debitel, d.d. were transferred over to Telekom Slovenije. Telekom Slovenije as the universal legal successor entered into all legal relations, whose subject was the company Debitel, d.d.

Telekom Slovenije is the leading Slovenian provider of services in the field of mobile, fixed and IP communications, infrastructure and internet solutions, IT security and e-business solutions, as well as cloud solutions.

2. Basis of preparation

a. Statement of compliance

The accompanying separate financial statements of Telekom Slovenije have been prepared in accordance with International Financial Reporting Standards [IFRS], as adopted by the European Union, the interpretations issued by the International Financial Reporting Interpretations Committee of the IASB [IFRIC], and with provisions of the Companies Act [ZGD-1].

The Company compiles consolidated financial statements for the Telekom Slovenije Group, which are published in the accounting report of the Telekom Slovenije Group and are available at the registered office of Telekom Slovenije, d.d., at Cigaletova ulica 15, Ljubljana, Slovenia.

The financial statements of the parent company and the consolidated financial statements of the Telekom Slovenije Group were approved for release by the Management Board on 2 March 2017.

b. Basis of preparation

The financial statements of the Company have been prepared based on the going concern assumption. The Company's operations are not of seasonal nature. The financial statement were compiled by taking into account methods as outlined in the table below.

Significant assets and liabilities disclosed in the balance sheet of Telekom Slovenije, d.d:

Non-current assets	method of measurement
Intangible assets	
• whereof assets with finite useful life	purchase cost
• whereof assets with infinite useful life – goodwill	purchase cost
Property, plant and equipment	purchase cost
Investments in associates and the joint venture	purchase cost
Other investments	
• whereof available-for-sale assets listed on the stock exchange	fair value
• whereof available-for-sale assets not listed on the stock exchange, whose value cannot be reliably determined	purchase cost
Other non-current assets	purchase cost
Investment property	purchase cost
Deferred tax assets	non-discounted value measured at tax rates

Current assets	method of measurement
Assets held for sale	lower of purchase cost or fair value less selling expenses
Inventories	weighted average price method
Trade and other receivables	amortised cost
Short-term deferred costs and accrued income	historical or estimated value
Current investments	amortised cost
Cash and cash equivalents	purchase cost
Non-current liabilities	method of measurement
Long-term deferred income	purchase or estimated value
Provisions	
• whereof for jubilee premiums and retirement benefits	present value of estimated future payments based on actuary calculation
• other provisions	present value of future settlements
Long-term operating liabilities	amortised cost
Long-term borrowings and loans	amortised cost
Other long-term financial liabilities	amortised cost
Deferred tax liabilities	non-discounted value measured at tax rates
Current liabilities	method of measurement
Trade and other payables	amortised cost
Current borrowings and loans	amortised cost
Other current financial liabilities	amortised cost
Short-term deferred income	purchase or estimated cost
Accrued costs and expenses	purchase or estimated cost

c. Functional and presentation currency

The financial statements of Telekom Slovenije are presented in euro, which is the functional and presentation currency of the Company. Items in separate financial statements are presented in euro, rounded to the nearest thousand, unless otherwise defined.

d. Use of significant estimates and judgements

The preparation of the financial statements requires management to make certain judgements, estimates and assumptions that impact the carrying values of assets and liabilities of the Company and the disclosure of possible liabilities at the reporting date and the balances of income and expenses of the Company for the period then ended.

Future events and their effects cannot be perceived with certainty. Accordingly, the accounting estimates made require the exercise of judgment, and those used in the preparation of the financial statements will change as new events occur, as more experience is acquired, as additional information is obtained and as the Company's operating environment changes. Actual results may differ from those estimates. The formulation of estimates and related assumptions and uncertainties are discussed in individual items of segment 3. Summary of significant accounting policies.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Assessments

- Information on assessments that have the largest impact on Company's financial statements include:
- assessment whether an operating or finance lease is discussed – Note 3.d;
- assessment of revenue recognition [agent or principal] – Note 3.s;
- assessment whether contingent liabilities or provisions are considered in the claims – Note 3.n and 35.

Assumptions and estimates

Estimates and assumptions that have the largest impact on the financial statements include:

- useful life of property, plant and equipment, and intangible assets – Note 3.b and 3.c and Notes 13 and 14;
- allowances for doubtful receivables – Note 3.j and 21;
- impairment of loans extended to Group companies – Note 3.e, 15 and 16;
- deferred taxes – Note 3.u and 11;
- estimate of the amount of provisions – Note 3.n and 26.

e. Change in accounting policies and retrospective restatement

As at 1 January 2016, the Company voluntarily changed the accounting policy on recording costs of sales commissions.

Commissions paid to agents for obtaining new customers and retaining the existing ones were prior to the policy's change recognised as costs of sales commissions in the current period. Upon the change, the Group recognises the costs related to obtaining new customers as intangible assets, when:

- the contract with the customer is signed for a definite period of time (useful life of the asset equals the client's subscription time),
- only agents' commissions for concluded subscription contracts with clients are capitalised (reliably defined cost).

Sales commissions are recorded as assets when all above-mentioned terms and conditions are met. In case that terminated subscriptions and subsequent accounting of sales commissions would exceed 5% of the annual capitalised commissions, the Group would adequately decrease the intangible assets relating to sales commissions. The terminations-related estimate is assessed on an annual basis.

Sales commissions are recorded as assets when all above-mentioned terms and conditions are met. In case that terminated subscriptions and subsequent accounting of sales commissions would exceed 5% of the annual capitalised commissions, the Company would adequately decrease the intangible assets relating to sales commissions. The terminations-related estimate is assessed on an annual basis.

IAS 8 allows the Group to change the accounting policy in case that its application ensures more reliable, relevant and suitable information on the effects of the transactions, on other business transactions and balances on the financial performance, and the company's cash flows.

The Company is of the opinion that the change of the accounting policy improves the presentation of the balance sheet and ensures better information on business operations, mostly due to a better comparability of financial statements of other companies that are engaged in the same or equal activity.

The Company observed provisions of IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors, and adjusted the financial statements for previous periods in compliance with IAS 1 – Presentation of Financial Statements. The Company restated the financial statements for previous periods since 1 May 2014, when it disposed of appropriate bases for monitoring commissions paid to agents in compliance with defined terms and conditions.

Change in accounting policies and related impact on the Company's financial statements since 1 January 2015 is by individual items outlined below.

Separate balance sheet of Telekom Slovenije, d.d. as at 1 January 2015

EUR thousand	Previously reported	Impact of the changed accounting policy	Restated
ASSETS			
Intangible assets	132,276	4,332	136,608
Property, plant and equipment	644,877		644,877
Deferred tax assets	23,270	93	23,363
Other non-current assets	220,519		220,519
Other current assets	313,478		313,478
Total assets	1,334,420	4,425	1,338,845
EQUITY AND LIABILITIES			
Called-up capital	272,721		272,721
Capital surplus	180,956		180,956
Revenue reserves	217,042		217,042
Retained earnings	61,345	4,425	65,770
Fair value reserve	-65		-65
Total equity and reserves	731,999	4,425	736,424
Non-current liabilities	431,248		431,248
Deferred tax liabilities	0		0
Current liabilities	171,173		171,173
Total liabilities	602,421	0	602,421
Total equity and liabilities	1,334,420	4,425	1,338,845

Separate Income Statement of Telekom Slovenije, d.d. as at 31 December 2015

EUR thousand	Previously reported	Impact of the changed accounting policy	Restated
Revenue	647,901		647,901
Cost of services	-286,663	6,933	-279,730
Amortisation and depreciation expense	-119,836	-4,061	-123,897
Other expenses	-194,895		-194,895
Finance income	37,239		37,239
Finance costs	-42,567		-42,567
Income tax	0		0
Deferred taxes	4,746	-488	4,258
Total impact on the income statement	45,925	2,384	48,309

Due to the amended accounting policy, the net profit for 2015 increase by EUR 2,384 thousand. The said increase is the result of lowering costs of sales commissions in the amount of EUR 6,933 thousand, newly recognised amortisation and depreciation expense in the amount of EUR 4,061 thousand, and the result of lowering deferred taxes in the amount of EUR 488 thousand.

Separate balance sheet of Telekom Slovenije, d.d. as at 31 December 2015

EUR thousand	Previously reported	Impact of the changed accounting policy	Restated
ASSETS			
Intangible assets	126,352	7,204	133,556
Property, plant and equipment	617,867		617,867
Deferred tax assets	28,500	-395	28,105
Other non-current assets	320,778		320,778
Other current assets	217,886		217,886
Total assets	1,311,383	6,809	1,318,192
EQUITY AND LIABILITIES			
Called-up capital	272,721		272,721
Capital surplus	180,956		180,956
Revenue reserves	217,042		217,042
Retained earnings or losses from previous periods	-3,671	4,425	754
Profit for the period	45,925	2,384	48,309
Fair value reserve	-521		-521
Total equity and reserves	712,452	6,809	719,261
Non-current liabilities	61,681		61,681
Deferred tax liabilities	0		0
Current liabilities	537,250		537,250
Total liabilities	598,931	0	598,931
Total equity and liabilities	1,311,383	6,809	1,318,192

Due to the amended accounting policy, the balance sheet total for 2015 increased by EUR 7,204 thousand as the result of the increase in intangible assets, and declined by deferred tax assets in the amount of EUR 395 thousand.

Due to the amended accounting policy, the net profit is higher by EUR 2,724 thousand [attributable to lower costs of sales commissions in the amount of EUR 9,825 thousand, newly recognised amortisation and depreciation expense in the amount of EUR 8,166 thousand, and the amended deferred taxes in the amount of EUR 1,066 thousand]. The balance sheet total is due to the amended accounting policy higher as at 31 December 2016 by the amount of EUR 10,216 thousand [primarily due to intangible assets].

3. Summary of significant accounting policies

a. Foreign currencies

Foreign currency transactions are translated into the functional currency using the daily exchange rate prevailing on the transaction date.

Monetary assets, receivables and liabilities in foreign currency are translated at the exchange rate of the functional currency prevailing at the date of the balance sheet. Non-monetary assets and liabilities expressed in a foreign currency and measured at historical cost are translated by using the exchange rate applicable on the date of transaction. Non-monetary assets and liabilities expressed in a foreign currency and measured

at fair value are valued by using the exchange rate at the date when the fair value was determined. Exchange differences are recognised in the income statement, except for differences that arise on restatement of capital instruments classified as available for sale and are recognised directly in other comprehensive income.

b. Intangible assets (IA)

The Company recognises an item of intangible assets if it is probable that the future economic benefits that are associated with the item will flow to the entity and the cost of the item can be measured reliably.

Intangible assets with finite useful lives are upon initial recognition stated at cost less accumulated amortisation less impairment losses. All intangible assets have finite useful lives, except the item of goodwill. Goodwill arises upon acquiring a subsidiary or any other entity or activity. It is measured at cost, less any impairment loss. Goodwill arises upon merger of a subsidiary, thus the Company takes over the value of goodwill, which is in this relation recognised by the Group.

Useful lives and residual value of significant items of intangible assets are monitored on an annual basis by administrators of these assets and a working group; if expectations differ significantly from earlier estimates, amortisation rates are restated for the current and future periods. The effect of such a change is explained in the report of the period in which the change occurred.

Intangible assets are **amortised** on a straight-line basis over their entire estimated useful lives, from the first day of the following month when they are available for use, except for licences, program rights and concessions that are amortised in the month when their use begins.

Estimated useful lives of intangible assets by years

Groups of intangible assets	Useful lives in years
• concessions	3 to 20
• trademarks	10
• licences	1 to 7
• program rights – TV contents	1 to 6
• sales commissions	1 to 2
• customer list	5
• computer software – application software	3 to 5
• other concessions, patents, trademarks and licences	5 to 20

Expenditure on licences for the use of the radio frequency spectrum and computer software is capitalised at cost and amortised on a straight-line basis over its estimated useful life, which is 20 years [refer to Note 39 General authorisation and the rights to use radio frequency and block numbers].

Capitalised costs comprise costs of material, direct labour costs and other costs that can be directly attributed to assets for intended use. Project administrators monitor and ensure that only those costs are capitalised that follow the criteria defined.

Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset.

The project administrators monitor the progress of individual projects and investments. Their write-off is carried out should the administrators establish that certain projects shall not be finished.

Sales commissions are costs directly connected with obtaining new customers and are recorded as intangible assets, when:

- the contract with the customer is signed for a definite period of time [useful life of the asset equals the client's subscription time],
- only agents' commissions for concluded subscription contracts with clients are capitalised [reliably defined cost].

Sales commission are recorded as assets when aforesaid terms and conditions are met. In case that terminated subscriptions and subsequent accounting of sales commissions would exceed 5% of the annual capitalised commissions, the Company would adequately decrease the intangible assets relating to sales commissions. The termination-related estimate is verified on an annual basis.

The Company checks on an annual basis the carrying amounts of significant assets in order to establish whether there is any need to impair an item of intangible assets. Significant intangible assets are those, whose carrying amount exceeds 5% of the carrying amount of total intangible assets, should they achieve at least 5% of total assets' value. On an annual basis or as at the date of financial statements, it is checked whether any indications of impairment of intangible assets exist, i.e. it is reassessed whether significant technological changes, market changes or a significant decrease in interest rates occurred. If such indications exist, the recoverable amount of such assets is determined. Impairment is carried out if the recoverable amount of intangible assets significantly exceeds their carrying amount.

The Company plans positive results and cash flows for the current and coming year, therefore the need for impairment was not established.

Impairment of goodwill is established for the cash generating unit (CGU). Impairment of goodwill requires the valuation of CGU's value in use. Determining the present value of future cash flows requires the management to estimate future cash flows from the CGU and set an appropriate discount rate.

Impairment is recognised in the income statement among other operating expenses under the item 'impairment of intangible assets and property, plant and equipment'.

c. Property, plant and equipment (PPE)

Property, plant and equipment owned by the Company are upon its acquisition recorded at cost, which includes all expenditures that are necessary to make the asset ready for its intended use.

Estimated costs of restoring locations for broadcasting stations to their original condition are an integral component of the asset's cost and are amortised over the asset's residual useful life. Provisions required for establishing the original condition, discounted to present value, are reported under long-term provisions.

The cost of self-constructed assets includes the cost of material, direct labour and an appropriate proportion of production overheads. Costs of construction of property, plant and equipment that are included in cost are recognised as lower costs within profit or loss. The recognition of these costs is subject to the same criteria as applied with intangible assets.

When an item of property, plant and equipment comprises major components having different useful lives, these components are accounted for as separate items of property, plant and equipment.

The progress of individual projects and investments is on a monthly basis monitored by project administrators. Their write-off is carried out should the administrators establish that certain projects shall not be finished.

Measurement upon recognition

Property, plant and equipment are upon initial recognition measured at cost less depreciation costs or impairment.

Residual values and useful lives of significant items of property, plant and equipment are reassessed on an annual basis and if expectations differ significantly from earlier estimates, depreciation rates are adjusted for the current and future periods. The effect of the change in estimate is recognised in the financial statements in which the change in estimate occurred.

Depreciation is accounted in the income statement on a straight-line basis over the estimated useful lives of items of property, plant and equipment. In a fiscal year, depreciation is allocated to individual periods on a straight-line basis.

Depreciation is calculated individually and the Company is free to determine annual depreciation rates based on the useful life of an individual item of property, plant and equipment.

Estimated useful lives of groups of property, plant and equipment

Groups of property, plant and equipment	Useful lives in years
• buildings	50
• electrical and machine installation	15 to 30
• cable lines	33.3
• Cable network – air	10
• Cable network – land	20
• exchange switches	5 to 12.5
• other equipment	1 to 15

Land and assets under construction are not depreciated. An item of property, plant and equipment under construction is recognised at cost and depreciated when brought to working condition for its intended use on the first day of the following month.

The Company assesses annually via administrators of fixed assets whether there are any internal or external business circumstances (significant technological changes, market changes, obsolescence or physical condition of the asset) that could provide significant indication on the (non-)suitability of useful life or the indication at an item of property, plant and equipment should be impaired. An item of property, plant and equipment is subject to impairment if its carrying amount exceeds its recoverable amount. The recoverable amount equals the fair value less costs of sale or the value in use of the lowest CGU, whichever is higher. Value in use is assessed as the present value of expected future cash flows, whereby the expected future cash flows are discounted to the present value by the use of the discount rate before taxes.

Impairment is recognised in the income statement among other operating expenses.

d. Assets given and received for lease

Lease is a contractual relationship in which the lessor conveys to the lessee the rights to use the asset for a definite period of time in exchange for a payment or a series of payments. Finance lease is a lease in which all the significant forms of risk and benefits linked to the asset's ownership are transferred. The ownership right can be transferred or not. Operating lease is a lease other than a finance lease and where the leased assets are not recognised in the balance sheet. The start of the lease is the date, when the lessee can start using the right to the leased asset.

In accordance with criteria defined by the accounting standards, the Company assesses whether it is a finance or operating lease.

All Company's leases are categorised as operating lease. Hence, costs of lease are in case of an operating lease subject to straight-line recognition in the income statement among costs of services.

Assets provided under an operating lease are disclosed by the Company among its property, plant and equipment. The lease payment from the operating lease is recognised as cost [leased assets] or income [assets let out] in the income statement deferred by using a straight-line method.

e. Financial assets

The Company initially recognises loans and receivables at the date of their accrual. Other financial assets are recognised on the contractual date or, when the Company becomes a party to contractual provisions of the instrument. The Company derecognises the financial asset when all contractual rights to cash flows from this asset cease to exist, or when the Company transfers the rights to contractual cash flows from the financial asset on the basis of a deal, in which all risks and benefits arising from the ownership of the financial asset are transferred.

Investments in subsidiaries are accounted for at cost less impairment loss in the separate financial statements. Investments in subsidiaries are recognised on the date, when the controlling company assumes the risks and benefits i.e. upon obtaining control.

Indications of impairment of investments is assessed on the basis of following criteria:

- comparing as at the reporting date the carrying amount of the investment with the proportional part of the carrying amount of the subsidiary's total equity. Indication of impairment exists when at that date the carrying amount of the investment exceeds the proportional part of equity by more than 20%; and
- comparing the key ratios for the financial year with projections.

Investments in associates and joint ventures are measured at cost less possible impairment losses. Investments are recognised as at the date of purchase or sale, respectively.

Associate is an entity, in which Telekom Slovenije has significant influence but not control over their financial and operating policies. Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies. Joint venture is a joint arrangement, which is jointly controlled by Telekom Slovenije and another entity. Joint control is the contractually agreed sharing of control over the arrangement, which exists when important decision-making depends on the consent of both parties that jointly control the arrangement. Telekom Slovenije is a party in the joint venture and has joint control over this venture.

Indications whether there is need for impairment of investments in associates and joint ventures, are assessed under two criteria, namely:

- comparing the investment's carrying amount with the proportionate share of the carrying amount of the total equity of the associate or the joint venture on the assessment date. Indication of impairment exists when the carrying amount of the investment exceeds on the said date the proportionate share of equity by more than 20%;
- comparing the key ratios for the financial year with projections.

If indication of impairment with subsidiaries or investments in associates exists, the Company engages and independent appraiser to evaluate the recoverable amount of the asset. The recoverable amount is the value, which is higher from the value calculated by applying the future cash flow method or the value calculated on the basis of the fair value method less selling expenses.

Upon initial recognition, the non-derivative financial assets are classified as:

- financial assets measured at fair value through profit or loss,
- available-for-sale financial assets, and
- investments in loans and receivables.

Financial assets at fair value through profit or loss – this group includes derivatives. Assets are recognised at fair value, while the accompanying costs of transaction are recognised in profit or loss upon accrual. Financial assets are measured at fair value and the amount of the changed fair value is recognised in profit or loss.

Financial assets available for sale include assets that are not classified as aforesaid categories. They are recognised as at the date of purchase. These financial assets are initially measured at fair value and added costs of transaction that arise directly from sale or issue of the financial asset.

Investments in debt and equity securities classified as available-for-sale financial assets are carried at fair value. The fair value of investments in debt and equity securities listed on the stock exchange is their quoted price. If the fair value of financial assets that are not listed on the stock exchange cannot be reliably determined (since the Company has no impact on obtaining information in order to assess the fair value), they are stated at cost and the Company determines on an annual basis whether indication on impairment of these investments exists.

Any gains or losses arising on revaluation are recognised in other comprehensive income and presented directly in capital within the fair value reserve in net amount [i.e. less deferred taxes]. When such an investment is derecognised, accumulated gains or losses previously recognised in equity are reclassified to the income statement.

Interest on debt securities are recognised in the income statement by using the effective interest rate

Investments in loans and receivables are initially measured at historical cost and upon recognition measured at amortised cost using the effective interest method, less impairment losses. The Company recognises loans and receivables as at the date of their accrual [more details in Note j. Trade and other receivables].

Impairment of financial assets

The Company assesses at the reporting date whether there is objective evidence that investments are required to be impaired. An objective evidence that debt securities and loans extended to companies outside the Telekom Group must be impaired, exists in case of contracting parties fail to meet contractually defined financial commitments [i.e. late payment, failure to settle the principal amount and interest], major financial problems on the part of the debtor or other indications that the debtor may start bankruptcy proceedings, or if the credit rating of the security's issuer materially declines, thus indicating that its financial position worsened.

As for investments in debt securities, an objective evidence of impairment is considered to exist when the value of an item of financial assets or investments has been significantly [by more than 20% of its cost] or permanently [by more than 12 months] reduced or when there is indication that a company in which the Company holds an interest, has started bankruptcy proceedings. In this case, the allowance of its initially disclosed value is to be charged against revaluation finance costs.

Available-for-sale financial assets

When a decline in the value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity shall be removed from equity and recognised in profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is removed from equity and recognised in profit or loss shall be the difference between the acquisition cost [net of any principal repayment and amortisation] and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss shall not be reversed through profit or loss, unless the fair value of a debt instrument classified as available for sale increases subsequently and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss. The impairment loss shall in such case be reversed, with the amount of the reversal recognised in profit or

Loans

The Company monitors the repayment of loans and in case of default assessed whether there is any indication of required impairment. If there is objective evidence that an impairment loss on loans has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the loss is recognised in profit or loss as revaluation finance costs.

Most of the loans given refer to subsidiaries. One of indicators that impairment is required includes also the lowering of investments; the Company, however, individually assesses the need for impairment with individual companies and, as a rule, does not impair loans. If the recoverable amount of the subsidiary's equity is negative, an impairment of loans is to be carried out.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. The amount of the reversal is recognised in profit or loss as long as the carrying amount of the asset does not exceed the amortised cost at the date of reversal.

Fair value hierarchy

In defining the fair value of financial instruments, the following hierarchy was applied:

Level 1: determination of fair value directly by referencing the official published price on an active market;
Level 2: other models used to determine fair value based on assumptions and significant impact on fair value in line with observed current market transactions with the same instruments either directly or indirectly; and
Level 3: other models used to determine fair value based on assumptions and significant impact on fair value that are not in line with observed current market transactions with the same instruments and investments.

f. Other non-current assets

Prepaid rentals include mostly leases of premises and land for setting up base stations, and lease of optical fibres. Rentals are deferred over the contract period and are on a straight-line basis transferred to rental expenses, whereas transfer to costs starts on the date of the contract. Long-term leases of optical fibres refers to contracts concluded for a certain period of time i.e. 15 to 25 years.

Sales incentives given to subscribers are recognised in the amount of the negative difference between the selling and the average sliding price of assets that are subject to sales incentives. The negative difference between the selling price and the average sliding price of assets that are subject to sales incentives, is reported within deferred costs, depending on the anticipated subscription period.

Over the period of the subscription agreement, deferred costs are amortised on a monthly basis proportionally to the cost of sales incentives, within costs of services. If a subscription agreement is terminated or a subscriber is disconnected from the network due to the non-payment of invoices, subsidies are impaired accordingly at least once a year.

Other non-current assets comprise discounts, which are deferred in the anticipated duration of the subscription period, and the sale of goods with deferred payment that falls due in a period longer than 12 months

g. Investment property

Investment property is initially stated at cost comprising the purchase price and costs that may be directly attributed to the acquisition. Subsequent to initial recognition, investment property is stated at cost less accumulated depreciation and impairment losses.

Depreciation is calculated on a straight-line basis over the useful lives of the assets. Land is not depreciated.

Useful life of investment property equals the useful lives of property, plant and equipment.

Indication of impairment at investment property is assessed in the same way as for property, plant and equipment.

h. Assets held for sale

Assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale or distribution rather than through continuing use, are classified as held for sale. The sale of these assets must be highly probable and anticipated in the coming 12 months. The sale is highly probable when the Company receives a written commitment for purchasing the assets and the management adopts the decision on the sale.

Assets are classified among non-current assets (or as assets held for sale) at the lower of their carrying amount and fair value less costs to sell. Assets held for sale are not subject to depreciation.

Impairment losses on assets held for sale are recognised in the income statement among 'other operating expenses', 'impairment of intangible assets and property, plant and equipment' [Note 9].

The Company checks on an annual basis whether the asset meets the requirement for being classified as held for sale. If the asset no longer meets this criteria, the Company reclassifies it back as an item of property, plant and equipment.

This type of assets is measured at the lower of the following value:

- carrying amount prior to the asset's classification among assets held for sale, adjusted for possible depreciation that would have been recognised in case the assets would not be classified as asset held for sale,
- recoverable amount on the day of the subsequent decision that the assets shall not be sold.

The Company includes adjustments of carrying amounts of assets, which are no longer treated as assets held for sale, in the profit or loss for the period when the recognition criteria are no longer met.

i. Inventories

Inventories is initially recognised at cost comprising the purchase price inclusive of discounts granted, import duties and other non-refundable purchase duties, as well as costs directly attributable to the acquisition.

Inventories are accounted for using the sliding average price method.

Slow-moving, obsolete or damaged inventories are written off to their net realisable value, which is lower from the carrying amount or the estimated sales value in the ordinary course of business, less the estimated costs of completion and costs of selling the quantity unit.

j. Trade and other receivables

Trade receivables are recognised at historical cost. Upon initial recognition, receivables are recorded at amortised cost less impairments. In view of maturity, receivables are classified among current financial assets [maturity of up to 12 months] or non-current financial assets [maturity over 12 months].

The Company forms allowances for receivables collectively in terms of previous experience and expectations for the future based on the creditworthiness of individual customers by means of a credit rating model developed in-house, which is based on the combination of an external credit rating and the payment discipline of customers that are companies, as well as the payment history of customers that are individuals [Note 38 Financial risk management – Credit risk].

Receivables due from subsidiaries and receivables for which individual assessment of collectability was made by management based on reasonable grounds are not taken into account while forming group allowances for trade receivables. Individual assessment of collectability is carried out by taking into account the size of the receivable, in addition to the existence of receivables and liabilities due from the same business partner, and additional information and analysis on the partner's financial situation and business operations.

Receivables for which allowances are formed are recorded as disputed receivables. Loss on impairment of receivables is recognised in the income statements and as an allowance of receivables.

k. Short-term deferred costs and accrued income

The item of short-term deferrals and accruals includes mostly deferred costs, accrued income for services already rendered and goods supplied but not invoiced, accrued income and deferred costs in connection with international services, and short-term portion of sales incentives.

Short-term deferred costs and accrued income include also short-term discounts which are deferred in the anticipated period of subscription.

l. Cash and cash equivalents

Cash and cash equivalents include cash in hand and available bank balances, short-term deposits with 3-month maturity, where the risk of fair value change is minimal.

m. Long-term deferred income

Long-term deferred income comprises co-locations billed in advance [collocation is a service that enables other operators roaming in the Company's premises for installing their own telecommunication equipment], the lease of fibre optics network and co-financed projects.

Long-term deferred income from co-locations and leases is recognised among operating revenue over the contractually agreed term of lease or co-location.

n. Provisions

Provisions are recognised in the financial statements when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. If material, provisions are determined by discounting the expected future cash flows.

Company's treatment of obligations with uncertain timing and amount depends on management's estimation of the amount and timing of the obligation and the probability of an outflow of resources embodying economic benefits that will be required to settle the obligation, either legal or constructive.

Contingent liabilities are not recognised as their exact amount could not be established or their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company.

Company's management assesses on a monthly basis contingent liabilities continually to determine whether an outflow of resource embodying economic benefits has become probable. If it becomes probable that an outflow of future economic benefits will be required for an item previously dealt with as a contingent liability, provisions are recognized in the financial statements of the period in which the change in probability occurs.

Provisions are reduced directly by costs or expenses for covering the purpose for which they were created.

Provisions for probable liabilities from legal actions are formed on the basis of the estimate on the actions' outcome. The formation of provisions is assessed by the Company individually in view of the amount of the legal action, its subject matter, the plaintiff's assertions and the course of each individual procedure. Due to uncertainty, the actual liabilities may differ from the initially assessed. Management's estimates may change if the Group receives new information. Amendments to these estimates can have an essential impact on the business results. The effects and detailed information relating to legal actions and provisions formed for individual lawsuits was designated by the management as business secret and hence remains undisclosed. The amount of provisions formed for legal actions is disclosed in Note 26 Provisions.

Provisions for retirement benefits and jubilee premiums

In accordance with the statutory requirements, the collective agreement, and the internal rules and regulations, the Group is obliged to pay jubilee premiums and retirement benefits. Employee benefit liabilities are calculated by a certified actuary. Liabilities are formed in the amount of estimated future payments of retirement benefits and jubilee premiums discounted at the reporting date. A calculation is made per individual employees taking into account the cost of retirement benefits and the cost of all expected jubilee premiums by the time of retirement by applying the actuarial calculation method. At each year-end, the amount of provisions is assessed and either increased or decreased accordingly. Assumptions applied are disclosed in Note 27.

Provisions for costs of removal of base stations

Provisions are made for costs of the removal of base stations and the restoration of leased property to its original condition. Provisions are considered the best estimate for the removal of base stations and formed by applying the discount rate during the concession's duration. The used discount rate is based on the long-term return rate of the risk-free securities. The cost analysis on the removal of base stations, which is compiled every three years, is used as basis for the estimate. As at the year-end, the Company assesses whether the amount of formed provisions is sufficient; if not the value is properly adjusted.

Provisions for restructuring the company refer to severance payments upon the staff restructuring are formed when they become part of a strategic business plan and the dynamics of employment-related changes (changed number of staff) is known.

o. Interest-bearing borrowings

Interest-bearing borrowings are upon initial recognition disclosed at their fair value.

Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any differences between cost and the redemption value being recognised in the income statement over the period of the loans on an effective interest rate basis. If the actual or agreed interest rate does not significantly differ from the effective interest rate, interest-bearing borrowings are disclosed in the statement of financial position at initial value reduced by any repayments.

Interest-bearing borrowings are derecognised when all contractual obligations and liabilities are fulfilled, annulled or statute-barred.

p. Other financial liabilities

The item of other financial liabilities includes liabilities arising on bonds profit distribution (dividends), and liabilities for repurchasing an equity stake, where the valuation model used was designated by the management as business secret and hence remains undisclosed.

Dividends are recognised as a liability in the period in which they are declared during the General Meeting of Shareholders.

Other financial liabilities are upon recognition measured at fair value less possible costs of transaction. Bonds are upon initial recognition measured at amortised cost by using the effective interest rate method.

q. Trade and other payables

Trade and other payables are initially stated at cost. Subsequent to initial recognition, trade and other payables are stated at amortised cost.

r. Short-term accrued costs and deferred income

The item of **short-term deferred income** comprises deferred income from international services valued by turnover for which calculations were not yet confirmed, short-term portion of colocations, deferred income from sale of prepaid phone cards, deferred income from customer loyalty programme that are utilised while making benefits, and deferred income from co-financed projects.

Accrued costs comprise costs of staff holidays not taken, accrued bonuses and costs of international services valued upon the turnover for which invoices have not yet been issued, and other costs referring to the period for which invoices have not yet been issued to the Company. Differences between accrual and actual costs are included in profit or loss upon the receipt of invoices. If no invoice is received for the already accrued costs, the Company eliminates them within 3 years. The latter does not apply in case of costs accounted for international services.

s. Revenue

The item of revenue includes the sales value of goods sold and services rendered in the accounting period. Revenue from services is recognised when services are rendered and there are no significant uncertainties regarding recovery of the consideration due. Revenue from sale of goods and material is recognised upon sale. In case of selling services with added value, the Company acts as agent, hence the revenue is recognised on the net basis.

Revenue is recognised exclusive of value added tax, other taxes and through sale of related possible discounts.

Revenue relating to the mobile segment includes revenue from connection fees, subscriptions, messages, data transfer, roaming out and additional services (adequate service with added value, M-pay), and revenue from sale of mobile phones and additional equipment.

Revenue from sale of prepaid cards is deferred and recognised in the period when the customer uses its prepaid services. Should the customer fail make use of them (benefit), the revenue is recognised when the validity of an individual prepaid account expires.

Revenue from the fixed-line segment comprises revenue from connection fees, subscriptions, conversations, and revenue from the sale of merchandise. Fixed-line services account for revenue from broadband services, classic fixed-line phone services and Centrex, fixed-line data services (services with added value) data communication, IT-services and goods, convergence services and goods, and revenue from other telecommunications services.

Connection fees in the mobile and fixed-line segment are recorded in the period, when the connection of the customer is completed. The subscriptions are accounted by the Company on a monthly basis. During sales promotions, when the customers are offered a discount on the monthly subscription (provided that contracts are concluded for a definite period), the discounts are deferred throughout the entire subscription period. Revenue from services with added value is recorded and disclosed on the net basis in the amount of the contractual commission. Revenue from IT services and goods (e.g. system integrations, cloud computing, management of integrated IT solutions) is recorded in relation to the contractual relationship with the customer. In case of providing maintenance services, the revenue is charged on a monthly basis and deferred in the contract period. Revenue generated from the sale of licences or IT products is recognised in the period when the sale is made.

Revenue from wholesale market comprises revenue from broad-band access, unbundled access, network interconnection, lease of network, national tracking, and domestic and foreign inter-operator services.

Revenue from network interconnection are recognised on the basis of the estimated value in view of the traffic that was performed in the previous month. Monthly differences between estimates and actual revenue arise mostly as a result of the tolerance allowed with data about traffic, and the price changes. The tolerance allowed is different in individual contracts but can exceed mostly up to 2% of the contractual value.

The said differences are included in profit or loss when the actual balance of revenue is established. Revenue is recognised on the gross basis, as the Company provides services by means of own network and equipment and contractually defined prices. Revenue is recognised in the period when the services are rendered.

Other income and merchandise include income from rendering supporting services for subsidiaries, lease of premises and equipment, tourism, other non-telecommunication services, and income from sale of material and other merchandise.

Revenue from new services

Revenue from new services comprise income from electricity and finance income [Moneta]. Electricity-related income are recognised on the gross basis. Excise duty, contributions and use of network for electricity are not included in sales revenue but as deducted liability.

The Company in all previously mentioned cases observes the policy of concurrent recognition of revenue and costs in the period when the service is rendered or goods supplied, regardless of when the payment was made.

t. Finance in come and finance costs

Interest income and costs are recognised in the income statement with respect to the previous period in the period when they occurred on the basis of the contractually set interest rate.

Dividend income of other companies is recognised on the day when the company becomes entitled to the dividend.

u. Income tax

Income tax for the year comprises current and deferred tax.

Income tax is recognised in the income statement except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case it is recognised in other comprehensive income or directly in equity

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the reporting date, and any adjustments to tax payable in respect of previous years.

Deferred tax is calculated using the statement of financial position liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amounts of assets and liabilities, using tax rates expected in future periods.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised.

Deferred tax is charged or credited directly to equity, if the tax relates to items that are credited or charged, in the same or a different period, directly to equity.

v. Statement of cash flows

The statement of cash flows is compiled using the indirect method based on data from the balance sheet as at 31 December 2016 and 31 December 2015, the income statement for the financial year 2016, and additional information necessary to make adjustments of cash inflows and outflows.

w. New standards, amendments, interpretations, and changes adopted but not yet effective

The parent company Telekom Slovenije has not prematurely used any standards or interpretations that are not yet effective and shall enter into force in the future.

New standards, amendments, interpretations and changes stated below are not yet effective and were not taken into account when compiling the annual financial statements for the financial year ended 31 December 2016.

IFRS 9 – Financial instruments

[Effective for annual periods beginning on or after 1 January 2018. Effective for annual periods beginning on or after 1 January 2018; to be applied retrospectively with some exemptions. The restatement of prior periods is not required, and is permitted only if information is available without the use of hindsight. Early application is permitted.]

This Standard replaces IAS 39, Financial Instruments: Recognition and Measurement, except that the IAS 39 exception for a fair value hedge of an interest rate exposure of a portfolio of financial assets or financial liabilities continues to apply, and entities have an accounting policy choice between applying the hedge accounting requirements of IFRS 9 or continuing to apply the existing hedge accounting requirements in IAS 39 for all hedge accounting.

Although the permissible measurement bases for financial assets – amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit and loss (FVTPL) – are similar to IAS 39, the criteria for classification into the appropriate measurement category are significantly different.

A financial asset is measured at amortized cost if the following two conditions are met:

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and,
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

In addition, for a non-trading equity instrument, a company may elect to irrevocably present subsequent changes in fair value (including foreign exchange gains and losses) in OCI. These are not reclassified to profit or loss under any circumstances.

For debt instruments measured at FVOCI, interest revenue, expected credit losses and foreign exchange gains and losses are recognised in profit or loss in the same manner as for amortised cost assets. Other gains and losses are recognised in OCI and are reclassified to profit or loss on derecognition.

The impairment model in IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model, which means that a loss event will no longer need to occur before an impairment allowance is recognised.

IFRS 9 includes a new general hedge accounting model, which aligns hedge accounting more closely with risk management. The types of hedging relationships – fair value, cash flow and foreign operation net investment – remain unchanged, but additional judgment will be required.

The standard contains new requirements to achieve, continue and discontinue hedge accounting and allows additional exposures to be designated as hedged items.

Extensive additional disclosures regarding an entity's risk management and hedging activities are required

The Company does not expect the IFRS 9 to have a significant impact on financial statements when initially applied. The classification and measurement of Company's financial instruments will not materially change while taking into account provisions of IFRS 9.

The Company has not yet completed the impairment methodology that will be used in compliance with IFRS 9.

IFRS 15 – Revenue from contracts with customers [Effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted. This pronouncement is not yet endorsed by the EU.]

The new Standard provides a framework that replaces existing revenue recognition guidance in IFRS. Entities will adopt a five-step model to determine when to recognise revenue, and at what amount. The new model specifies that revenue should be recognised when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised:

- over time, in a manner that depicts the entity's performance; or
- at a point in time, when control of the goods or services is transferred to the customer.

IFRS 15 also establishes the principles that an entity shall apply to provide qualitative and quantitative disclosures which provide useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer

The new standard requires a uniform method of recognising revenue from contracts with customers that is founded on a five-stage model. This standard will primarily replace IAS 18 – Revenue and IAS 11 – Construction contracts. During the standard's first application, the company must fully assert the changes in the current year. This includes the retrospective use of the contracts that have not yet matured at the end of the reporting period. As for transitional periods, the standard allows either to fully apply the changes retrospectively [with certain limitations] or apply the changes in the opening balance of equity during the standard's first use [at the beginning of the current reporting period]. The Group assesses that the standard will affect its financial statements.

The Company expects that the new standard, when initially applied, will have a significant impact on the financial statements, since the measurement of its revenue is expected to change. The impacts will primarily be evident at the contracts including more elements [e.g. combination of a subscription to mobile services with the purchase of a mobile phone]. In case of such contracts, the share of revenue from sale of goods on the account of revenue from sales of services will increase if compared to the existing method of revenue recognition. The Company is currently engaged in implementing the new standard and introducing the new IT support for the new standard. Changes in terms of value will be analysed throughout the project, thus no reliable estimates on the impact can be provided until it is completed.

IFRS 16 – Leases [Effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted if the entity also applies IFRS 15 – Revenue from contracts with customers. This pronouncement is not yet endorsed by the EU.]

IFRS 16 supersedes IAS 17 Leases and related interpretations. The Standard eliminates the current dual accounting model for lessees and instead requires companies to bring most leases on-balance sheet under a single model, eliminating the distinction between operating and finance leases.

Under IFRS 16, a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For such contracts, the new model requires a lessee to recognise a right-of-use asset and a lease liability. The right-of-use asset is depreciated and the liability accrues interest. This will result in a front-loaded pattern of expense for most leases, even when the lessee pays constant annual rentals.

The new Standard introduces a number of limited scope exceptions for lessees which include:

- leases with a lease term of 12 months or less and containing no purchase options, and
- leases where the underlying asset has a low value ['small-ticket' leases]

Accounting of leases by lessors does not significantly change. The lessee defines the lease either as an operating or a finance lease. The lease is classified as a finance lease if all significant risks and benefits relating to the asset's ownership are transferred. Otherwise, it is an operating lease.

It is expected that the amendment, when initially applied, will have a significant impact on the financial statements, since it will require the Company to recognise in its statement of financial position liabilities relating to operating leases for which the Company acts as a lessee.

Amendments to IFRS 2 – Share-based Payment: Classification and Measurement of Share-based Payment Transactions [Effective for annual periods beginning on or after 1 January 2018; to be applied prospectively. Early application is permitted. This pronouncement is not yet endorsed by the EU.]

The amendments clarify share-based payment accounting on the following areas:

- the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- share-based payment transactions with a net settlement feature for withholding tax obligations; and
- a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity settled.

The Company expects that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements of the entity because it does not enter into share-based payment transactions.

Amendments to IFRS 10 – Consolidated Financial Statements and IAS 28 – Investments in Associates and Joint Ventures: Investments in Sale or contribution of assets between an investor and its associate or joint venture [The effective date has not yet been determined by the IASB, however earlier adoption is permitted.]

The Amendments clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business, such that:

- a full gain or loss is recognised when a transaction between an investor and its associate or joint venture involves the transfer of an asset or assets which constitute a business (whether it is housed in a subsidiary or not), while a partial gain or loss is recognised when a transaction between an investor and its associate or joint venture involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

The Company does not expect that the amendments, when initially applied, will have material impact on the financial statements.

Amendments to IAS 7 – Cash Flow Statement [Effective for annual periods beginning on or after 1 January 2017, to be applied prospectively. Early application is permitted. This pronouncement is not yet endorsed by the EU.]

The amendments require new disclosures that help users to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes (such as the effect of foreign exchange gains or losses, changes arising from obtaining or losing control of subsidiaries, changes in fair value).

The Company expects that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements of the Company.

Amendments to IAS 12 – Income Tax: Recognition of Deferred Tax Assets for Unrealised Losses [Effective for annual periods beginning on or after 1 January 2017; to be applied prospectively. Early application is permitted. This pronouncement is not yet endorsed by the EU.]

The amendments clarify how and when to account for deferred tax assets in certain situations and clarify how future taxable income should be determined for the purposes of assessing the recognition of deferred tax assets.

The Company expects that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements of the Company because it already measures future taxable profit in a manner consistent with the Amendments.

Amendments to IAS 40 Transfers of Investment Property [Effective for annual periods beginning on or after 1 January 2018; to be applied prospectively. This pronouncement is not yet endorsed by the EU.]

The amendments reinforce the principle for transfers into, or out of, investment property in IAS 40 Investment Property to specify that such a transfer should only be made when there has been a change in use of the property. Based on the amendments a transfer is made when and only when there is an actual change in use – i.e. an asset meets or ceases to meet the definition of investment property and there is evidence of the change in use. A change in management intention alone does not support a transfer.

The Company does not expect that the amendments will have a material impact on the financial statements because the Group transfers a property asset to, or from, investment property only when there is an actual change in use of the real property.

IFRIC 22 Foreign Currency Transactions and Advance Consideration [Effective for annual periods beginning on or after 1 January 2018. This pronouncement is not yet endorsed by the EU.]

The Interpretation clarifies how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income [or part of it] on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. In such circumstances, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

The Company does not expect that the Interpretation, when initially applied, will have material impact on the financial statements as the Company uses the exchange rate on the transaction date for the initial recognition of the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

Annual improvements

Annual improvements to IFRSs 2014-2016 cycle were issued on 8 December 2016 and introduce two amendments to two standards and consequential amendments to other standards and interpretations that result in accounting changes for presentation, recognition or measurement purposes. The amendments on IFRS 12 Disclosure of Interest in Other Entities are effective for annual periods beginning on or after 1 January 2017 and amendments on IAS 28 Investments in Associates and Joint Ventures are effective for annual periods beginning on or after 1 January 2018; to be applied retrospectively. Earlier application is permitted.

4. Fair value determination

In view of the Company's accounting policy and itemisation, the fair value of financial and non-financial assets and liabilities is to be determined in certain cases. The fair values of individual groups of assets were defined by the Company for the purpose of measurement and reporting by using methods as described below. With reference to assumptions for determining fair values, additional clarifications are required and thereby stated in the breakdown to individual items of Company's assets and liabilities.

Investment property

Fair values of investment property must be disclosed on an annual basis. The Company therefore establishes the fair value on an annual basis with the support of external valuers of real properties. The fair value defined as the price that would be received in case of the assets' sale or paid for the transfer in an agreed transaction among the market participants as at the date of measurement is used as the basis for assessing the value. During the value's assessment, the suitability of all valuation methods used for measuring the values of ownership rights [i.e. market valuation method, the income approach and the cost-based valuation method] was examined.

Investments available for sale

Fair value of available-for-sale investments that are listed on the stock exchange is defined on the basis of the closing stock exchange rate as at the reporting date.

Trade and other receivables

Current trade receivables are not discounted due to their short-term nature, whereby impairments to fair value are taken into account.

Financial liabilities

For the reporting purposes, the financial liabilities arising on bonds are determined on the basis of the stock exchange quotation as at the reporting date

5. Revenue

EUR thousand	2016	2015
Mobile services on end-customer market	235,067	241,784
Fixed-line telephone services on end-customer market	196,507	200,890
New sources of income	2,017	1,484
Wholesale market	188,898	177,414
Other revenue and merchandise	16,982	12,533
Total revenue	639,471	634,105

In 2016, revenue increased by EUR 5,366 thousand if compared to the 2015 balance. Company's revenue for 2016 include EUR 43,077 thousand of rental income.

As for the **mobile services on end-customer market**, revenue has decreased over the previous year due to lower revenue from mobile subscribers (transition to the new and for customer more favourable packages with included contents) and prepaid users. Revenue from the sale of mobile merchandise remained on the level achieved in 2015.

Revenue recorded on the **fixed-line phone services on end-customer market** have declined by 4% due to the expected decline in the revenue from classical telephony (which is attributable to the decline in classical connections and its replacement through the cheaper IP-telephony. The relevant declined could not be replaced neither by higher revenue from IT services, which grew mostly due to higher revenue from managing overall IT solutions and cloud services.

The item of new **sources of revenue** includes revenue from financial services and energy, which grew in 2016 over the previous year's result.

Revenue from the **wholesale market** was higher from the 2015 result. As for the domestic market, the revenue increased as a result of more broadband and unbundled connections, domestic tracking, as well as more calls to the mobile network of Telekom Slovenije. Due to the merger of Debitel, the relevant business operations are no longer recorded as wholesale, thus the revenue cannot directly be compared to those generated in 2015. Growth of revenue on the international market is the result of higher revenue from the transit of international calls, lease of capacities and international incoming calls on the account of »A number« incoming calls from abroad. The largest share of costs of international calls refers to Austria, Germany and Belgium.

Other revenue and merchandise increased primarily due to higher income from material and other non-telecommunication services (recognition of revenue from electronic toll connection).

EUR thousand	2016	2015
Revenue from the sale of services in domestic market	445,594	443,386
Revenue from the sale of services in foreign markets	124,095	122,467
Revenue from the sale of merchandise and materials in domestic market	68,874	65,420
Revenue from the sale of merchandise and materials in foreign markets	908	2,832
Total revenue	639,471	634,105

6. Other operating income

EUR thousand	2016	2015
Revenue from elimination of provisions	1,992	4,500
Government grants	762	578
Gains on disposal of property, plant and equipment	420	4,435
Revaluation operating income	6	297
Other income	3,783	3,986
Total other operating income	6,963	13,796

Revenue from reversal of provisions in the amount of EUR 1,992 thousand refer to elimination of provisions formed for legal actions.

Most of the profit in the amount of EUR 3,182 thousand generated in 2015 through the sale of property, plant and equipment refers to the sale of the optical network.

The item of other income comprises contractual penalties and court-related expenses.

7. Cost of services

EUR thousand	2016	2015 restated*
Telecommunication services	144,282	134,086
• network interconnection	25,807	14,304
• roaming	10,147	12,189
• international services	108,328	107,593
Costs of leased lines	14,462	11,852
Multimedia services	11,988	16,973
Sales incentives	15,432	16,504
Sales commission	1,126	1,048
Maintenance of property, plant and equipment	28,911	31,189
Lease of property, plant and equipment	8,894	10,704
Cost of fairs, marketing, sponsorships and entertainment	12,034	12,488
Professional and personal services	8,184	8,834
Refund of work-related costs	436	424
Insurance premiums	3,347	3,222
Cost of communications services	3,535	3,527
Banking services	703	1,114
Other services	32,530	27,765
Total cost of services	285,864	279,730

* Adjustments are disclosed in Point e. Change in accounting policies and retrospective restatement in Section 2 Basis for preparation.

Costs of services increased over the 2015 balance by EUR 6,134 thousand. The consolidation of business operations and cost optimisation resulted in lower costs of services in all segments except of costs of telecommunication services, which are related to the scope of turnover; thus, costs of network interconnection and international account are higher.

Costs of maintaining property, plant and equipment are lower mostly due to lower costs of maintenance services negotiated with the external service providers and due to optimising IT systems and technologies, and due to gradual closure of certain systems.

Costs of leasing property, plant and equipment are lower if compared to 2015 as a result of optimisation procedures applied with real properties.

Other costs of services grew in the reporting period due to larger volume of licences and activities related to obtaining the electronic toll collection project

8. Employee benefits expense

EUR thousand	2016	2015
Salaries and wage compensation	75,041	76,889
Social security contributions	16,335	17,009
• of which pension insurance contributions	11,016	11,726
Other employee benefits expense	8,661	10,784
Provisions for retirement benefits and jubilee premiums, and restructuring activities	2,440	7,433
Capitalised own products and services	-5,581	-6,208
Total employee benefits expense	96,896	105,907

Lower employee benefits expense is attributable also to provisions for Company's restructuring activities [Note 26 Provisions].

The employee benefits expense account for EUR 5,581 thousand within the structure of total capitalised own products and services that are recorded in the amount of EUR 6,581 thousand. Services rendered for the Company's requirements are capitalised among intangible assets and property, plant and equipment [Note 12 Intangible assets and Note 13 Property, plant and equipment].

In the reporting period, the average number of employees based on the working hours was recorded at 2,417.15 (2015: 2,624.51 employees).

Staff structure by education

No. of staff in terms of required education	Balance at the start of 1 Jan 2016*	31 Dec 2016	Changes in 2016	Average no. of staff based on hours worked and in terms of education in 2016**	Average no. of staff based on hours worked and in terms of education in 2015**
Level I	10	9	-1	10	12
Level II	1	0	-1	1	7
Level III	5	11	6	8	7
Level IV	170	151	-19	161	182
Level V	1,001	862	-139	932	1,033
Level VI	464	422	-42	443	465
Level VII	814	818	4	816	818
Master's and PhD degree	122	130	8	126	124
Total	2,587	2,403	-184	2,495	2,646

* includes Debitel's employees under the merger as of 1 January 2016

** calculation on the basis of balances of staff recorded at beginning and end of reporting period

9. Other operating expenses

EUR thousand	2016	2015
Provisions	2,967	0
Loss on disposal of intangible assets and property, plant and equipment	943	449
Write-off of inventories	2,542	2,740
Impairment and write-off of receivables	6,667	3,515
Impairment of intangible assets and property, plant and equipment	2,163	1,059
Capitalised own products and services	-1,000	-1,157
Other expenses	2,483	3,014
Total other operating expenses	16,765	9,620

The Company formed additional provisions for liabilities arising on legal actions in 2016 in the amount of EUR 2,967 thousand.

Impairment and write-off of receivables increased in the reporting period as a result of the merger with the company Debitel, and the started bankruptcy proceedings by the company T-2.

Expenses for impairment of intangible assets and property, plant and equipment were recognised in connection with the property at the Vilharjeva and Hacquetovi street in Ljubljana in the amount of EUR 1,486 thousand [Note 14] and the impairment of the investment property in Sečovelje (mine) in the amount of EUR 610 thousand [Note 18].

Other operating expenses account for EUR 1,000 thousand within the structure of total capitalised own products and services that are recorded in the amount of EUR 6,581 thousand. Services rendered for Company's purposes are capitalised among intangible assets and property, plant and equipment [Note 13 Intangible assets and Note 14 Property, plant and equipment].

10. Finance income and finance costs

EUR thousand	2016	2015
Income on dividends and interests	168	235
Other income from shares and interests	112	306
Interest income	9,004	10,871
Net exchange gains	586	0
Other finance income	20,840	25,826
Total finance income	30,710	37,238
Interest on bonds issued	15,761	15,121
Interest expense	1,837	1,223
Net exchange losses	0	816
Impairment of available-for-sale investments	489	0
Impairment of investments in subsidiaries	10,392	13,515
Impairment and write-off of loans	370	11,600
Other finance costs	515	291
Total finance costs	29,364	42,566
Financial result	1,346	-5,328

Other finance income were in 2015 and 2016 generated from the higher financial receivables arising on the contract on Telekom Slovenije's withdrawal from the company ONE.VIP, which was concluded with Telekom Austria Group.

In the last quarter of 2016, the Company Telekom Slovenije examined the fair value of its investment in the subsidiaries Antenna TV SL and TSmedia [further details in Note 15 Investments in subsidiaries].

On the basis of the respective valuation, the Company impaired at the end of 2016 its investment in the subsidiary in the amount of EUR 10,392 thousand.

Based on the performed valuation of the subsidiary TSmedia, the Company impaired its loans given in the amount of EUR 370 thousand.

11. Income tax expense, deferred tax assets and deferred tax liabilities

Income tax expense recognised in profit or loss

EUR thousand	2016	2015 restated*
Deferred tax assets/ deferred tax liabilities	7,110	4,742
Other taxes not disclosed in other items	-340	-484
Total tax	6,770	4,258

* Adjustments are disclosed in Point e. Change in accounting policies and retrospective restatement in Section 2 Basis for preparation.

Other taxes not included in other items comprise in 2016 the write-off of the withholding tax, as the Company can abroad not enforce the paid tax due to disclosing tax loss and having no tax liabilities.

Unused tax reliefs amounted as at 31 December 2016 to EUR 28,906 thousand.

Adjustment between the actual and accounted tax expenses by taking into account the effective tax rate

EUR thousand	2016	2015 restated*
Profit before tax	33,690	44,051
Tax rate	17%	17%
Income tax using the domestic corporate tax rate	-5,727	-7,488
Tax-free dividends	282	38
Non-taxable profit from disposal of equity interest	9	25
Tax incentives used in the current period	11,439	0
Reversal of tax incentives used in previous periods	-170	0
Change of the tax rate	3,753	0
Non-deductible expenses:	-2,467	12,867
• Non-deductible expenses in previous period	-109	18,125
• Non-deductible expenses in the current year	-2,358	-5,258
Other items	-349	-1,184
Total tax	6,770	4,258
Effective tax rate	0.00%	0.00%

* Adjustments are disclosed in Point e. Change in accounting policies and retrospective restatement in Section 2 Basis for preparation.

Expenses non-deductible for tax purposes in the amount of EUR 2,467 thousand refer in 2016 to non-deductible expenses and not recognised impairment of investments. They were positive in 2015 due to tax expenses relating to the impairment of investments, which were in previous periods non-deductible.

Deferred tax assets

EUR thousand	2016	2015 restated*	Through profit or loss
Intangible assets, and property, plant and equipment	14,708	9,571	5,137
Investments	970	785	185
Trade receivables	6,820	5,401	1,419
Tax loss	11,413	10,212	1,201
Provisions	1,745	2,136	-391
Deferred tax assets	35,656	28,105	7,551

* Adjustments are disclosed in Point e. Change in accounting policies and retrospective restatement in Section 2 Basis for preparation.

Deferred tax assets, arising on provisions, are formed due to non-deductible expenses for creating provisions for company-related restructuring activities and provisions for retirement benefits and jubilee premiums as they are deductible for tax purpose only by up to 50%.

Movement of deferred tax assets

EUR thousand	Deferred tax assets
Balance at 1 Jan 2015	123,270
Change in accounting policy	193
Balance at 1 Jan 2015 restated*	23,363
Elimination/use	-7,032
Formation	11,774
Balance at 31 Dec 2015	28,105
Increase in business combinations	441
Elimination/use	-4,337
Formation	7,694
Restatement of tax rate	3,753
Balance at 31 Dec 2016	35,656

* Adjustments are disclosed in Point e. Change in accounting policies and retrospective restatement in Section 2 Basis for preparation.

Deferred tax liabilities

EUR thousand	2016	2015	Through comprehensive income
Investments	159	193	34
Deferred tax liabilities	159	193	34

Deferred tax assets and liabilities are calculated using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. In 2016, the corporate income was taxed at a rate of 17% (2015: 17%). In 2016, the Supplementing Act to Corporate Income tax Act - ZDDPO-2N [Official Journal of RS no. 68/2016] was adopted and enters into force as of January 2017. In compliance with the aforesaid Act, the tax rate was increased to 19%. In 2016, the Company restated the deferred taxes to the rate of 19%. Due to the changed tax rate, the Company recognised an increase in deferred tax assets to the credit of the operating result in the amount of EUR 3,753 thousand and an increase in deferred tax liabilities charged against equity in the amount of EUR 17 thousand [further details in Note 24].

12. Earnings per share

Basic earnings per share is calculated by dividing the net profit for the period, which is allocated to ordinary shareholders, with the weighted average number ordinary shares that are enforced in the accounting period.

The weighted average number ordinary shares that are enforced in the accounting period is calculated on the basis of data on the number of ordinary shares enforced by taking into account possible repurchases and sales during the period and by taking into account the time in which the shares contributed to generating profit.

Adjusted net profit per share is not calculated as the Company has no restated possible ordinary shares.

EUR thousand	2016	2015 restated*
Net profit or loss used for profit sharing, owners of Company's ordinary shares	40,460	48,309
Weighted average number of ordinary shares for earnings per share	6,505,478	6,505,478
Earnings per share – basic and diluted (in EUR)	6.22	7.43

* Adjustments are disclosed in Point e. Change in accounting policies and retrospective restatement in Section 2 Basis for preparation.

Weighted average number of ordinary share

EUR thousand	2016	2015
Weighted average number of ordinary shares for earnings per share	6,535,478	6,535,478
Less own shares of Company	-30,000	-30,000
Total	6,505,478	6,505,478

13. Intangible assets (IA)

Concessions and licences

Concessions refer to the use of the frequency spectrum GSM, UMTS and LTE. As at 31 December 2016, the carrying amount of concession for UMTS amounted to EUR 19,777 thousand (2015: EUR 23,792 thousand), the carrying amount of the GSM 35 concession to EUR 192 thousand (2015: EUR 153 thousand), and the carrying amount of LTE concession to EUR 22,159 thousand (2015: EUR 23,943 thousand). Licences refer mostly to computer software.

The Agency for communication network and services has issued the Company a decision on 26 May 2014 regarding the use of the frequency spectrum 2 x 10 MHz in the 800 MHz band, 2 x 15 MHz in the 900 MHz band, 2 x 25 MHz in the 1800 MHz band, 2 x 35 MHz in the 2600 MHz band, and 1 x 25 MHz in the 2600 MHz TDD band. The Company started to use the respective frequencies in the amount of EUR 26,835 thousand (their validity expires on 31 May 2029) in 2014, whereby the other part of the spectrum in the amount of EUR 37,705 thousand (with their validity expiring on 4 January 2031) started to be used in 2016. The total licence allowance is recorded at EUR 64,540 thousand.

The useful lives of individual concessions are disclosed in Note 39 General authorisation and the rights to use radio frequency and block numbers.

Other licences refer to the use of computer software.

The item of concessions and licences include also programme rights for TV content.

Goodwill in the amount of EUR 3,602 thousand and fair value of the customer list at EUR 4,272 thousand was recognised by Telekom Slovenia during the takeover of the company Debitel, d.d. in 2016.

The mobile user list of Debitel – the customer list was recognised as an increase in other intangible assets at the fair value on the takeover date i.e. 1 January 2016 in the amount of EUR 5,340 thousand, and amounted as of the reporting date to EUR 4,272 thousand.

The Company carried out an impairment testing of the customer list. For the purpose of value estimate, the Company applied the method of excess yields and the estimated value in use. Within the selected method, the Company defines for all recognised assets the yield, which is to be made on these assets. Based on this method, the value of the customer base is assessed at EUR 5,045 thousand with the estimate ranging between EUR 4,775 thousand and 5,320 thousand. The used discount rate was 8.99%, the required yield on assets 10.79%, and the required yield of current working capital 3.3%. It was established that the recoverable value of the customer list exceeds its book value, requiring no impairment to be performed. The Company

established no indication of impairment as regards the customer list and therefore no indication of goodwill's impairment.

The Company has unlimited property rights on intangible assets, which are free of encumbrances.

Contractual obligations for intangible assets amounted as at the reporting date to EUR 4,819 thousand [2015: EUR 3,517 thousand] and predominantly refer to the purchase of software and licences, to software development, the BSS programme and the upgrade of the system software.

Movements in intangible assets in 2016

EUR thousand	Goodwill	Concession and licences	Sales commissions	Software	Other IA	IA under construction	Total
Cost							
Balance at 1 Jan 2016	0	180,631	11,863	106,637	307	55,206	354,644
Increase	0	0	0	0	0	57,652	57,652
Assets generated in-house	0	0	0	0	0	2,456	2,456
Increase in business combinations	3,602	190	3,826	1,443	5,340	0	14,401
Transfer to use	0	62,108	9,825	13,629	4,508	-90,070	0
Decrease	0	-19,046	0	-1,674	-14	0	-20,734
Write-offs	0	0	0	0	0	0	0
Other transfers	0	-206	0	1,003	0	0	797
Balance at 31 Dec 2016	3,602	223,677	25,514	121,038	10,141	25,244	409,216
Accumulated amortisation							
Balance at 1 Jan 2016	0	121,971	4,659	94,271	187	0	221,088
Increase	0	0	60	0	0	0	60
Increase in business combinations	0	190	3,084	1,428	0	0	4,702
Decrease	0	-19,046	0	-1,616	-14	0	-20,676
Other transfers	0	-700	0	811	0	0	111
Amortisation	0	21,932	8,166	10,714	1,344	0	42,156
Balance at 31 Dec 2016	0	124,347	15,969	105,608	1,517	0	247,441
Carrying amount							
Balance at 1 Jan 2016	0	58,660	7,204	12,366	120	55,206	133,556
Balance at 31 Dec 2016	3,602	99,330	9,545	15,430	8,624	25,244	161,775

Movement in intangible assets in 2015

EUR thousand	Goodwill	Concession and licences	Sales commissions	Software	Other IA	IA under construction	Total
Cost							
Balance at 1 Jan 2015 – initially reported	919	174.837	0	114.336	188	49.815	340.095
Impact of the changed accounting policy	0	0	5.017	0	0	0	5.017
Balance at 1 Jan 2015 restated*	919	174.837	5.017	114.336	188	49.815	345.112
Increase	0	106	0	0	0	25.303	25.409
Assets generated in-house	0	0	0	0	0	3.171	3.171
Transfer to use	0	6.490	6.933	9.536	124	-23.083	0
Decrease	-919	-987	-87	-16.913	-5	0	-18.911
Other transfers	0	185	0	-322	0	0	-137
Balance at 31 Dec 2015 restated*	0	180.631	11.863	106.637	307	55.206	354.644
Accumulated amortisation							
Balance at 1 Jan 2015 – initially reported	919	105.928	0	100.788	184	0	207.819
Impact of the changed accounting policy	0	0	685	0	0	0	685
Balance at 1 Jan 2015 restated*	919	105.928	685	100.788	184	0	208.504
Decrease	-919	-987	-87	-16.889	-5	0	-18.887
Other transfers	0	249	0	-374	0	0	-125
Amortisation	0	16.781	4.061	10.746	8	0	31.596
Balance at 31 Dec 2015 restated*	0	121.971	4.659	94.271	187	0	221.088
Carrying amount							
Balance at 1 Jan 2015 – initially reported	0	68.909	0	13.548	4	49.815	132.276
Balance at 1 Jan 2015 restated*	0	68.909	4.332	13.548	4	49.815	136.608
Balance at 31 Dec 2015 restated*	0	58.660	7.204	12.366	120	55.206	133.556

* Adjustments are disclosed in Point e. Change in accounting policies and retrospective restatement in Section 2 Basis for preparation.

14. Property, plant and equipment (PPE)

Significant increases in property, plant and equipment in use refer in 2016 mostly to acquiring cable lines, to the construction and upgrade of cable network, to obtaining of telecommunications and other equipment. Other equipment includes modems, setup-boxes, other equipment at customers, furniture, cars and other equipment.

In compliance with IAS 36 Impairment of assets, the Company is required to verify on the balance sheet date whether there are indications that single items of assets need to be impaired. If such indications exist, the Company is to establish the recoverable value of the asset and impair it if necessary. With respect to the planned change of intended use of the property on the Vilharjeva and Hacquetova street in Ljubljana, the Company has checked the market value of both properties and established that both are required to be impaired. The valuation of properties was carried out by a certified appraiser using the market comparison approach and estimated the sales costs at 2%. Based on this valuation, the Company impaired both properties and recognised other expenses on the impairment of intangible assets and property, plant and equipment [Note 9] in the amount of EUR 1,486 thousand.

Assets development in-house refer to services that are rendered in the company in connection with the set-up of base stations, air-conditioning appliances, electro-energy appliances and terminal equipment at customers.

The Company has unlimited property rights on property, plant and equipment, which are free of encumbrances.

Contractual obligations for property, plant and equipment were as at 31 December 2016 recorded at EUR 13,881 thousand [2015: EUR 5,246 thousand] and largely refer to the set-up of the network, the purchase of telecommunications equipment, purchase and construction of real properties, to the provision of power supply and air conditioning, purchase of machinery, personal computers, and to the equipment for providing services.

Movement in property, plant and equipment in 2016

EUR thousand	Land, buildings, cables and lines	Cable network	Switching exchanges	Equipment for mobile telephony	Other equipment	PPA under construction	Total
Cost							
Balance at 1 Jan 2016	401,219	910,543	274,298	548,525	433,964	21,620	2,590,169
Increase	0	0	6	32	1,107	66,566	67,711
Assets developed in-house	0	0	0	0	0	4,125	4,125
Increase in business combinations	0	0	0	0	996	0	996
Transfer from assets under construction	6,548	12,751	3,938	6,696	32,099	-62,032	0
Decrease	-1,092	0	-443	-13,111	-14,373	-32	-29,051
Write-offs	-1,426	0	-1,256	-31,419	-34,212	0	-68,313
Other transfers	6	-165	176	-574	-240	0	-797
Balance at 31 Dec 2016	405,255	923,129	276,719	510,149	419,341	30,247	2,564,840
Accumulated depreciation							
Balance at 1 Jan 2016	133,997	735,532	262,729	476,988	363,056	0	1,972,302
Increase	195	0	2	152	81	0	430
Decrease	-137	0	-417	-13,068	-11,797	0	-25,419
Write-off	-1,426	0	-1,256	-31,413	-34,185	0	-68,280
Impairment	1,486	0	0	0	0	0	1,486
Depreciation	14,231	19,060	3,715	27,509	28,209	0	92,724
Other transfers	1	-6	6	-59	-53	0	-111
Balance at 31 Dec 2016	148,347	754,586	264,779	460,109	346,193	0	1,974,014
Carrying amount							
Balance at 1 Jan 2016	267,222	175,011	11,569	71,537	70,908	21,620	617,867
Balance at 31 Dec 2016	256,908	168,543	11,940	50,040	73,148	30,247	590,826

Movement in property, plant and equipment in 2015

EUR thousand	Land, buildings, cables and lines	Cable network	Switching exchanges	Equipment for mobile telephony	Other equipment	PPA under construction	Total
Cost							
Balance at 1 Jan 2015	394,165	896,456	275,700	553,394	448,601	32,820	2,601,136
Increase	1,409	0	3	24	492	61,692	63,620
Assets developed in-house	0	0	0	0	0	4,194	4,194
Transfer from assets under combinations	11,086	14,051	3,978	15,675	32,181	-76,971	0
Decrease	-4,761	-89	-431	-21	-9,537	-79	-14,918
Write-off	-463	-68	-4,978	-20,967	-37,488	-36	-64,000
Other transfers	-217	193	26	420	-285	0	137
Balance at 31 Dec 2015	401,219	910,543	274,298	548,525	433,964	21,620	2,590,169
Accumulated depreciation							
Balance at 1 Jan 2015	124,131	714,725	264,795	470,551	382,057	0	1,956,259
Increase	34	0	0	-27	18	0	25
Decrease	-4,296	-42	-403	-15	-7,682	0	-12,438
Write-off	-462	-68	-4,976	-20,940	-37,471	0	-63,917
Depreciation	14,592	20,916	3,313	27,305	26,122	0	92,248
Other transfers	-2	1	0	114	12	0	125
Balance at 31 Dec 2015	133,997	735,532	262,729	476,988	363,056	0	1,972,302
Carrying amount							
Balance at 1 Jan 2015	270,034	181,731	10,905	82,843	66,544	32,820	644,877
Balance at 31 Dec 2015	267,222	175,011	11,569	71,537	70,908	21,620	617,867

15. Investments in subsidiaries

SUBSIDIARIES

Company	Address	Country	Core activity	Tax rate	Share in equity [%]	Share in voting rights [%] 31 Dec 2016	Share in voting rights [%] 31 Dec 2015	Carrying amount of equity as at		Profit or loss	
SLOVENIA											
1	GVD, gradnja in vzdrževanje telekomunikacijskih omrežij, d. o. o.	Slovenia	building and maintenance works on telecommunication networks	17%	100%	100%	100%	18,988	16,982	2,120	941
2	Avtenta, napredne poslovne rešitve, d. o. o.	Slovenia	systems integrator	17%	100%	100%	100%	1,749	1,580	175	56
3	Tsmedia, medijske vsebine in storitve, d. o. o.	Slovenia	multimedia and internet services	17%	100%	100%	100%	-2,939	-1,397	-1,592	-5,780
4	SOLINE Pridelava soli, d. o. o.	Slovenia	production of salt and preservation and management of a natural park	17%	100%	100%	100%	2,666	2,909	-233	-283
5	Debitel, d. d.*	Slovenia	telecommunication services	17%	100%	0%	100%	0	6,391	0	-86
6.	Antenna TV SL, d. o. o.**	Slovenia	television-related services	17%	66%	66%	49%	-1,650	-26,586	-13,074	-11,628
OTHER COUNTRIES											
6	IPKO Telecommunications, LLC	Kosovo	Lagja Ulpiana, Rruga Zija Shemsiu nr. 34, Priština	10%	93%	93%	93%	-4,472	1,531	-6,003	-3,487
7	Blicnet, d. o. o., Banja Luka	Bosnia and Herzegovina	Majke Jugovića 25, Banja Luka	10%	100%	100%	100%	15,038	13,871	1,167	740
8	ONE, d. o. o., Skopje***	Macedonia	Bul. Kuzman Josifovski Pitu 15, Skopje	10%	0%	0%	0%	0	19,289	0	-3,902
9	Digi Plus Multimedia, d. o. o. e. l., Skopje***	Macedonia	Bul. Partizanski odredi no. 70, DTC Aluminka, Skopje	10%	0%	0%	0%	0	315	0	-31
10	SiOL, d. o. o., Zagreb	Croatia	Margaretska 3, Zagreb	20%	100%	100%	100%	610	584	20	70
11	SiOL, d. o. o., Sarajevo	Bosnia and Herzegovina	Fra Andela Zvizdovića 1, Sarajevo	10%	100%	100%	100%	1,747	1,725	22	47
12	SiOL, d. o. o., Podgorica	Montenegro	Bulevar Svetog Petra Cetinskog br. 106, Podgorica	9%	100%	100%	100%	2,701	2,640	61	-28
13	SiOL, d. o. o., Skopje	Macedonia	Dimitrie Chupovski no. 4-1/14, Skopje	10%	100%	100%	100%	1,195	1,073	129	66
14	SiOL, d. o. o., Palilula, Beograd	SERBIA	Dvadesetsedmog Marta 11, Palilula, Beograd	15%	100%	100%	100%	225	160	65	60

* company merged with Telekom Slovenije as of 1 January 2016

** Investment in subsidiary since 21 December 2016

*** Investment in subsidiary up until 31 March 2015

ASSOCIATES AND THE JOINT VENTURE

	Company	Address	Country	Core activity	Tax rate	Share in equity [%]	Share in voting rights [%] 31 Dec 2016	Share in voting rights [%] 31 Dec 2015	Carrying amount of equity as at		Profit or loss	
									31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
1.	M-Pay, Družba za mobilno plačevanje, storitve in trgovino, d. o. o.	Vita Kraigherja 3, Maribor	Slovenija	obdelava mobilnih plačil	17%	50%	50%	50%	243	234	9	10
2.	SETCCE, d. o. o.****	Tehnološki park 21, Ljubljana	Slovenija	raziskovalna in razvojna dejavnost na drugih področjih naravoslovja in tehnologije	17%	0%	0%	36%	446	491	-39	25

**** sales contract signed on 8 December 2016

Investments in subsidiaries

EUR thousand	2015	Decrease due to business combinations	Increase	Decrease	Impairment	2016
GVO	5,758					5,758
TSmedia	0					0
Avtenta	1,323					1,323
Soline	147					147
Debitel	15,853	-15,853				0
Antenna TV SL	0		21,629		-21,629	0
IPKO	5,730					5,730
Blicnet	14,477					14,477
SiOL, Zagreb	501					501
SiOL, Podgorica	2,620					2,620
SiOL, Sarajevo	1,710					1,710
SiOL, Skopje	1,005					1,005
SiOL, Beograd	100					100
Investments in subsidiaries	49,224	-15,853	21,629	0	-21,629	33,371
M-Pay	63					63
SETCCE	2			-2		0
Investment in joint venture	65	0	0	-2	0	63
Total investments in subsidiaries and joint venture	49,289	-15,853	21,629	-2	-21,629	33,434

As at 1 June 2016, the merger Debitel and Telekom Slovenije was entered into the register of companies. Given the fact that the company Telekom Slovenije was a sole (100%) owner of the company Debitel, the stated transaction represents a legal restructuring without changing the economic sources with third parties, hence there are no immediate consequences for the shareholders of Telekom Slovenije. The accounting date of the merger of Debitel and Telekom Slovenije was 1 January 2016.

Telekom Slovenije and the subsidiary TSmedia concluded a contract on 21 December 2016, based on which TSmedia transferred its equity interest in the company Antenna TV SL to Telekom Slovenije. As at the same day, the General Meeting of Shareholders of Antenna TV SL convened, during which the shareholders increase its share capital by means of non-cash contributions. Based on the additional cash contribution, Telekom Slovenije became an owner of a 66% share in the company Antenna TV SL.

In December 2016, Telekom Slovenije sold based on a contract its 36% equity interest in the company SETCCE, which was its associate. The sale generated EUR 110 thousand of gains that were recognised among other income from share and interests [Note 10 Finance income and finance costs].

Impairment of investments

The Company monitors the plans and the realisation of operating ratios in subsidiaries. Based on verifying indications of impairment, the Company carried out a valuation of fair values of non-current financial investments in its subsidiaries.

Antenna TV SL

As at 31 October 2016, a certified appraiser carried out a valuation of the company Antenna TV SL. The value was defined based on the present value of expected free cash flow method, which is founded on company's 5-year projections. The 2017 revenue projection for Antenna TV SL is founded on additional revenue arising

from the amended business model, for which it is assessed that revenue would in the second half of 2017 amount to EUR 300 thousand per month, while in the coming years a material revenue growth is anticipated to be generated under this title. The possible failure of achieving the EBITDA projections based on the amended business model could have a material impact on the value.

A discount rate of 11.9% was applied with the projections, while the estimate of long-term growth rate was set at 2%. The sensitivity analysis relating on weighted average costs of total capital in the range from 10.9% to 12.9% [applied discount rate from -1.0% to +1.0%] and the long-term growth rate varying from 1.0% to 3.0% of the impact on the changed value of expected future cash flows, as evident in the sensitivity analysis table below.

Sensitivity analysis – change in the recoverable value of the ownership equity		
Impact of the change assumption	-1.0%	+1.0%
g- growth rate	-621	760
WACC –discount rate	1,009	-806

The Company impaired its long-term investment in Antenna TV SL based on the valuations in the amount of EUR 21,629 thousand. In 2015, loans to Antenna TV SL was already impaired in the amount of EUR 11,237, which were converted to capital in 2016. The impact of the investment's impairment on the operating result is recorded at EUR 10,392.

TSmedia

During the impairment testing of the TSmedia's value, the method of net present value of expected future cash flows was applied, which is based on the company's 5-year projections. The relevant valuation was carried out by an independent certified appraiser as on 30 September 2016. The discount rate used with projections was 9.49%, the cash flows of over 5 years have been extrapolated with the average growth rate of 2%. According to the valuation report, the recoverable value of the company TSmedia was as at 30 September 2016 negative. As the book value of the investment in the company TSmedia was already impaired to EUR 0, the long-term loans to TSmedia are impaired as well and the Company recognises impairment loss in the amount of EUR 370.

The sensitivity analysis of the recoverable value in relation to the weighted average costs of total equity ranging from 8.49% to 10.49% [used discount rate varied from -1.0% to +1.0%] and the long-term growth rate ranging from 1.0% to 3.0% impacts the change of the expected free cash flows as outlined in the sensitivity analysis table below.

Sensitivity analysis – change in the recoverable value of the ownership equity		
Impact of the change assumption	-1.0%	+1.0%
g- growth rate	-280	366
WACC –discount rate	604	-462

IPKO

During the impairment testing of the IPKO's value, the method of net present value of expected future cash flows was applied. The relevant valuation was carried out by an independent certified appraiser as on 31 December 2016. The discount rate used with projections was 12.16%, while the estimated long-term growth rate was 2%. The sensitivity analysis of the recoverable value in relation to the weighted average costs of total equity ranging from 11.16% to 13.16% [used discount rate varied from -1.0% to +1.0%] and the long-term growth rate ranging from 1.0% to 3.0% impacts the change of the expected free cash flows as outlined in the sensitivity analysis table below.

Sensitivity analysis – change in the recoverable value of the ownership equity		
Impact of the change assumption	-1.0%	+1.0%
g- growth rate	-5,697	6,942
WACC –discount rate	13,028	-10,712

On the basis of the valuation performed, the investment in the company IPKO does not show indication of impairment.

16. Other investments

Non-current investments

EUR thousand	2016	2015
Available-for-sale investments in other shares and interests	2,421	3,208
Total available-for-sale investments	2,421	3,208
Loans to other companies	123,639	130,338
• whereof to Group companies	123,314	127,686
Loans to employees	408	542
Total loans given	124,047	130,880
Total non-current investments	126,468	134,088

All investments in shares and interests are classified as available-for-sale investments.

Of the total amount of EUR 2,421 thousand, EUR 1,454 thousand (2015: EUR 1,453 thousand) relates to investments that are listed on the stock market and are recognised at fair value.

Other investments are valued at cost, as they are not listed on the stock market and the Company cannot obtain information in order to evaluate the fair value.

Investments are not pledged as collateral and are free of encumbrances.

Current investments

EUR thousand	2016	2015
Other current loans	9,662	11,541
• whereof to Group companies	9,208	8,982
Other current investments	122,565	100,000
Bank deposits	299	228
Total current investments	132,526	111,769

Other current loans comprise EUR 8,179 thousand of loans extended to subsidiaries, in addition to the current portion of non-current loans and related interest.

The item of other current investments include the Company's receivables due from the sale of the investment in the company ONE.VIP, where Telekom Slovenije holds a 45% equity interest. Despite the material equity interest, the Company does not control the company ONE.VIP and has no influence over its business operations due to the composition of the management and supervisory bodies; in addition, Telekom Slovenije is not entitled to dividends and consequently has no economic impact.

As at the reporting date, the Company recorded 1 deposit (2015: 1 deposit) in the total value of EUR 299 thousand (2015: EUR 228 thousand) and the maturity of 91 days (2015: 91 days). The annual interest rate is set at 0.01% (2015: 0.05%).

The respective deposit is earmarked for securing the Moneta in the first three months of 2017. The deposit bears a fixed interest rate, thus the Company is not exposed to interest rate risk.

Loans given

EUR thousand	2016	2015
Non-current loans	124,047	130,880
Loans given	123,639	130,338
Loans to employees	408	542
Current loans	9,662	11,541
Portion of non-current loan that is due within 12 months – loans given	5,968	7,292
Portion of non-current loan that is due within 12 months – loans to employees	115	148
Current loans and interest	3,579	4,101
Balance of loans given	133,709	142,421

Maturity of non-current and current loans as well as other related information is disclosed in Note 38 Financial risk management.

Non-current loans refer primarily to loans extended to Group subsidiaries (2016: 99.4%, 2015: 97.6%).

As for the current loan structure, most of the loans were extended to Group subsidiaries (2016: 95%, 2015: 77.8 %).

Loans extended by the Company to the subsidiary TSmedia at the end of the reporting period were impaired (based on a valuation of Tsmedia) in the amount of EUR 370 thousand (more details in Note 15 Investments in subsidiaries).

Loans extended to companies operating in Slovenia bear interest at the rate stipulated by the Rules on the Recognised Rate of Interest. The annual interest rate of these loans is ranging between 0.921% and 3.50%. Loans granted to subsidiaries abroad are subject to the weighted annual interest rate, applied by the parent company, and increased by a premium relating to credit risk pursuant to the internal manual. The interest rate for these loans ranges between 2.867% in 5.243%.

The interest rate applied for loans extended ranges between 0.78% and 5%, whereas the interest rate applied for housing loans extended to employees, ranges between 3.00% and 6.23%.

Apart from housing loans extended to employees, all the loans are secured with blank bills, suretyships, by assignment of existing and future receivables or pledged with rights on real properties. The Company may demand a new collateral if it assesses that a certain loan is no longer sufficiently or properly secured.

17. Other non-current assets

EUR thousand	2016	2015
Prepaid rentals	15,776	15,456
Deferred costs of sales incentives	2,744	2,295
Non-current trade receivables	13,485	13,504
Other long-term deferred costs	1,267	1,125
Total other non-current assets	33,272	32,380

The item of non-current trade receivables includes the phased sale of subsidised goods in the amount of EUR 13,206 thousand (2015: EUR 13,269 thousand), whose maturity exceeds one year. As for receivables arising from instalment payments, the relevant allowances are formed for the short-term portion.

Movement in non-current assets exclusive of non-current trade receivables and long-term deferred costs

EUR thousand	Rentals	Sales incentives
Balance at 1 Jan 2015	14,757	2,957
Additions	2,780	15,565
Transfer to costs	-2,081	-16,227
Balance at 31 Dec 2015	15,456	2,295
Increase in business combinations	0	892
Additions	2,804	14,733
Transfer to costs	-2,484	-15,176
Balance at 31 Dec 2016	15,776	2,744

Prepaid rentals include primarily leases of premises and land for setting up base stations, and lease of optical fibres.

18. Investment property

Movements in investment property in 2016

EUR thousand	Land	Buildings	Total
Cost			
Balance at 1 Jan 2016	4,865	1,977	6,842
Decrease	0	-167	-167
Balance at 31 Dec 2016	4,865	1,810	6,675
Accumulated depreciation			
Balance at 1 Jan 2016	1,232	589	1,821
Decrease	0	-2	-2
Impairment	340	270	610
Depreciation	0	66	66
Balance at 31 Dec 2016	1,572	923	2,495
Carrying amount			
Balance at 1 Jan 2016	3,633	1,388	5,021
Balance at 31 Dec 2016	3,293	887	4,180

Movements in investment property in 2015

EUR thousand	Land	Buildings	Total
Cost			
Balance at 1 Jan 2015	4,563	861	5,424
Increase	302	1,116	1,418
Balance at 31 Dec 2015	4,865	1,977	6,842
Accumulated depreciation			
Balance at 1 Jan 2015	961	387	1,348
Impairment	271	149	420
Depreciation	0	53	53
Balance at 31 Dec 2015	1,232	589	1,821
Carrying amount			
Balance at 1 Jan 2015	3,602	474	4,076
Balance at 31 Dec 2015	3,633	1,388	5,021

In 2016, the Company assessed the fair (market) value of properties in Sečovlje. The valuation was carried out by a certified appraiser as at 15 June 2016. The adequacy of used valuation methods applied with land was examined, namely: the market comparison method, the allocation method, the extraction method, the land residual method, the ground rent capitalisation method, the subdivision development method; with respect to the purpose of the valuation, the type of property and available data, the market comparison method was used.

In compliance with the analyses of the real estate market, the conducted valuation methods, assumptions taken into account and limitations of Telekom Slovenije, the fair value of the rights to the real property in Sečovlje was established at EUR 2,992 thousand.

Based on the aforesaid valuation, the Company impaired the investment property in Sečovlje in the amount of EUR 610 thousand and recognised expenses in connection with the impairment of intangible assets, and property, plant and equipment (Note 9).

Investment properties are carried by Telekom Slovenije at their cost. The fair value measurement of investment property was categorised at Level 3.

Revenue generated on investment property in 2016 is recognised in profit or loss in the amount of EUR 181 thousand (2015: EUR 45 thousand). Expenses relating to investment property are recognised in the income statement for 2016 in the amount of EUR 165 thousand (2015: EUR 153 thousand) and disclosed under 'cost of material and energy', 'cost of services', under 'maintenance of property, plant and equipment', and 'costs of other services' (Note 7, Costs of services), and in the item other expenses (Note 9, Other operating expenses), and the item depreciation of investment property (refer to table 'Movement of investment property').

19. Assets held for sale

Assets held for sale relate to land and buildings that Telekom Slovenije intends to no longer use for business purposes in accordance with the restructuring process and the optimisation of real estate, and that are to be sold in the next 12 months according to the decision of the Management Board. Upon their transfer, assets held for sale are transferred to current assets at an amount equal to the lower of their carrying amount and fair value, less costs of sale. Prior to their transfer, the value of assets was determined by a certified appraiser. As at 31 December 2016, assets held for sale (land and buildings) are recorded at EUR 1,818 thousand (2015: EUR 914 thousand). The Company is conducting sales activities on a regular basis.

EUR thousand	Assets held for sale
Balance at 1 Jan 2015	80,788
Increase	3,628
Sale	-80,038
Transfer to property, plant and equipment	-2,827
Impairment	-637
Balance at 31 Dec 2015	914
Increase	932
Sale	-28
Balance at 31 Dec 2016	1,818

Assets held for sale increased in 2016 by EUR 932 thousand due to its transfer from 'property, plant and equipment' to 'assets held for sale'.

Other non-current assets held for sale in 2015 fully to the sale of the companies ONE and Digi Plus Multimedia.

20. Inventories

EUR thousand	2016	2015
Material	10,041	8,448
Merchandise	9,217	14,104
Total inventories	19,258	22,552

Inventories of material increased as a result of higher inventories of telecommunication material and equipment for upgrading the base stations, and material linked to the access appliances. The decline in merchandise relates to lower inventories of mobile phones and a bit of fixed-line phones, and IT equipment.

In 2016, EUR 2,542 thousand of inventories were written off (2015: EUR 2,740 thousand). The respective write-off of inventories was recognised among costs in the income statement (other operating expenses), write-offs of current assets (Note 9, Other operating expenses). Merchandise was valued at its net realisable value at EUR 465 thousand and material at EUR 1,600 thousand. Other inventories are valued at their initial cost as the purchase cost of these inventories was lower from their net realisable value. Inventories are not encumbered or pledged as collateral.

21. Trade and other receivables

EUR thousand	2016			2015
	Gross value	Allowances	Net value	Net value
Trade receivables	129,399	-18,248	111,151	112,576
Receivables due from foreign operators	26,048	-3,709	22,339	18,339
Receivables due from domestic operators	19,898	-14,252	5,646	6,529
Total trade receivables	175,345	-36,209	139,136	137,444
Advances and collaterals	1,137	0	1,137	630
VAT and other tax receivables	4,197	0	4,197	3,747
Other receivables	728	0	728	729
Total other receivables	6,062	0	6,062	5,106
Total trade and other receivables	181,407	-36,209	145,198	142,550

Trade receivables disclose EUR 39,014 thousand of repayment of instalments (2015: EUR 36,870 thousand).

Trade receivables are non-interest bearing.

Movement of allowances for receivables

EUR thousand	2016	2015
Balance at 1 Jan	-32,222	-32,024
Increase due to business combinations	-1,661	0
Allowances	-14,822	-14,715
Reversal of allowances	8,427	11,290
Write-off	4,069	3,227
Balance at 31 Dec	-36,209	-32,222

The method of forming allowances for receivables has not changed in 2016 with respect to the previous year.

22. Short-term deferred costs and accrued income

EUR thousand	2016	2015
Deferred costs	7,885	6,238
Accrued income for services rendered and goods supplied	8,331	3,800
Accrued income and deferred costs – international services	16,420	13,457
Current portion of sales incentives	11,703	10,543
Other	1,104	1,043
Total short-term deferred costs and accrued income	45,443	35,081

Deferred costs relate largely to lease of premises for base stations, lease of lines, maintenance of equipment and software, and deferred costs for radio frequencies.

23. Cash and cash equivalents

EUR thousand	2016	2015
Cash in hand and bank balances	34,448	5,020
Total	34,448	5,020

Bank balances bear interest at bank rates for positive cash balances between 0.001% and 0.01% p.a.

As at 31 December 2016, the Company disclosed open credit lines or revolving loans for balancing liquidity in the amount of EUR 96.5 million. As at 31 December 2016, the respective credit lines were not drawn. The Company has also concluded agreements with the banks on bank overdrafts in the amount of EUR 9 million, which remained unutilised as well. Company's credit lines are outlined in Note 28 Interest-bearing borrowings.

24. Equity and reserves

EUR thousand	31 Dec 2016	31 Dec 2015 restated*
Called-up capital	272,721	272,721
Capital surplus	180,956	180,956
Revenue reserves	237,272	217,042
Legal reserves	50,434	50,434
Treasury share reserve	3,671	3,671
Treasury shares and interests	-3,671	-3,671
Statutory reserves	54,544	54,544
Other revenue reserves	132,294	112,064
Retained earnings	36,256	49,063
Retained earnings from previous periods	16,026	754
Profit for the period	20,230	48,309
Fair value reserve for financial instruments	678	943
Reserve for actuarial gains and losses	-1,828	-1,464
Total equity and reserves	726,055	719,261

* Adjustments are outlined in point e. Changes in accounting policies and retrospective restatement, in Section 2. Basis of preparation.

Called-up capital

Authorised, issued and fully paid-up capital amounts to EUR 272,721 thousand and is divided into 6,535,478 ordinary shares. Ordinary shares are stated at par value. Each ordinary no-par value share has the same share and attributable amount in the share capital. The stake of individual share in the share capital is defined in terms of the number of ordinary shares issued.

Ownership structure

Shareholder	31 Dec 2016		31 Dec 2015	
	No. of shares	Share [%]	No. of shares	Share [%]
Republic of Slovenia	4,087,569	62.54	4,087,569	62.54
Slovenski državni holding d.d. (SDH)	277,839	4.25	277,839	4.25
Individual shareholders	794,839	12.16	768,131	11.75
Other domestic companies	211,488	3.24	237,996	3.64
Kapitalska družba d.d.	365,175	5.59	365,175	5.59
Domestic financial companies and funds	445,871	6.82	500,870	7.66
Foreign companies	322,697	4.94	267,898	4.10
Treasury shares	30,000	0.46	30,000	0.46
Total	6,535,478	100.00	6,535,478	100.00

Note: As of 31 December 2016, the Company started to categorise shareholders in compliance with the Standard classification of institutional sectors

The balances and changes in equity are illustrated in the Statement of changes in equity. The number of issued or withdrawn shares did not change in the reporting period.

Capital surplus

At the end of 2016, capital surplus amounted to EUR 180,956 thousand and can be used under terms and conditions as defined by the legislation. Capital surplus is not to be used for appropriation. Movements in capital surplus are outlined in the statement of changes in equity.

Revenue reserves

The Company forms reserves as part of revenue reserves, which is illustrated below.

Legal reserves are formed in an amount so that the sum of legal reserves and the capital surplus, which

is earmarked for establishing the legally required amount of capital surplus, is added to the 20% of the Company's share capital. As at the reporting date, the Company discloses legal reserves in the amount of EUR 50,434 thousand.

In accordance with the Companies Act, revenue reserves and legal reserves can in their excess amount be used for the share capital increase based on Company's assets and for the coverage of retained losses, if revenue reserves are not simultaneously used for payout of profits to shareholders.

In accordance with the provisions of the Companies Act and the Company's acts and Articles of Association as they relate to the statutory use of the net profit and the defined priority order, the Company did not create legal reserves or statutory reserves in 2016, as it already achieves the maximum allowed amount.

Treasury share reserve is formed in the amount paid for treasury shares. These reserves are not distributable. No treasury shares were acquired by the Company in 2016.

As at 31 December 2016, the Company recorded 30,000 treasury shares (own shares) representing 0.46% of equity. The number of treasury shares has not changed since their acquisition in 2003. Treasury shares in the amount of EUR 3,671 thousand are disclosed as equity's deductible item and at their cost. Reserves for own share are formed in the same amount in compliance with legal requirements.

The Company may acquire treasury shares for purposes as defined by provisions of Article 247 of the Companies Act [ZGD-1].

Statutory reserves are used for forming the treasury share reserve, for covering losses, for share capital increases, and for covering diverse operating and other risks. Company form statutory reserves until amount reaches 20% of company's share capital. These reserves can be used in accordance with the articles of association, namely for the share capital increase, for the coverage of current and brought forward loss if this loss cannot be settled by means of any other sources, and for creating treasury shares if no other funds are available.

Other revenue reserves can be used for any purpose in accordance with the law, the Company's Act and Articles of Association, business policy and resolutions adopted by the General Meeting of Shareholders. EUR 20,230 thousand were allocated by the Company in 2016 for increasing other revenue reserves.

Retained earnings or losses

Retained earnings include retained earnings from previous periods and profit for the reporting period.

Based on resolutions of the 27th General Meeting of Shareholders of Telekom Slovenije, d.d. held on 13 May 2016, the resolution on the allocation of accumulated profit was adopted. The accumulated profit for 2015 is recorded at EUR 42,253,947.72 and was used for the dividend pay-out in the amount of EUR 32,527,390.00 i.e. EUR 5.00 gross per share [in 2015, dividends for the fiscal year 2014 were paid out in the amount of EUR 65,054,780.00 or EUR 10.00 per share]. The residual part in the amount of EUR 9,726,557.72 and is transferred to the next year.

Dividends were paid to the shareholders, which were two working days after the resolution's adoption by the company's General Meeting of Shareholders registered in the share register as stock holders with the right to dividends i.e. within 90 days after the adoption of this resolution at the General Meeting of Shareholders.

Accumulated profit for 2016

	in EUR
Net profit for 2016	40,459,557.95
Retained earnings	16,026,243.01
Increase in revenue reserves	-20,229,778.00
Decrease in long-term deferred costs of development	-3,421,026.89
Total	32,834,996.07

Proposed dividend pay-out for 2016

Amount of dividend paid:

EUR 32,527,390.00

Dividend per ordinary share:

EUR 5.00

Fair value reserve for financial instruments

Fair value reserve for financial instruments includes the change in the fair value of investments available for sale.

Change in fair value reserve for available-for-sale investments

EUR thousand	2016	2015
Balance at 1 Jan	943	954
Revaluation of available-for-sale investments (increase in value)	1	-14
Deferred taxes	0	3
Reclassification of revaluation of available-for-sale of investments to profit or loss	-300	0
Deferred taxes on reclassification of revaluation of available-for-sale of investments to profit or loss	51	0
Change in deferred taxes due to tax rate restatement	-17	0
Balance at 31 Dec	678	943

Reserve for actuarial deficits and surpluses

Reserve for actuarial surplus or deficit includes changes in the present value of payables to employees due to changed actuarial assumptions and on the basis experience-based adjustments. As at the reporting date, it declined by EUR 364 thousand and as at 31 December 2016 amounted to EUR -1,828 thousand [2015: EUR 1,464 thousand].

25. Long-term deferred income

EUR thousand	2016	2015
Co-location billed in advance	7,366	6,603
Other long-term deferred income	2,503	2,920
Total long-term deferred income	9,869	9,523

Accrued co-locations relate to payments received in advance for renting certain premises and equipment to other operators.

26. Provisions

Movement in provisions in 2016

EUR thousand	2015	Increase due to business combinations	Utilisation	Reversal	Formation	Change in discount rate	2016
Provisions for probable payments resulting from legal actions	20,339	0	-1,346	-1,992	2,966	0	19,967
Provisions for retirement benefits and jubilee premiums	9,497	123	-234	-336	529	169	9,748
Provisions for estimated costs of base stations removal	3,155	0	-9	1	66	232	3,445
Other provisions	168	0	-179	0	125	0	114
Provisions for restructuring	7,493	0	-7,493	0	2,718	0	2,718
Total	40,652	123	-9,261	-2,327	6,404	401	35,992

Movement in provisions in 2015

EUR thousand	2014	Utilisation	Reversal	Formation	Change in discount rate	2015
Provisions for probable payments resulting from legal actions	55,039	-30,200	-4,500	0	0	20,339
Provisions for retirement benefits and jubilee premiums	9,227	-405	0	526	149	9,497
Provisions for estimated costs of base stations removal	3,032	-4	-7	24	110	3,155
Other provisions	142	-189	0	215	0	168
Provisions for restructuring	7,300	-7,300	0	7,493	0	7,493
Total	74,740	-38,098	-4,507	8,258	259	40,652

Provisions for probable payments resulting from legal actions

Provisions for probable payments resulting from legal actions are created on the basis of the estimated outcome of the actions, conducted with great caution. The date of payment cannot be determined. The relevant actions refer among others to the alleged abuse of holding a controlling market position, where Telekom Slovenije conducts its business operations, for which the Competition Protection Office of the Republic of Slovenia (AVK) began several ex officio processes in previous years. Actions in relation to which provisions were formed are at various stages. The Company was primarily successful in cases that finally concluded up to this date, which is also published in accordance with the Stock Exchange's rules. On the basis of management's estimate and obtained legal opinions, provisions in the amount of EUR 19,967 thousand (2015: EUR 20,339 thousand) were formed.

In 2016, total damages claimed by pending legal actions brought against Telekom Slovenije amount to EUR 259,463 thousand (2015: EUR 305,400 thousand) as outlined in Note 35 Contingent liabilities.

Provisions for estimated costs of the removal of base stations

Provisions were formed in the amount of the estimated cost of removal discounted to present value by using the discount rate of 1.75% p.a. (2015: 2.15% p.a.) which equals the 2016 year-end yield on 15-year gilt-edged bonds from euro area issuers.

Provisions for retirement benefits and jubilee premiums

Provisions for retirement benefits upon retirement are based on actuarial calculations. The calculations applied the discount rate of 1.75%, which equals the 2016 year-end yield on 15-year gilt-edged bonds from euro area issuers (2015: the discount rate was 2.15%). The rate of staff fluctuation takes account of the age interval ranging from 0% to 3.5% (2015: discount rate ranged from 0% to 3.5%). Liabilities recorded by the Company equal their present value of estimated future payments. The Company records no other retirement-related liabilities.

Provisions for restructuring activities

In 2016, the Company fully used provisions for restructuring the companies in the amount of EUR 7,300 thousand that were created in the previous reporting year. Pursuant to the business plan, the Company created provisions in the amount of EUR 2,718 thousand for restructuring activities that shall be used for severance pay. The relevant provisions will be reversed in 2017.

27. Non-current operating liabilities

EUR thousand	2016	2015
Contractual liabilities for software rights – TV contents	9,703	1,793
Microsoft licences	1,695	0
Other	3	263
Total non-current operating liabilities	11,401	2,056

Liabilities for software rights increased in 2016 due to new recognised contracts for ensuring TV-contents.

28. Interest-bearing borrowings

This note provides information about the contractual terms of the interest-bearing borrowings. For more information relating to interest rate and foreign currency risk management refer to Note 38 – Financial risk management.

EUR thousand	2016	2015
Long-term borrowings		
Borrowings from banks	0	5,387
Total long-term portion	0	5,387
Short-term borrowings		
Bank borrowings	0	50,500
Borrowings from Group companies	2,000	1,950
Current maturity of long-term borrowings	304,316	30,160
Interest	0	27
Total short-term portion	306,316	82,637

Contractual provisions of long-term borrowings

EUR thousand	Long-term portion 31 Dec 2016	Short-term portion 31 Dec 2016	Agreed interest rate	Last payment due	Collateral
Long-term financial liabilities to banks		305,387	3-month EURIBOR + 0.083%	2017	unsecured
			3-month EURIBOR + 0.105%	2017	unsecured
			6-month EURIBOR + 1.65%	2023	blank bills of exchange
			6-month EURIBOR + 1.70%	2021	blank bills of exchange
			6-month EURIBOR + 1.60%	2018	blank bills of exchange
Financial liabilities to Group companies		2,000	0.121 %	2016	

The Company records short-term credit lines or revolving loans, which are secured by blank bills of exchange. Short-term credit lines or revolving loans mature in 2017 and are subject to fixed or variable interest rates and a mark-up ranging from 0.90% to 3.00%. In addition, the Company concluded agreements with banks on bank-account overdrafts subject to an interest rate ranging from 1.50% to 3.80%.

All borrowings from foreign and domestic banks are recorded in euro (EUR) and subject to variable interest rates.

Banks that have approved non-current loans require that Telekom Slovenije financial ratios specified in loan agreements be maintained, including: share of servicing the debt, share of servicing the interest, the debt/equity ratio, the net financial debt/EBIDTA ratio, the equity's share in the sum of total liabilities and equity, and the EBIDTA/finance costs ratio. Failure to achieve these covenants may result in a demand for early repayment of these borrowings. As at 31 December 2016, all financial covenants on the Company level were achieved. Solely one of the remaining contractual provisions was breached, hence the Company transferred the non-current liability of EUR 300,000 thousand as at 31 December 2016 to current liabilities. The lending banks already issued a waiver with respect to the breach provision.

29. Other non-current financial liabilities

EUR thousand	2016	2015
Liabilities under bonds issued	99,857	0
Total other non-current financial liabilities	99,857	0

Telekom Slovenije issued in June 2016 bonds in the par value of EUR 100,000 thousand with a fixed annual interest rate of 1.95% and the maturity on 10 June 2021. The total issue comprises 100,000 denominations per EUR 1,000. The interest are due for payment on an annual basis, whereby the par value in a full single amount. The bonds are valued at the amortised value by applying the effective interest rate of 1.994%.

30. Trade and other payables

EUR thousand	2016	2015
Trade payables	82,119	78,238
Payables to domestic operators	3,743	2,992
Payables to foreign operators	16,248	14,477
VAT and other tax payables	4,683	5,657
Payables to employees	6,838	8,810
Payables for advances and securities	351	465
Other payables	11,955	9,524
Total trade and other payables	125,937	120,163

Trade payables are non-interest bearing and are generally settled between 8 and 120 days. Payables to operators are non-interest bearing and are normally settled in an agreed-upon term between 15 and 60 days from the date of the invoice's issue.

Other liabilities comprise predominantly liabilities arising from assignments, payables to suppliers of goods and services [Moneta], liabilities under transactions involving commission, and the short-term portion of recognised contracts for providing TV-contents.

31. Other current financial liabilities

EUR thousand	2016	2015
Dividends paid	208	197
Bonds issued	1,053	299,911
Other financial liabilities	3,059	3,059
Total other current financial liabilities	4,320	303,167

The bond issued by Telekom Slovenije in December 2009 at the par value of EUR 300,000 thousand was repaid in December 2016.

32. Short-term deferred income

EUR thousand	2016	2015
Deferred income from the sale of prepaid cards	1,565	1,619
Short-term portion of co-locations	1,621	1,832
Current portion of government grants for property, plant and equipment	234	123
Other deferred income	1,190	1,352
Total short-term deferred income	4,610	4,926

The item of other deferred income comprises mostly the new customer loyalty programme and services relating to the information and telecommunications technologies.

33. Accrued costs and expenses

EUR thousand	2016	2015
Accrued costs and expenses for services rendered and goods supplied	18,055	13,378
Accrued costs and deferred income – international services	16,522	12,555
Accrued wages and bonuses	1,689	737
Accrued costs for unused vacation days	3,639	3,531
Other	6	26
Total accrued costs and expenses	39,911	30,227

34. Carrying amounts and fair values

The note hereof contains data on the classification in terms of fair value hierarchy solely for financial assets and financial liabilities that are measured at fair value or those whose fair value is disclosed.

Carrying amounts and fair values as at 31 December 2016

EUR thousand	Carrying amount	Fair value	Level 1	Level 2	Level 3
Investment property	4,180	4,180			4,180
Non-current financial assets					
Available-for-sale financial assets	1,454	1,454	1,454		
Loans given	124,047	124,047			124,047
Current financial assets					
Loans given	9,662	9,662			9,662
Non-current financial liabilities					
Bonds	99,857	104,000	104,000		
Current financial liabilities					
Bonds	-42	-42			
Interest on bonds	1,095	1,095			1,095
Interest-bearing borrowings	306,316	306,316			306,316
Other financial liabilities	3,267	3,267			3,267

Carrying amounts and fair values as at 31 December 2015

EUR thousand	Carrying amount	Fair value	Level 1	Level 2	Level 3
Investment property	5,021	5,021			5,021
Non-current financial assets					
Available-for-sale financial assets	1,453	1,453	1,453		
Loans given	130,880	130,880			130,880
Current financial assets					
Loans given	11,541	11,541			11,541
Non-current financial liabilities					
Interest bearing borrowing	5,387	5,387			5,387
Current financial liabilities					
Bonds	299,471	308,640	308,640		
Interest on bonds	440	440			440
Interest-bearing borrowings	82,637	82,637			82,637
Other financial liabilities	3,256	3,256			3,256

The respective table is exclusive of trade receivables and liabilities as they are explicitly of current nature and generally settled in less than 180 days.

Further, the table is exclusive of investments that are valued by the Company at cost. The value of these investments is as at 31 December 2016 recorded at EUR 967 thousand (2015: EUR 1,755 thousand). The same applies for investments in subsidiaries, associates and joint ventures that are measured by applying the cost model as well (Note 15 Investments in subsidiaries).

Assets and liabilities whose fair values are not established are not grouped in any fair value category.

35. Contingent liabilities

Liabilities and receivables under the operating lease

Company as the lessee

Liabilities from operating leases include property, plant and equipment and primarily relate to leased lines, business premises leases and base stations leases.

Payable in (EUR thousand)	2016	2015
1 year	25,340	21,170
1 to including 5 years	93,695	81,590
more than 5 years	105,971	90,054

The basis for stipulating lease payments on the domestic market are sample contracts for regulated services, and commercial fees for non-regulated services.

As regards the international segment, the fees are stipulated in view of demand by taking into account the price guidelines that apply for domestic operators.

Lease contract are concluded for an indefinite or definite period of time with the option of prolongation that is subject to new negotiations. The client may terminate the contract or order in accordance with provisions of the contract or order. In case of premature cancellation, the customers are charged penalties.

Lease payments for business premises and base stations are defined on the basis of the agreed price with the lessor and previous rents. In cases, where the operator acts as owner, the amount of the rent is defined in view of his price list and a comparison with the own price list for letting out premises. Lease contracts are concluded for an indefinite period of time or for 15 years with the possibility of prolongation based on renegotiations. Contracts concluded for an indefinite period can be terminated when following terms and conditions exist:

- the lessee can terminate the contract within 3 months in case the respective asset does not meet the technical requirements or is no longer required;
- the resolutive condition or if the lessee fails to obtain the permit for constructing the base station within the period of 2 years;
- the owner of the property can submit a consensual termination in case the local people are against the construction of the base station (after negotiations and providing clarification regarding the base station's working);
- the owner can terminate the contract without observing a notice period if the lessee destroys the building;
- a notice period of 3 to 12 months applies in case the lessee violates provisions of the concluded contract;
- the possibility of termination by the owner within 1 year pursuant to provisions of the Code of Obligations and the Office Buildings and Business Premises Act.

In 2016, Company's income statement includes EUR 23,356 thousand of costs for operating lease (2015: EUR 22,556 thousand), which are disclosed among costs of lease of lines and of property, plant and equipment [Note 7, Costs of services].

Company as the lessor

Receivables from operating leases relate to the lease of property, plant and equipment. They refer primarily to lease of lines, lease of business premises and base stations.

Payable in (EUR thousand)	2016	2015
1 year	40,347	39,328
1 to including 5 years	150,748	153,513
more than 5 years	187,367	190,244

The basis for lease payments made on the domestic and international segment are formed by applying the same terms and conditions as when the Company acts as lessee.

Lease contract are concluded for an indefinite or definite period of time with the option of prolongation that is subject to new negotiations.

Lease contracts for business premises and equipment are largely concluded for an indefinite period of time (one major contract is concluded for a definite period of 5 years). The notice period differs i.e. from 2 to 12 months.

As at 31 December 2016, income from operating leases recognised in the income statement amounted to EUR 43,077 thousand (2015: EUR 42,115 thousand); they are recorded among revenue from sale of services on the domestic and foreign market [Note 5, Revenue].

Contingencies from legal actions

EUR thousand	2016	2015
Contingencies from legal actions	259,463	305,400

At the reporting date, the Company recorded 56 (2015: 61) pending legal actions brought against it, whereof the largest three refer to T-2 (EUR 129,557 thousand), to Telemach or former Tušmobil (EUR 87,392 thousand) and SKY NET (EUR 33,047 thousand).

Based on the agreement made in February 2017, the exposure of Telekom Slovenije arising on legal actions will decline by EUR 87,392 thousand [Note 41, Events after the reporting date].

The relevant cases are at various stages, namely:

- in the business dispute filed by T-2 against Telekom Slovenije, the claim of T-2 was finally refused. T-2- filed revision against the judgement of the Higher Court in Ljubljana, yet the Supreme Court of the Republic of Slovenia has not yet ruled on that matter. The proposal of T-2 for renewing the closing proceedings was finally refused in 2016.
- Telemach [former Tušmobil] filed against Telekom Slovenije a claim for the payment of EUR 28,176 thousand, which was finally refused in the amount of EUR 26,784 thousand. As for the difference [i.e. EUR 1,392 thousand], the Higher Court in Ljubljana reversed the judgement and returned it to the District Court for a new trial with a new judge.
- as for the legal action filed by Telemach [former Tušmobil] against Telekom Slovenije due to the payment of EUR 86,000 thousand, proceedings are currently at the first instance level where charges are filed by both parties.
- in the business dispute of SKY NET against Telekom Slovenije regarding the payment of a compensation of EUR 25,960 thousand, the primary claim of SKY NET-a was finally refused. The District Court will in a new trial decide on a sub-ordinate claim i.e. implementation of a contract.
- in the business dispute of SKY NET against Telekom Slovenije regarding the implementation of a contract worth EUR 7,087 thousand, the District Court in Ljubljana has based on a decision merged the relevant legal action with the trial mentioned in the previous line; hence both are now conducted under the same case.

Based on the obtained legal opinions and the estimate of the management, the Group formed provisions for legal actions in the amount of EUR 19,967 thousand [Note 26 Provisions].

Given the proceedings' progress, it is difficult to provide an estimate of the completion of individual matter.

Guarantees issued

EUR thousand	2016	2015
Performance bonds and guarantees for repairs	5,878	3,366
Guarantees for securing contractual liabilities	2,453	3,166
Other securities	268	2,851
Total guarantees	8,599	9,383

The issued guarantees in the amount of EUR 2,453 thousand refer to guarantees issued by Telekom Slovenije to banks for insuring the liabilities of its subsidiaries. Telekom Slovenije charges its subsidiaries a compensation at 1.0% p.a. of the guarantee's value and the Company's recognises them among revenue from sale of services on the domestic and foreign market [Note 5, Revenue].

None of the stated liabilities meets the terms for recognition among balance sheet items. Thus, no related material consequences are expected.

Supporting letter given

The parent company Telekom Slovenije undertook in written form to ensure the companies TSmedia, IPKO Telecommunications and Antenna TV SL in the period up to 31 December 2017 financial support in a scope required to provide for adequate capital structure and solvency of the subsidiaries so that they can in due time settle all their due liabilities.

36. Related party transactions

Related entities are individuals or companies that are linked to the Telekom Slovenije.

Transactions with individuals

Natural persons or individuals [the President and members of the Management Board, and the Chairman and members of the Supervisory Board members] hold a total of 1,542 shares [TSLG] representing an equity holding of 0.02361%. The remaining members of the Management and Supervisory body own no shares.

No loans were extended to related individuals in 2016.

Data on groups of persons

EUR thousand	Total gross receipts	Loans	
		Unpaid portion at 31 Dec 2016	Repayments in 2016
Total Management Board members	713	-	-
• Rudolf Skobe	177	-	-
• Tomaž Seljak	164	-	-
• Aleš Aberšek	120	-	-
• Ranko Jelača	124	-	-
• Vesna Lednik	113	-	-
• Mateja Božič	14	-	-
Supervisory Board members	254	-	-
Members of Supervisory Board Committees	23	-	-
Other managers and staff employed under individual contracts that are not subject to the tariff part of the collective agreement	5,039	16	6

Loans to other managers and employees under individual employment contracts and the collective agreement were approved at interest rates ranging from 4.01% to 4.13% p.a. They were approved in the amount of EUR 67 thousand with a repayment period of up to 15 years.

The Company has not granted any advances or guarantees to the respective groups of persons and does not record any write-offs or remitted amounts.

Remuneration paid to Management Board members (breakdown)

in EUR	Salary	Variable earnings*	Reimbursement of costs	Vacation bonus	Insurance premiums	Benefits	PDPZ	Total gross **	Total net ***
Rudolf Skobe (1 Jan - 31 Dec)	141,012	21,200	2,321	1,100	721	8,210	2,819	177,383	75,255
Tomaž Seljak (1 Jan - 31 Dec)	141,012	9,994	2,146	1,100	721	6,292	2,819	164,084	71,214
Aleš Aberšek (15 Mar - 31 Dec)	106,063	-	1,228	825	2,742	6,900	2,114	119,872	48,164
Ranko Jelača (15 Mar - 31 Dec)	112,068	-	1,296	825	677	7,421	2,114	124,401	54,322
Vesna Lednik (1 Jan - 31 Dec)	98,702	2,499	1,289	1,100	721	5,709	2,819	112,839	49,685
Mateja Božič (1 Jan - 12 Jan)	4,529	9,445	43	-	61	169	89	14,336	6,519
Total	603,386	43,138	8,323	4,950	5,643	34,701	12,774	712,915	305,159

*Variable earnings refer to the performance bonus paid for previous years, namely:

- Rudolf Skobe: for 2013 and 2015

- Tomaž Seljak: for 2015, while for 2013 he received an annual bonus for holding the office as Division Manager

- Vesna Lednik: for 2015

- Mateja Božič: for 2013

** The total gross amount includes all types of employee benefits expense (reimbursement of costs), insurance premiums, benefits and voluntary supplementary pension insurance (PDPZ).

***The total net amount comprises the sum of net earnings of Management Board members, inclusive of insurance premiums and benefits, which actually reduce the net earnings of Management Board members, and exclusive of PDPZ, which is remitted to the pension company.

Members of the Management Board did not receive any shares in profit, options, commissions or other earnings.

Liabilities to related parties

The company Telekom Slovenije d.d. records liabilities to related entities arising from earnings that have not yet been paid out (Company's liabilities for performance bonuses for 2015) and amount as follows:

EUR thousand	Total amount of liabilities
Management Board members	11
Other managers and staff employed under individual contracts that are not subject to the tariff part of the collective agreement	0

Remuneration paid to Supervisory Board Members (breakdown)

in EUR	Attendance fees	Basic payment for performing the job	Committees	Travel allowance	Liability insurance	Total gross*	Total net**
External members							
Borut Jamnik (1 Jan - 31 Dec)	4,345	28,000	2,655	-	322	35,322	25,455
Tomaž Berločnik (1.1. - 31 Dec)	4,785	19,250	660	-	322	25,017	17,961
Adolf Zupan (1 Jan - 31 Dec)	5,020	22,400	1,980	1,221	322	30,943	22,271
Bernarda Babič (1 Jan - 31 Dec)	4,345	19,250	2,655	3,112	322	29,684	21,355
Marko Hočevar (1 Jan - 31 Dec)	3,920	21,000	3,080	-	322	28,322	20,364
Matej Golob Matzele (1 Jan - 12 May)	2,255	7,677	1,100	-	-	11,032	8,024
Dimitrij Marjanovič (13 May - 31 Dec)	2,255	11,798	1,320	-	322	15,695	11,181
Internal members							
Primož Per (1 Jan - 31 Dec)	5,020	17,500	1,980	-	322	24,822	17,819
Samo Podgornik (1 Jan - 31 Dec)	5,060	17,500	660	-	322	23,542	16,888
Dean Žigon (1 Jan - 31 Dec)	4,345	22,400	2,655	-	322	29,722	21,383
Total	41,350	186,775	18,745	4,333	2,898	254,101	182,701

* The total gross amount includes the sum of all attendance fees, basic salaries for holding the office, payments by committees, including net earnings (travel allowance) and liability insurance.

**The total net amount represents the sum of net earnings of Supervisory Board members, inclusive of liability insurance, which actually reduces net earnings of Supervisory Board members, and travel expenses.

Members of the Supervisory Board received no other payments.

Remuneration of Members of the Supervisory Board Committees (breakdown)

in EUR	Attendance fees	Basic payment for performing the job	Committees	Travel allowance	Liability insurance	Total gross*	Total net**
External members							
Barbara Nose (1 Jan – 31 Dec)	-	8,750	3,080	-	-	11,830	8,604
Mladen Kaliterna (1 Apr – 30 Apr)	-	583	660	-	-	1,243	904
Miha Kerin (1 Jul – 31 Dec)	-	3,500	660	-	-	4,160	3,026
Alenka Stanič (1 Apr – 30 Apr, 1 Jul – 31 Dec)	-	4,083	1,320	-	-	5,403	3,930
Total	0	16,916	5,720	0	0	22,636	16,464

* The total gross amount includes the sum of the basic salary for holding the office and payments by committees.

** The total net amount refers to net earnings of the Supervisory Board Committee member.

Transactions with Group companies

EUR thousand	2016	2015
Receivables due from Group companies	14,631	12,563
Subsidiaries	14,631	12,402
Associates	-	161
Loans to Group companies	132,522	136,668
Subsidiaries	132,522	136,668
Liabilities to Group companies	21,386	14,211
Subsidiaries	21,384	13,753
Joint ventures	2	2
Associates	-	456
Revenue	19,738	23,504
Subsidiaries	18,572	21,986
Associates	1,166	1,518
Purchase of material and services from Group companies	41,206	49,518
Subsidiaries	39,932	48,093
Joint ventures	8	8
Associates	1,266	1,417

Telekom Slovenije, d. d. generates income from sale of material to the company GVO, rental income from renting of business promises, property, plant and equipment, and revenue from the provision of telecommunication services and support services. The Company settles costs of constructions, maintenance and elimination of errors.

TSmedia pays for telecommunication and call centre services, maintenance, for development and purchase of multimedia platforms and contents, for business support services, lease of digital displays and lease for business premises. TSmedia charges the parent company the sale and management of multimedia services and contents, the use of the BiziPro application, services in connection with the universal directory department, the 1977 services, managing of ads and sale of advertising in its media. In addition, the company records income relating to phone directory, Bizi.si directory, income relating to call centre services, which are charged to end-customers by Telekom Slovenije.

Telekom Slovenije generates income from Avtenta in connection with the lease of business premises, the provision of telecommunications services on location and support services. The parent company pays Avtenta also for costs of IKT services.

Telekom Slovenije charges the IPKO company for international IP services, roaming, transit calls, and services relating to the lease of systems and support. The subsidiary charges the parent company the lease of lines and international telecommunications services, as well as roaming-related services.

Company's receivables due from the subsidiary Blicnet include international IP-services and transit-related services. The subsidiary charges the company the lease of lines and international telecommunications services.

The aforementioned intragroup transactions are concluded on an arm's length basis.

As at the reporting date, the Company records no guarantees and collaterals provided to subsidiaries.

Loans to subsidiaries

EUR thousand	2016	2015
GVO	1,502	3,505
TSmedia	3,894	6,524
IPKO	112,788	116,888
SOLINE	3,164	3,470
SiOL Zagreb	131	0
BLICNET	4,471	5,231
SiOL Sarajevo	200	0
SiOL Skopje	520	740
SiOL Beograd	210	310
Antenna TV SL	5,642	0
Total	132,522	136,668

Transactions with owners and their related entities

The largest owner of Telekom Slovenije is the Republic of Slovenia, which together with the Slovenski državni holding (SDH) holds a 66.75% share in the company Telekom Slovenije d.d.

Companies related to the owners are those, in which the Republic of Slovenia and the SDH hold in total at least a share of 20%. The list of these companies is published on the web site of SDH (<http://www.sdh.si/sl-si/upravljanje-nalozb/seznam-nalozb>).

Total value of transactions is outlined in the table below.

Receivables and liabilities

EUR thousand	2016	2015
Outstanding operating receivables	1,615	1,823
Outstanding operating liabilities	1,036	1,003

Income and expenses

EUR thousand	2016	2015
Operating income	14,809	8,101
Purchase costs of material and services	7,383	7,878

Related party transactions are carried out by applying the market prices.

37. Auditor's fee

EUR thousand	2016	2015
Audit services	70	85
Other services of providing assurance	5	4
Other non-audit services	4	1
Total auditor's fees	79	90

Costs hereunder include the fee for the auditor of Telekom Slovenije's annual report of. In 2016, Telekom Slovenije had additional costs in connection with non-audit services rendered by the network of KPMG audit companies in the amount of EUR 143 thousand [2015: EUR 32 thousand].

38. Financial risk management

The most significant among financial risks are the credit risk, the long-term and short-term liquidity risk, and the interest-rate risk. Exposure to individual risks and measures for their management is conducted on the basis of effects on cash flows and finance costs. Exposure to foreign currency risk is estimated as low, hence solely natural hedging methods are applied for balancing the risks. The most significant financial risks, which are assessed in line with the adopted policy on an ongoing basis as well as the adequacy of measures adopted for their management, are outlined below.

Credit risk

Credit risk is the risk that one party to a contract will fail to settle its liabilities and cause the other party to incur a financial loss.

The maximum exposure to credit risk equals the carrying amount of financial assets that as at 31 December 2016 amounts as follows:

Credit risk exposure

EUR thousand	2016	2015
Loans given	133,709	142,421
Other investments	122,864	100,228
Trade and other receivables	145,198	142,550
• whereof trade receivables	139,136	137,444
Cash and cash equivalents	34,448	5,020
Total	436,219	390,219

The credit risk or failure to meet obligations by the counter-party refers to non-payment of liabilities by customers (retail sale) and by operators (wholesale), partly also from loans given. Trade receivables represent the highest exposure to credit risk. They amounted as at 31 December 2016 to EUR 139,136 thousand and indicate an increase by EUR 1,692 thousand.

The risk is dispersed due to the large number of customers, which specifically holds true for the retail segment. Receivables due from domestic customers account for 84% of total receivables; the relevant difference relates to receivables due from foreign customers. Operators from abroad account for the largest share among foreign customers. The highest exposure to an individual customer accounted in 2016 for 2% within the total credit risk exposure structure.

Credit risk is managed primarily by establishing the business partners' credit rating on an on-going basis and a disciplined collection of receivables. The Company defines the credit ratings of business users based on its own developed rating model, which contributes to efficient credit risk management and serves as an additional indicator for increasing customer services during sales procedures. The basic measure of credit risk management is an ongoing collection pursuant to the time schedule and the exclusion of non-payers at the end. Monitoring traffic, informing customers about increased use and prevention and early detection of fraud, are an additional measure.

In compliance with the Rules on receivables management, the more risky partners are required to provide insurance for possible receivables i.e. on the operator-related part of the bank guarantee and bills, as well as on the retail-related part of bills and sureties. As at 31 December 2016, short-term received collateral on the operator-related were recorded in the amount of EUR 258 thousand.

Pre-court and court collections are carried out in compliance with the policy adopted. Receivables are impaired pursuant to accounting policies, whereby the age criteria of each individual receivable is taken into account. Allowances are formed for trade receivables in view of the creditworthiness of each individual customer, past experiences and expectations in the accounting period. As the result of introduced procedures for managing receivables, the Company assesses credit risk as manageable.

Aging structure of trade receivables as at the reporting date

EUR thousand	2016			2015		
	Gross value	Allowance	Net value	Gross value	Allowance	Net value
Total trade receivables	175,345	-36,209	139,136	169,666	-32,222	137,444
Undue trade receivables	121,606	-4	121,602	93,402	-8	93,394
Due						
• less than 30 days	9,593	-6	9,587	15,954	-8	15,946
• 31 to and including 60 days	3,628	-5	3,623	13,783	-11	13,772
• 61 to and including 90 days	1,169	-7	1,162	11,956	-12	11,944
• 91 to and including 120 days	888	-548	340	1,496	-147	1,349
• more than 121 days	38,461	-35,639	2,822	33,075	-32,036	1,039
Total due trade receivables	53,739	-36,205	17,534	76,264	-32,214	44,050
Other trade receivables	6,062	0	6,062	5,106	0	5,106
Total receivables	181,407	-36,209	145,198	174,772	-32,222	142,550

The Company is closely monitoring the credit risk also on other segments of business operations. Bank balance are allocated by applying the risk avoidance criteria and observing the proper diversification of investments. The Company is exposed to risk also based on its receivables due from the deferred disposal of its investment in the company ONE.VIP and the loans extended to subsidiaries, third parties and employees. The Company manages the risk that arises from the default of the counterparties based on by means of diverse collaterals in loan agreements such as the establishment of pledges and mortgages, withdrawal from existing and future receivables, pledges of equity interests, guarantee statements or any other form of insurance. The Company regularly monitors and controls the business operations of subsidiaries and thereby additionally limits the credit risk in this relation.

Maturity profile of loans given

EUR thousand	2016	2015
Due	70	429
Undue:	133,639	141,992
• less than 3 months	1,214	975
• 3 to 12 months	8,378	10,137
• 1 to 2 years	12,138	4,093
• 2 to 5 years	37,352	25,340
• more than 5 years	74,557	101,447
Total	133,709	142,421

Aging structure of loans given as at 31 December 2016

EUR thousand	Undue	Past due					Total
		Less than 3 months	3 to 12 months	1 to 2 years	2 to 5 years	More than 5 years	
Loans given	133,639	29	12	0	29	0	133,709

Aging structure of loans given as at 31 December 2015

EUR thousand	Undue	Past due					Total
		Less than 3 months	3 to 12 months	1 to 2 years	2 to 5 years	More than 5 years	
Loans given	142,326	65	0	30	0	0	142,421

Short-term liquidity risk

The Company successfully manages the liquidity risk. Cash flows are relatively stable and foreseeable, which additionally contributes to the efficient planning and balancing of the liquidity position.

Liquidity is monitored on a daily basis and planned on a monthly, bi-monthly forecast and annual basis, which facilitates the timely detection of possible deficits in liquid assets. By means of short-term revolving loans from banks and subsidiaries and bank overdrafts, the Company is able to provide for a short-term balancing of cash flows and to meet all its due liabilities at any time.

Company's total liquidity reserve in form of short-term borrowings from banks and subsidiaries, bank overdrafts and bank balances amounted as at 31 December 2016 to EUR 105.5 million.

Upon their maturity in December 2016, the Company repaid the liabilities arising on the issue of bonds in the amount of EUR 300 million. The liabilities were refinanced by means of a long-term syndicated loan in the equal amount. The loan agreement was signed in March 2016. Accordingly, Telekom Slovenije prematurely ensured the required funds and thereby eliminated the risk of refinancing and took advantage of favourable borrowing conditions on the bank market.

In compliance with requirements of the applicable accounting standards, liabilities arising on loans and borrowings were at the year-end of December 2016 classified in accounting records as current liabilities, due to breach of provisions of a loan contract. The lending banks issued a waiver to the Company in February 2017, thus no risks in this relation exist.

Maturity profile of Company's liabilities as at 31 December 2016 and 31 December 2015 based on contractual undiscounted payments

EUR thousand	Past due	On demand	Less than 3 months	3 to 12 months	1 to 2 years	2 to 5 years	More than 5 years	Total
2016								
Loans and borrowings	0	0	0	307,387	0	0	0	307,387
Anticipated interest on loans	0	0	1	4,942	0	0	0	4,943
Other financial liabilities	3,267	0	0	1,095	0	100,000	0	104,362
Anticipated interest on bonds	0	0	0	1,950	0	0	0	1,950
Trade and other payables	9,467	1,294	105,459	9,717	6,632	4,769	0	137,338
Total	12,734	1,294	105,460	325,091	6,632	104,769	0	555,980
2015								
Loans and borrowings	0	0	72,608	10,029	5,387	0	0	88,024
Anticipated interest on loans	0	0	120	23	0	0	0	143
Other financial liabilities	198	0	3,059	299,910	0	0	0	303,167
Anticipated interest on bonds	0	0	0	14,625	0	0	0	14,625
Trade and other payables	35,057	465	76,709	7,932	1,250	806	0	122,219
Total	35,255	465	152,496	332,519	6,637	806	0	528,178

Long-term liquidity risk

In 2016, the Company obtained a new borrowing in the amount of EUR 400 million i.e. EUR 300 million through a syndicated loan and EUR 100 million through the issue of 5-year bonds. The borrowing is divided into three tranches with a diverse repayment dynamics, which will relieve the future cash flow of major single maturities of the loan. The Company significantly improved the structure of financial sources by means of new long-term sources of finance.

Furthermore, Company's successful business operations increase its equity and ensures long-term liquidity.

The key purpose of managing Company's equity is the capital adequacy and the Company's financial stability.

The Company monitors the movement of capital using the net financial debt/equity ratio and the equity/balance sheet sum ratio. Company's net financial debt includes interest-bearing borrowings and other financial liabilities less current investments and cash with short-term deposits. Ratios and financial covenants under loan contract are observed while adopting decisions relating to capital management.

The Company discloses relatively low borrowing rate, which is considered a good basis for achieving an adequate credit rating and accordingly lower borrowing costs.

EUR thousand	2016	2015 restated*
Interest-bearing borrowings and other financial liabilities	410,493	391,191
Less current investments and cash with short-term deposits	-166,974	-116,789
Net debt	243,519	274,402
Equity	726,055	719,261
Balance sheet total	1,364,427	1,318,192
Debt/equity ratio	33.5 %	38.2 %
Equity/balance sheet total ratio	53.2 %	54.6 %

* Adjustments are outlined in point e. Changes in accounting policies and retrospective restatement, in Section 2. Basis of preparation.

Interest rate risk

Interest-rate risk is the risk of the negative impact of changes in market interest rates on the results of the Company's operations. As at the reporting date, the Company's interest rate exposure arises from the possible increase of the Euribor reference interest rate as the Company records more interest sensitive liabilities than investments.

The Company observes the target rate between the variable interest-bearing and fixed-interest bearing or hedged financial liabilities, which lies around 50% of the debt with the fixed or hedged interest rate.

In the structure of Company's interest-bearing financial liabilities, the liabilities relating to borrowings and the finance lease, which bear the variable interest rates of 3- and 6-month EURIBOR, account as at 31 December 2016 a share of 75%. The remaining liabilities arise on bonds issued and the loan received from the subsidiary, and are subject a fixed interest rate.

The interest-rate exposure was in 2016 not hedged as Telekom Slovenije draw the borrowing of EUR 300 million (which in the structure of interest-sensitive financial liabilities accounts for a 98.2 percent share) in the second half of December 2016. The interest-rate hedging under this borrowing was concluded in February 2017, namely in the amount of 2 tranches i.e. 7-year basis (EUR 100 million) and 5-year basis (EUR 100 million), for the entire duration of each individual tranche.

With the purpose to hedge against the increase in reference exchange rates, the Company observes the ratio between the variable and fixed or hedged financial liabilities, which accounts for a minimum of 50% of debt with a fixed or hedged interest rate.

Interest rate exposure

EUR thousand	2016	2015
Financial instruments at variable interest rate		
Financial receivables*	6,173	19,732
Financial liabilities	305,387	86,047
Net financial liabilities	299,214	66,315

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

The table is exclusive of non-interest bearing financial instrument and instruments bearing the fixed interest rate, as they are not exposed to interest rate risk.

Sensitivity analysis

The following table illustrates the sensitivity analysis of the changed interest rate as at the reporting date on the Company's profit before tax, whereby all other variables are constant.

Interest-rate risk

	Increase/decrease in basic interest rate	Effect on profit or loss before tax [EUR thousand]
2016		
EUR0	+100 bp	-2,992
EUR0	-100 bp	2,992
2015		
EUR0	+100 bp	-663
EUR0	-100 bp	663

The EURIBOR reference interest rate is not expected to significantly increase in 2017.

EURIBOR interest rates in 2016

EURIBOR	Value at 31 Dec 2015	Value at 31 Dec 2016	% of changed interest rate
3-month	-0.132	-0.319	-141.67
6-month	-0.042	-0.221	-426.19

39. General authorisation and the rights to use radio frequency and block numbers

Fixed line and mobile operations

The Company has a general authorisation for providing the electronic communications network or electronic communication services. Prior to the commencement of the provision of public communication networks or services, notification must be given in writing to the Agency for Communication Networks and Services [hereinafter: the Agency]. An undertaking is not required to obtain an explicit decision or any other administrative act by the national regulatory authority before exercising the rights stemming from the authorisation

The Company is obliged to pay an annual compensation in the amount of EUR 545 thousand (2015: EUR 893 thousand) in connection with following electronic communication services:

- public voice services in the fixed public telecommunications network,
- voice services in the public mobile network,
- inter-operator services and transit,
- data-related services and internet access,
- lease of public communication network, and
- provisions of public communication networks.

The amount of the fee paid is defined by a tariff in a general act of the Agency.

Telekom Slovenije also has to pay right-of-use fees for radio frequencies and block numbers. The right-of-use fee for radio frequencies for the accounting period amounted to EUR 474 thousand (2015: EUR 830 thousand), while the right-of-use fee for block numbers amounted to EUR 260 thousand (2015: EUR 444 thousand). The amount of the fees to be paid is defined by a tariff in a general act of the Agency.

The costs of compensations are disclosed in the income statement under cost of services in the last item costs of other services [Note 7].

Mobile phone services

Concession agreement	Starting date	Period	Concessions fee
Concession agreement for telecommunication services with the use of the radio frequency spectrum in the mobile network system: UMTS/ITM-2000.	27 November 2001	20 years	EUR 91,804 thousand
Concession agreement for telecommunication services with the use of the radio frequency spectrum in GSM 900 mobile telephony	3 April 2013	up to 3 January 2016	EUR 4,302 thousand
Decision on allocating the radio frequency for LTE 800 MHz and UMTS 2100 MHz	26 May 2014	31 May 2014 to 31 May 2029	EUR 26,835 thousand
Decision on allocating the radio frequency the mobile network system GSM 900, 1800 MHz, LTE 2600 MHz	26 May 2014	4 January 2016 to 4 January 2031	EUR 37,705 thousand

40. Impact of the merger

The accounting date of the merger of Debitel to the company Telekom Slovenije was 1 January 2016; thus, Telekom Slovenije recognised the merger in its financial statements from the aforesaid date onwards or in the entire reporting period of 2016. Intra-group receivables and liabilities were eliminated.

All assets and liabilities of Debitel were upon the merger transferred to the company Telekom Slovenije, whereas Telekom Slovenije recognised on the date of merger also an item of intangible assets i.e. the customer list in the amount of EUR 5,340 thousand and goodwill in the amount of EUR 3,602 thousand.

The Company applied the merger method.

The impact of merging with Debitel, d.d. as at 1 January 2016

	EUR thousand
Intangible assets	6,097
Goodwill	3,602
Property, plant and equipment	114
Operating receivables	3,115
Inventories	492
Cash	1,194
Other assets	1,887
Total assets	16,501
Retained earnings or losses	-519
Trade payables	493
Other payables	489
Total liabilities	463
Investment in Telekom Slovenije	-15,853
Elimination of intragroup receivables and liabilities	-185

41. Events after the reporting date

January

The credit rating agency S&P Global Ratings gave Telekom Slovenije a long-term credit rating of BB+, assessed the future prospects as stable. The credit rating agency S&P estimates that Telekom Slovenije, which copes on the domestic market with strong competition and pressure on its prices and margins, will keep its market position with further investments in the network's development and that the company's business operations will remain stable also in the future.

February

A number of banks, as required based on a contract, issued as at 14 February 2017 a waiver from one contractual provision in the loan contract relating to a borrowing of EUR 300,000 thousand.

As at 27 February 2017, Telekom Slovenije signed with Telemach an agreement on settling mutual relations. The relevant agreement serves for settling outstanding matters, so that the companies no longer record liabilities arising on disputed relationships. Telekom Slovenije shall not disclose details of the signed agreement.

March

As of 1 March 2017, Simon Furlan, MSc, is the head of Blicnet. Simon Furlan, MSc, previously the Marketing Director of Telekom Slovenije, was appointed by the company Supervisory Board to a two-year term office of the Managing Director of Blicnet. On 1 March 2017 the previous Managing Director of Blicnet, Igor Bohorč, MSc, took up the position of the Director of B2B strategic business unit at Telekom Slovenije.

3.3.3 Independent Auditor's Report



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Independent Auditor's Report¹

To the owners of Telekom Slovenije d.d.

Opinion

We have audited the separate financial statements of Telekom Slovenije d.d. ("the Company"), which comprise the separate statement of financial position as of 31 December 2016, the separate statement of profit or loss and other comprehensive income, the statement of cash flows, and the statement of changes in equity for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying separate financial statements give true and fair view of the separate financial position of the Company as at 31 December 2016, and of its separate financial performance and its separate cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union ("IFRS as adopted by the EU").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibility for the Audit of separate Financial Statements* section of our report. We are independent of the Company in accordance with both the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the separate financial statements in Slovenia and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KPMG Slovenija, podjetje za revidiranje, d.o.o., slovenska družba
z omejeno odgovornostjo in članica KPMG mreže neodvisnih družb
člani, ki so povezane s članstvom združenjem KPMG International
Cooperative ("KPMG International")

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vpis v sodni register: Okrožno sodišče v Ljubljani
SI reg. št. 06112062100
osnovni kapital 54.832,00 EUR
ID za DDV: SI20437145
matična št. 5648556



Revenue recognition

Revenue for the year ended 31 December 2016; EUR 639.471 thousand (31 December 2015: EUR 634.105 thousand).

We refer to the financial statements: Note 3.3.2 point 3.s Revenues (accounting policy) and Note 3.3.2 point 5 (disclosure note).

Key audit matter	Our response
<p>The Company's core revenue streams relate to mobile and fixed services on a retail market and to wholesale market (such as: network interconnection, inter-operator services, broad-band access).</p> <p>Products and services from different revenue streams are contracted within single arrangements (bundled). Different products and services within such arrangements can be treated differently under relevant accounting standards (e.g. leasing arrangements, principle vs. agent considerations). Given the requirement of the relevant accounting standards to unbundle multiple elements within complex contractual arrangements, significant judgment is required in determining the appropriate measurement and timing of revenue.</p> <p>Also complex billing systems are used to process and record high volume of individually low value transactions. Due to that fact, and also in view of changing pricing models, tariff structures and incentives, the accuracy of revenue amounts recorded is an inherent industry risk.</p> <p>Significant risk is also associated with the application of revenue recognition accounting in respect of transactions executed outside of the normal billing process, such as revenue arising from the wholesale market.</p> <p>In view of the above-mentioned factors, we consider revenue recognition to be a key risk in our audit.</p>	<p>Our audit procedures included, among others:</p> <ul style="list-style-type: none"> • Using our own IT specialists, testing of controls over the billing systems including those controls over access rights, set-up of customer accounts, pricing data and rate changes, segregation of duties, and the linkage to usage data that drives revenue recognition. • Assessing the appropriateness of the Company's revenue recognition policy for all core products and services against the relevant accounting standards. • Testing reconciliation from billing systems to the general ledger. • For a sample of contracts, which typically represent key revenue streams, entered into during the year: <ul style="list-style-type: none"> • challenging the Company's identification of revenue components; • assessing management's judgement used to determine the appropriate allocation of contract consideration in multiple-element arrangements; • critically assessing the Company's judgments with regards to accounting for specific elements of analyzed contracts, such as lease arrangements, agency relationships and timing of revenue recognition. • Inspecting manual journal entries posted to revenue accounts as well as the underlying documentation with particular focus on the journal entries after the balance sheet date.



Provisions for legal and administrative proceedings and contingent liabilities

The carrying amount of provisions for legal and administrative proceedings as at 31 December 2016: EUR 19.967 thousand (31.12.2015: EUR 20.339 thousand); contingent liabilities with regards to legal and administrative proceedings as at 31 December 2016: EUR 259.463 thousand (31.12.2015: EUR 305.400 thousand).

We refer to the financial statements: Note 3.3.2 point 3.n Provisions (accounting policy), Note 9 Other operating expense, Note 26 Provisions and Note 35 Contingent liabilities (disclosure notes).

Key audit matter	Our response
<p>In the normal course of the Company's business, potential exposures may arise from legal and regulatory proceedings.</p> <p>As discussed in Note 26 Provisions and in Note 35 Contingent liabilities, as at 31 December 2016, the Company's most significant exposure related to the regulatory proceeding before the Competition Protection Office of the Republic of Slovenia regarding the alleged abuse of the monopoly position on some of the markets in which the Company conducts its operations. Related court actions were also brought against the Company by Telemach and T-2. Other significant exposure relates to SKY NET disputes.</p> <p>Whether a liability is recognized or contingent liability is disclosed in the financial statements is inherently uncertain and is dependent on a number of significant assumptions and judgments exercised by the Company. The amounts involved are potentially significant and determining the amount, if any, to be recognized or disclosed in the financial statements, is inherently subjective.</p>	<p>Our audit procedures included, among others:</p> <ul style="list-style-type: none"> • Reading minutes of the meetings of the supervisory board, audit committee and the management board and also inspecting correspondence with regulators. • Attending the year-end supervisory board meeting where the status of ongoing proceedings was presented by the Company's external lawyers. • Obtaining and evaluating the external lawyers' responses to our audit inquiry letters and discussing selected matters with the lawyers, including proceeding before the Competition Office of the Republic of Slovenia and disputes with Telemach, T-2 and SKY NET. • Using our internal legal specialists, critically assessing the Company's assumptions and estimates in respect of claims, including the liabilities recognized or contingent liabilities disclosed in the financial statements. This involved assessing management's estimates of the probability of an unfavorable outcome of a given proceeding and the reliability of management's estimates of the related obligation. • Where applicable, assessing whether the Company's position to present limited disclosures, as allowed by relevant financial reporting standards, is appropriate.



Recoverability of the carrying amounts of investments in and loans to subsidiaries

The carrying amount of investments in subsidiaries as at 31 December 2016: EUR 33.371 thousand (31 December 2015: EUR 49.224 thousand); the carrying amount of loans to subsidiaries as at 31 December 2016: EUR 132.522 thousand (31 December 2015: EUR 136.668 thousand) impairment loss in respect of investments in subsidiaries recognized in 2016: EUR 10.392 thousand (in 2015: EUR 13.515 thousand); impairment loss in respect of loans to subsidiaries recognized in 2016: EUR 370 thousand (2015: EUR 11.600 thousand).

We refer to the financial statements Note 3.3.2 point 3.e Financial assets (accounting policy), Note 10 Financial income and expense and Note 15 Investments in subsidiaries (disclosure notes).

Key audit matter	Our response
<p>As at 31 December 2016, the Company had twelve subsidiaries, whose operations it has supported <i>inter alia</i> by granting parent company loans, on an as needed basis. Three of the above subsidiaries have historically been loss making and/or reporting negative net assets, with such inadequate economic performance considered to be an indication of potential impairment under relevant financial reporting standards.</p> <p>The projected operating cash flows of the Company's subsidiaries are significantly influenced by the key assumptions made by management concerning determination of the WACC, country risk rates and growth rates. Therefore, measurement of these investments' respective recoverable amounts, by reference to the underlying future operating cash flows, is a complex process and requires significant subjective judgments.</p> <p>The above estimation uncertainty was especially high in respect of the above-mentioned subsidiaries with a recent history of operating losses and negative net assets, primarily IPKO, TSmedia and Antenna TV SL.</p>	<p>Our procedures included, among others:</p> <ul style="list-style-type: none"> Evaluating the reasonableness of the Company's judgments as to the existence of impairment indicators, and consequently, the requirement to perform related impairment tests. This included, but was not limited to, discussing the subsidiaries' performance with management of the Company and directors of subsidiaries. Assessing the Company's assumptions and estimates, applied to determine the assets' recoverable amounts, using our internal valuations specialists. Our assessment covered, among other things: <ul style="list-style-type: none"> evaluating the appropriateness of the valuation technique used for the assets in question; assessing competence and objectivity of external valuation experts engaged by the Company; challenging the reasonableness of the assumptions applied by external valuation experts, such as growth rates, country risk rates and WACC; evaluating the historic reliability of the Company's forecasts by comparing actual performance against previous forecasts. Evaluating the Company's analysis of the sensitivity of the impairment tests' results to changes in key assumptions. Assessing the adequacy and appropriateness of the Company's disclosures related to the significant judgments and the sensitivity of the outcome of the impairment assessment to changes in key assumptions.



Carrying amounts of property, plant and equipment	
<p>The carrying amount of property, plant and equipment (PPE) as at 31 December 2016: EUR 590.826 thousand (31 December 2015: EUR 617.867 thousand); impairment loss recognized in 2016: EUR 1.486 thousand.</p> <p>We refer to the financial statements Note 3.3.2 point 3.c Property, plant and equipment (accounting policy), Note 9 Other operating expense and Note 14 Property, plant and equipment (disclosure notes).</p>	
Key audit matter	Our response
<p>Property, plant and equipment, comprised primarily of land, buildings, cable network, cables and lines, represent a significant part of the total assets reported in the statement of financial position. As the Company operates in the industry characterized by rapid technological progress and constantly changing market conditions, the key aspects of accounting for property, plant and equipment include the determination of the useful lives of these assets, the identification of potential impairment indicators and measurement of the related recoverable amounts.</p> <p>Estimated useful lives are reviewed by the Company annually taking into consideration various market and technical factors which may affect the useful life expectancy of the assets and therefore could have a material effect on any impairment charges or the depreciation charge for the year.</p> <p>Assets are reviewed for impairment either on a stand-alone basis or as part of a wider cash-generating unit (CGU), using either a value in use or fair value less costs to sell model. The outcome of these impairment reviews could vary significantly if different assumptions were applied in the model.</p> <p>Further, the carrying amount of the Company's net assets as at 31 December 2016 exceeded its market capitalization, which represents an impairment indicator for non-financial assets under relevant accounting standards.</p> <p>Due to the factors presented above, this area considered by us to be associated with a significant audit risk.</p>	<p>Our procedures included, among others:</p> <ul style="list-style-type: none"> Assessing and testing internal controls designed to identify impairment indicators in respect of PPE and the controls over the annual review of asset lives. Challenging the reasonableness of the estimates made in respect of asset lives by means of inquiries of the Company's technical and engineering personnel and considering our knowledge of the business and practice in the telecoms industry. Evaluating the appropriateness of the Company's judgments regarding allocation of assets to CGUs and identification of assets or CGUs which may be impaired. Where an asset or a CGU required impairment testing, critically assessing the Company's assumptions and estimates used to determine the recoverable amounts. This included, among other things challenging the forecasted future cash flows, discount rates, WACC, based on our knowledge of the business.



Other Information

Management is responsible for other information. The other information comprises the "About the Telekom Slovenije Group" and Business Report included in the Annual report, but does not include the separate financial statements and our auditor's report thereon.

In connection with our audit of the separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the Business Report, we have considered whether the Business Report includes the disclosures required by the Company's Act (hereafter referred to as "the applicable legal requirements").

Based solely on the work required to be undertaken in the course of the audit of the separate financial statements, in our opinion:

- the information given in the Business Report for the financial year for which the separate financial statements are prepared, is consistent with the separate financial statements; and
- the Business Report has been prepared in accordance with the applicable legal requirements.

In addition, in light of the knowledge and understanding of the Company and its environment in which it operates, obtained in the course of our audit, we are required to report if we have identified material misstatements in the Business Report and other information. We have nothing to report in this respect.

Responsibility of Management and Supervisory Board for the Separate Financial Statements

Management is responsible for the preparation and fair presentation of these separate / financial statements in accordance with the IFRS as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using of the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board is responsible for overseeing the Company's financial reporting process.

Auditor's Responsibility for the Audit of Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our



opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

On behalf of the auditing company

KPMG SLOVENIJA,
podjetje za revidiranje, d.o.o.

Damjan Ahčin, FCCA
Certified auditor

Katarina Sitar Šuštar, MBA
Certified auditor
Partner

Ljubljana, March 2, 2017

KPMG Slovenija, d.o.o.
1

¹ The Independent Auditor's Report hereof is a translation of the original Independent Auditor's Report in Slovene, issued on the financial statements and the notes thereto in Slovene and is not to be signed. This translation is provided for reference purposes only.

4. APPENDIX

4.1 TELEKOM SLOVENIJE GROUP COMPANIES

Telekom Slovenije, d. d. is the parent company of the Telekom Slovenije Group, which operates on the markets of South-Eastern Europe

Company:	Telekom Slovenije, d. d.
Registered office:	Ljubljana
Address:	Cigaletova 15, 1000 Ljubljana
Registration number:	5014018000
VAT ID number:	SI98511734
Entry in the companies register:	1/24624/00, Ljubljana District Court
Number of shares	6,535,478
Ticker symbol of no-par-value shares:	TLSG
Telephone:	+ 386 1 234 10 00
Fax:	+ 386 1 231 47 36
Website:	www.telekom.si
Email:	info@telekom.si
Twitter:	@TelekomSlo
Facebook:	https://sl-si.facebook.com/TelekomSlovenije
LinkedIn:	https://www.linkedin.com/company/telekom-slovenije
Instagram:	Telekom_Slovenije

Subsidiaries in the Group

Companies in Slovenia

Company:	GVO, gradnja in vzdrževanje telekomunikacijskih omrežij, d. o. o.
Registered office:	Ljubljana
Address:	Cigaletova 10, 1000 Ljubljana
Telephone:	+ 386 1 234 1950
Website:	www.gvo.si
Email:	gvo@telekom.si

Company:	GVO Telekommunikation GmbH
Registered office:	DE 48683 Ahaus, Bundesrepublik Deutschland
Address:	Schorlemer Straße 48
Telephone:	+386 1 234 1950
Website:	www.gvo.si/de
Email:	gvo@telekom.si

Company:	AVTENTA, napredne poslovne rešitve, d. o. o.
Registered office:	Ljubljana
Address:	Stegne 19, 1000 Ljubljana
Telephone:	+ 386 1 583 68 00
Website:	www.avtenta.si
Email:	prodaja@avtenta.si, marketing@avtenta.si
Company:	TSmedia, medijske vsebine in storitve, d. o. o.
Registered office:	Ljubljana
Address:	Cigaletova 15, 1000 Ljubljana
Telephone:	+ 386 1 473 00 10
Website:	www.tsmedia.si
Email:	info@tsmedia.si
Company:	Antenna TV SL, televizijska dejavnost, d. o. o.
Registered office:	Ljubljana
Address:	Stegne 19
Telephone:	+ 386 1 473 00 00
Website:	www.planet-tv.si
Email:	info@planet-tv.si
Company:	SOLINE Pridelava soli, d. o. o.
Registered office:	Portorož
Address:	Seča 115, 6320 Portorož/Portorose
Telephone:	+ 386 5 672 13 43
Website:	www.soline.si
Email:	prodaja@soline.si
Company:	M-PAY, Družba za mobilno plačevanje, storitve in trgovino, d. o. o.
Registered office:	Maribor
Address:	Vita Kraigherja 3, 2000 Maribor
Email:	https://www.nkbm.si/M-PAY

Companies abroad

Company:	IPKO Telecommunications LLC
Registered office:	Prishtina, Kosovo
Address:	Lagija Ulpiana Rruga »Zija Shemsu« Nr. 34, Prishtinë
Telephone:	+ 381 38 700 700,
Website:	www.ipko.com
Email:	info@ipko.com
Company:	Blicnet d. o. o. Banja Luka
Registered office:	Banja Luka, Bosnia and Herzegovina
Address:	Majke Jugovića 25
Telephone:	+ 387 51 921 000
Website:	www.blic.net
Email:	office@blicnet.ba
Company:	SIOL d. o. o.
Registered office:	Zagreb, Croatia
Address:	Margaretska 3
Website:	www.siol.com
Company:	SiOL d. o. o. Sarajevo
Registered office:	Sarajevo, Bosnia and Herzegovina
Address:	Fra Andela Zvizdovića 1
Company:	SIOL d. o. o. Podgorica
Registered office:	Podgorica, Montenegro
Address:	Bulevar Svetog Petra Cetinjskog 106
Company:	SIOL DOOEL Skopje
Registered office:	Skopje, Macedonia
Address:	Dimitrie Chupovski 4-1/14
Company:	SIOL d.o.o. Belgrade-Palilula
Registered office:	Belgrade, Serbia
Address:	27. marta 11

4.2 ABBREVIATIONS OF TECHNICAL TERMS

Abbreviation	English term	Slovene translation
AKOS	Agency for Communication Networks and Services of the Republic of Slovenia	Agencija za komunikacijska omrežja in storitve Republike Slovenije
ARKEP	Regulatory Authority of Electronic and Postal Communications of Kosovo	Agencija za elektronske in poštne komunikacije Kosova
ARPU	Average Revenue Per User	Povprečni prihodek na uporabnika
ARPL	Average Revenue Per Line	Povprečni prihodek na linijo
ATM	Asynchronous Transfer Mode	Asinhroni prenosni način
AR	Augmented Reality	Obogatena resničnost
AVK	Slovenian Competition Protection Agency	Javna agencija Republike Slovenije za varstvo konkurence
BB	BroadBand	Širokopasovni dostop
BI/DW	Business Intelligence / Data Warehouse	Poslovna inteligenca / podatkovno skladišče
BI	Business Intelligence	Poslovna inteligenca
BDP		Bruto domači proizvod
	Big data	Velepodatki
-	Billing	Sistem za zaračunavanje
-	Branding	Znamčenje
	Bundle (packet)	Skupek v paket povezanih storitev
	BusinessConnect	Sodobna rešitev za upravljanje dokumentarnega gradiva
BTL	Below the line	Aktivnosti pod črto
BSS	Business Support System	Sistem za podporo poslovanju
BSS/OSS	Business/Operational Support System	Sistem za podporo poslovnega procesa / sistemi za operativni podporni proces
-	BusinessConnect	Sodobna rešitev za upravljanje z dokumentarnim gradivom
B2B	Business-to-Business	Poslovanje med podjetji
B2C	Business-to-Customer	Poslovanje do končnih uporabnikov
BU PURE LRIC	Long-Run Incremental Cost	Dolgoročno prirastni stroški od spodaj navzgor
CAGR	Compound Annual Growth Rate	Povprečni letni prirast
CAPEX	Capital Expenditure	Vrednost investicij
CATV	Cable Television	Kabelska televizija
COBIT	Control Objectives for Information and Related Technology	
CEM	Customer Experience Management	Upravljanje uporabniške izkušnje
	Cloud services	Storitve v oblaku
CRM	Customer relationship management	Sistemi za upravljanje z uporabniki
-	Cross-sale	Navzkrižna prodaja
CPE	Customer Premise Equipment	Oprema pri uporabniku
C-RAN	Cloud - Radio Access Network	
CURS/FURS	Customs administration of the Republic of Slovenia/ Financial administration of the Republic of Slovenia	Carinska uprava RS/Finančna uprava RS
CWDM	Coarse wavelength division multiplexing	Grobo valovno multipleksiranje
D2D	Door to door	Od vrat do vrat
-	Data offload	Razbremenjevanje mobilnih podatkovnih omrežij na druge tehnologije

Abbreviation	English term	Slovene translation
DECT	Digital enhanced cordless telecommunications	Digitalne izboljšane brezvrvične telekomunikacije
DDOS	Distributed Denial of Services	Porazdeljena zavrnitev storitve
DMS	Data management sistem	Sistem upravljanja podatkovnih knjižnic
Dccsis	Data Over Cable Service Interface Specification	Specifikacija [standard] prenosa podatkov prek kabelskih sistemov
DSC	Diameter Signalling Controller	Krmilnik signalizacije diameter
DTV	Digital television	Digitalna televizija
DVB-x/IP	Digital Video Broadcast – IP over x [C, S, T]	Digitalna videoradiodifuzija s podporo prenosa IP-podatkovnih paketov preko MPEG-transportnega toka
DVB-T	Digital Video Broadcasting–Terrestrial	Prizemna digitalna videoradiodifuzija
DVB-T/C/S	Digital Video Broadcasting–Terrestrial/Cable/Satellite	Prizemna/kabelska/satelitska digitalna videoradiodifuzija
DWDM	Dense Wavelength Division Multiplex	Gosti valovni multipleks
EBIT	Earnings before interest, taxes	Dobiček iz poslovanja pred obrestmi in davki
EBITDA	Earnings before interest, taxes, depreciation and amortization	Dobiček iz poslovanja pred obrestmi, davki in amortizacijo
EFQM	European Foundation for Quality Management	Evropska nagrada za poslovno odličnost
ERP	Enterprise Resource Planning	Poslovni informacijski sistem
eTOM	Enhanced Telecom Operations Map	
ECS		Elektronsko cestninjenje
EU	European Union	Evropska unija
E2E	End to End	
(Evolved) EDGE	Enhanced Data rates for GSM Evolution	Hitri prenos podatkov prek mobilnega omrežja – nadgradnja kodne sheme GPRS na višje hitrosti
EUREM	European EnergyManager	Evropski energetskega menedžer
FC	Fiber channel	Optični kanal
FTTH	Fiber To The Home	Optično vlakno do hiše/stanovanja
FTTH/B/N	Fiber To The Home / Business / Node	Optika do hiše/podjetja/vozlišča
FTTx	Fiber To The Exchange	Optika do X
	Flagship	Vodilna [referenčna] trgovina
GOŠO	Construction of Open Broadband network	Gradnja odprtega širokopasovnega omrežja (bele lise – subvencionirano s sredstvi EU)
GPON	Gigabit Passive Optical Network	Gigabitno pasivno optično omrežje
GRI	Global reporting initiative	Model trajnostnega poročanja
HET-NET	Heterogeneous Network	
HFC	Hybrid Fiber Coax	Hibridno optično koaksialno omrežje
IFRS/MSRP	International Financial Reporting Standards	Mednarodni standardi računovodskega poročanja
IoT	Internet of Things	Internet stvari
IKT	Information and Communication Technologies	Informacijsko-komunikacijske tehnologije
IMS	IP Multimedia Subsystem	Podsistem za IP-večpredstavnostne komunikacije
ISO	International Organization for Standardization	Mednarodna organizacija za standardizacijo
ISP	Internet Service provider	Ponudnik internetnih storitev
IT	Information Technology	Informacijska tehnologija
ITIL	Information Technology Infrastructure Library	
IP	Internet Protocol	Internetni protokol

Abbreviation	English term	Slovene translation
IMS	Internet protocol Multimedia System	
IMS/VOLTE	IP Multimedia Core Network Subsystem Voice over LTE [Long-Term Evolution]	IP-multimedijski sistem/govor prek LTE-omrežja
IMF WEO	International Monetary Fund World Economic Outlook	
IP TV	IP television	Televizija prek internetnega protokola
ISDN	Integrated Services Digital Network	Digitalno omrežje z integriranimi storitvami
KFI	Key Financial Indicators	Ključni finančni indikatorji poslovanja
KK		Ključni kadri
KPI	Key Performance Indicators	Ključni kazalniki poslovanja
KPSS	Sečovelje Salina Nature park	Krajinski park Sečoveljske soline
LTE	Long Term Evolution	LTE/4G, post LTE/4G, po 3 GPP mobilnem standardu
LTE-A	Long Term Evolution Advanced	LTE/4G z višjo prenosno hitrostjo podatkov [več kot 300 Mb/s]
M2M	Machine to Machine	Komunikacijska povezava med napravami
MBB	Mobile Broadband	Mobilni širokopasovni dostop
MMS	Multimedia Messaging Service	Multimedijski sporočilni sistem
M&A	Mergers and Aquisition	Združitve in prevzemi
MVNO	Mobile Virtual Network Operator	Mobilni operater navideznega omrežja
MUX/DEMUX	Multiplexer/demultiplexer	Multiplekser/demultiplekser
MPLS	Multiprotocol label switching	Tehnologija za posredovanje, usmerjanje in preklapljanje prometnih tokov skozi omrežje
MPLS VPN	MPLS Virtual private network	Navidezno zasebno omrežje
MRS/IAS	International Accounting Standards	Mednarodni računovodski standardi
MSRP/IFRS	International Financial Reporting Standards]	Mednarodnimi standardi računovodskega poročanja
NOC	Network Operations Center	
NGA	Next Generation Access	Hitro dostopovno omrežje
NGN	Next Generation Networks	Širokopasovna omrežja naslednje generacije
NFV	Network Functions Virtualization	
OPEX	Operational Expenditure	Stroški poslovanja brez amortizacije
OHSAS 18001	Occupational Health and Safety Advisory Services Standard	Svetovni standard za varnost in zdravje pri delu
OMS	Order management system	Sistem upravljanja naročil
OPEX	Operational Expenditure	Stroški poslovanja brez amortizacije
OSS	Operations Support system	Sistem za podporo delovanja
OŠO	Construction of Open Broadband	Odprta širokopasovna omrežja
OTT	Over-the-top content	Storitve, ki delujejo neodvisno od omrežja - distribucija video- in avdiovsebin prek interneta
-	Performance Management	Zagotavljanje uspešnosti zaposlenih
OPMSRP		Pojasnilo odbora za pojasnjevanje mednarodnih računovodskih standardov
P2P	Point to Point	Povezava točka-točka [medtočkovna povezava]
P2MP	Point to Multiple Point	Povezava točka-več točk
PLM	Product lifecycle management	Upravljanje življenjskega cikla produkta
POP	Point Of Presence	Dostopovno vozlišče
RAK / CRA	Communications regulatory agency BH	Regulatorna agencija za komunikacije Bosne in Hercegovine

Abbreviation	English term	Slovene translation
RAN	Radio Access Network	Radijsko mobilno dostopovno omrežje
RAS	Revenue Assurance System	Sistem za preprečevanje odtekanja prihodkov
RAN BSC	Radio Access Network Base Station Control;	Radijsko dostopovno omrežje, kontroler baznih postaj
RAN TM	Radio access Network Transmission Modernization	Razpis za posodobitev radijskega in prenosnega omrežja
-	Resale	Preprodaje maloprodajnih produktov
ROA	Return on Assets	Dobičkonosnost sredstev
ROADM	Reconfigurable Optical Add-Drop Multiplexer	Nastavljiv optični multipleksor za dodajanje in odvzemanje
ROE	Return on Equity	Dobičkonosnost kapitala
ROO	Regional Optical Network	Regionalno optično omrežje
RNO	Access cable network	Razvodno naročniško omrežje
RTNBA	Real time next best action	Najboljša ponudba v realnem času
SACC	Service Aware Charging and Control	Zaračunavanje in kontrola prometa na podlagi storitev
SDV/VAS	Value Added Services	Storitve z dodano vrednostjo
SOC	Service Operations Center	
SOP		Pojasnilo strokovnega odbora za pojasnjevanje
SDN/NFV	Software Defined Network / Network Functions Virtuali	
SME / SOHO	Small and Medium Enterprises / Small Office Home Office	Mala in srednja podjetja
SMS	Short Message Service	Storitev kratkih sporočil
SMB	Small and medium size business	Mali in srednje veliki poslovni uporabniki
SME	Small and Medium Enterprises	Mala in srednja podjetja
SLA	Service Level Agreement	Sporazum o ravni zagotavljanja storitve
	Up-sale	Nadgradnja storitev
SURS	Statistical office of Republic Slovenia	Statistični urad Republike Slovenije
TDM	Time Division Multiplex	Časovni multipleks, sistem s porazdeljevanjem časa
ULR		Usredstvena lastna režija
UMTS/HSPA	Universal Mobile Telecommunications System/High Speed Packet Access	Univerzalni mobilni telekomunikacijski sistem/protokol 3G, ki pomeni nadgradnjo omrežja UMTS in omogoča večje prenosne hitrosti
UMAR		Urad za makroekonomske analize in razvoj
USO	Universal Service Obligation	Obveznost zagotavljanja univerzalnih storitev
VR	Virtual Reality	Navidezna resničnost
VoIP	Voice over IP	Govor prek IP-protokola
VDSL	Very High Speed Digital Subscriber Line	Digitalni naročniški vod z zelo visokimi hitrosti
xDSL	X Digital Subscriber Line	Digitalna naročniška linija
Wi-Fi	Wireless Fidelity	Brezžično omrežje po standardih IEEE 802.11
WMS	Warehouse management system	Upravljanje skladiščnega poslovanja
WFM	Workforce Management	Sistem za optimizacijo terenskega dela
QoE	Quality of Experience	Kakovost izkušnje
XaaS storitve	Anything as a Service	Ponudba celostne palete storitev v oblaku

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