



# CREATING OUR BLUE WORLD TOGETHER

**ANNUAL REPORT FOR 2017**

Telekom Slovenije Group and Telekom Slovenije, d. d.

[www.telekom.si](http://www.telekom.si)

TelekomSlovenije



## STATEMENT REGARDING THE NON-FINANCIAL OPERATIONS OF THE TELEKOM SLOVENIJE GROUP

The sustainable management of our impacts on the economy, society and the environment is part of the Telekom Slovenije Group's development strategy and an integral part of our operations. Our annual reports therefore provide a comprehensive overview of progress in this area, i.e. non-financial information, in accordance with the international Global Reporting Initiative (GRI) standards. We have been reporting in accordance with GRI Guidelines since 2009, and transitioned to the latest Global Standards in 2016, while taking into account previous generations of GRI recommendations for the ICT and IT sector, and the media. Compliance with those guidelines is verified, including by independent external institutes.

Non-financial information for our stakeholders is included in all chapters, which can be seen from the references to GRI indicators throughout the report and from the transparent GRI content index. The inclusion of information regarding non-financial operations and the diversity of management and supervisory bodies is thus in line with the requirements of the new Companies Act (ZGD-1J) adopted in 2017.

Ljubljana, 4 April 2018

# EMBRACE THE COMFORT OF BLUE



## CONTENTS

<b>1. THE TELEKOM SLOVENIJE GROUP IN 2017</b>	<b>8</b>
1.1. About the Telekom Slovenije Group	8
1.2. Highlights of the Telekom Slovenije Group in 2017	9
1.3. Letter from the President of the Management Board	13
1.4. Statement of responsibility of the Management Board	15
1.5. Report of the supervisory board	16
1.6. Markets and companies of the Telekom Slovenije Group	18
1.7. Commitments and membership in associations	20
1.8. Development strategy and plans	22
1.8.1. Vision, mission and values	23
1.8.2. Achievement of planned objectives by the Telekom Slovenije Group in 2017	24
1.8.3. Strategic Business Plan of the Telekom Slovenije Group for the period 2018 to 2022	25
1.8.4. Strategic projects	28
1.9. Inclusion and participation of stakeholders	31
1.10. About the annual report	34
1.11. Significant events and achievements in 2017	35
1.12. Corporate governance statement	38
1.12.1. Corporate Governance Policy	38
1.12.2. Statement of compliance with codes and recommendations	39
1.12.3. Explanations in accordance with the Companies Act [ZGD-1]	41
1.12.4. Data and explanations related to the Mergers and Acquisitions Act	48
1.13. Compliance and auditing	50
1.13.1. Compliance and anti-corruption	50
1.13.2. Auditing	51
1.14. Share trading and ownership structure	52
<b>2. BUSINESS REPORT</b>	<b>60</b>
2.1. Financial results of the Telekom Slovenije Group	60
2.2. Financial management and performance	62
2.3. Investments in fixed assets and financial investments	64
2.4. Risk management	65
2.5. Business environment and trends in the sector	74
2.5.1. Impact of the macroeconomic environment on operations	74
2.5.2. State of the telecommunications sector and trends	76
2.5.3. Comparison of the development of the Slovenian telecommunications market with the EU	79
2.5.4. Regulation of electronic communications	82
2.5.5. Competition protection and proceedings before the courts and other bodies	84

2.6.	Sales and marketing	88
2.6.1.	Market and market shares in key service segments	88
2.6.2.	Management of the portfolio of brands	93
2.6.3.	Sales and marketing activities	95
2.6.4.	Responsibility to users	101
2.6.5.	Customer satisfaction	105
2.6.6.	Market communication	107
2.7.	Network, technologies and IT	112
2.7.1.	Research and development services	112
2.7.2.	Core network	113
2.7.3.	Access network	116
2.7.4.	Development of information technologies	119
2.8.	Sustainable development and social responsibility	122
2.8.1.	Social responsibility	122
2.8.2.	Responsibility to employees	124
2.8.3.	Responsibility for quality management	137
2.8.4.	Responsibility to the natural environment	139
2.8.5.	Supply chain	149
2.8.6.	Responsibility for the security of buildings, systems, information and information technologies	150
2.9.	Content according to GRI Reporting Standards	151
2.10.	Statement of the independent auditor regarding the sustainability report	162
<b>3.</b>	<b>ACCOUNTING REPORT, TELEKOM SLOVENIJE GROUP AND TELEKOM SLOVENIJE, D. D., FOR THE FINANCIAL YEAR 2017</b>	<b>168</b>
3.1.	Introductory Notes	168
3.2.	Accounting Report of the Telekom Slovenije Group	169
3.2.1.	Financial Statements of the Telekom Slovenije Group	169
3.2.2.	Notes to the consolidated financial statements	175
3.2.3.	Independent auditor's report for the Telekom Slovenije Group	246
3.3.	Accounting Report of Telekom Slovenije, d. d.	252
3.3.1.	Separate Income Statement of Telekom Slovenije, d. d. for the period ended 31 December 2017	252
3.3.2.	Notes to separate financial statements of Telekom Slovenije, d. d.	258
3.3.3.	Independent auditor's report for Telekom Slovenije, d. d.	325
<b>4.</b>	<b>APPENDIX</b>	<b>330</b>
4.1.	Telekom Slovenije Group companies	330
4.2.	Abbreviations of technical terms	333



THE TELEKOM SLOVENIJE GROUP IN 2017

# COMPREHENSIVE

THE WORLD IN WHICH WE LIVE IS CHANGING FASTER THAN EVER BEFORE. TODAY'S CHALLENGES ARE CREATING A FUTURE OF COMPREHENSIVE SOLUTIONS. YESTERDAY'S BARRIERS ARE BECOMING TOMORROW'S BREAKTHROUGHS.



## WE ARE INSPIRED BY THE FUTURE

Every day is full of new discoveries that will inspire us as we take each step.

# 1. THE TELEKOM SLOVENIJE GROUP IN 2017

## 1.1. ABOUT THE TELEKOM SLOVENIJE GROUP

THE TELEKOM SLOVENIJE GROUP IS THE LEADING OPERATOR IN SLOVENIA AND ONE OF THE MOST COMPREHENSIVE COMMUNICATIONS SERVICE PROVIDERS IN THE REGION.<sup>1</sup>

Telekom Slovenije, d. d. [hereinafter: Telekom Slovenije] is the leading Slovenian telecommunications operator and through its subsidiaries is considered one of the most comprehensive communications service providers in South-Eastern Europe. The Telekom Slovenije Group operates in Slovenia, Kosovo, Bosnia and Herzegovina, Croatia, Serbia, Montenegro and Macedonia.

Through innovative technologies, a superior network and high-quality services, we have and will continue to simplify the lives of our users, protect their world and create a digital world of opportunities. Our development will continue to be based on high standards of social responsibility and sustainable development.

### 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,
- other services, such as electricity, financial services, eCare and insurance (except life insurance), and
- the preservation of natural and cultural heritage in the Sečovelje Salina Nature Park.

**Company:** Telekom Slovenije, d. d.  
**Registered office:** Ljubljana  
**Address:** Cigaletova ulica 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  
**Website:** <http://www.telekom.si>  
**Email:** [info@telekom.si](mailto:info@telekom.si)  
**Twitter:** @TelekomSlo  
**Facebook:** <https://sl-si.facebook.com/TelekomSlovenije>  
**LinkedIn:** <https://www.linkedin.com/company/telekom-slovenije>  
**Instagram:** [Telekom\\_Slovenije](#)

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 section 1.6 Markets and companies of the Telekom Slovenije Group and section 4.1.

### Contact for investors, shareholders and other interested users

[ir@telekom.si](mailto:ir@telekom.si), [skupscina@telekom.si](mailto:skupscina@telekom.si) and [dividenda@telekom.si](mailto:dividenda@telekom.si).

### Contact for information regarding the annual report and sustainable development report<sup>2</sup>

Telekom Slovenije, d. d.,  
Cigaletova ulica 15, 1000 Ljubljana

Public Relations Department: [pr@telekom.si](mailto:pr@telekom.si)

<sup>1</sup> GRI GS 102-1, GS 102-3

<sup>2</sup> GRI GS 102-53

## 1.2. HIGHLIGHTS OF THE TELEKOM SLOVENIJE GROUP IN 2017<sup>3</sup>

### FINANCIAL INDICATORS

in EUR thousand and %	2017	2016	2015	Ind 17/16
Net sales revenue	716,174	701,748	728,279	102
Other operating revenues	9,867	9,433	17,663	105
Total operating revenues	726,041	711,181	745,942	102
EBITDA	168,740	199,264	206,380	85
EBITDA margin = EBITDA / net sales revenue	23.6%	28.4%	28.3%	83
EBIT	4,561	36,122	50,825	13
Return on sales = EBIT / net sales revenue	0.6%	5.1%	7.0%	12
Net profit	9,023	39,940	68,559	23
Assets	1,351,994	1,367,419	1,321,567	99
Equity	680,865	705,862	701,727	96
Return on assets (ROA)	0.7%	3.0%	5.1%	22
Return on equity (ROE)	1.3%	5.7%	9.8%	23
Equity ratio	50.4%	51.6%	53.1%	98
Net financial debt	281,785	246,501	277,008	114
NFD / EBITDA	1.7	1.2	1.3	135
Investments in property, plant and equipment (CAPEX)	158,935	147,737	119,896	108
EBITDA - CAPEX	9,805	51,527	86,485	19
Ratio of (EBITDA - CAPEX) to EBITDA (cash margin)	5.8%	25.9%	41.9%	22
Number of employees as at	3,673	3,665	3,803	100
CAPEX as a proportion of operating revenues	21.9%	20.8%	16.1%	105

<sup>3</sup> GRIGS 102-7, GS 201-1

## OTHER ECONOMIC PERFORMANCE INDICATORS

in EUR thousand	2017	2016	2015 adjusted	Ind 17/16
Distributed economic value	597,086	550,516	608,203	108
Value added	128,991	169,317	213,993	76
Value added per employee (in EUR)	35,157	45,345	51,978	78
Gross value added per employee (in EUR)	78,415	86,035	88,508	91
Labour costs	118,964	116,053	130,215	103
Corporate income tax	7,258	6,072	3,586	120
Payments to owners – dividends	32,527	32,527	65,055	100

## SOCIAL INDICATORS – EMPLOYEES

	2017	2016	2015	Ind 17/16
Number of employees	3,673	3,665	3,803	100
Employee turnover	5.5%	7.3%	7.6%	75
Number of training hours per employee	25.1	26.1	23.7	96
Direct training costs in EUR thousand	1,600	1,611	1,426	99

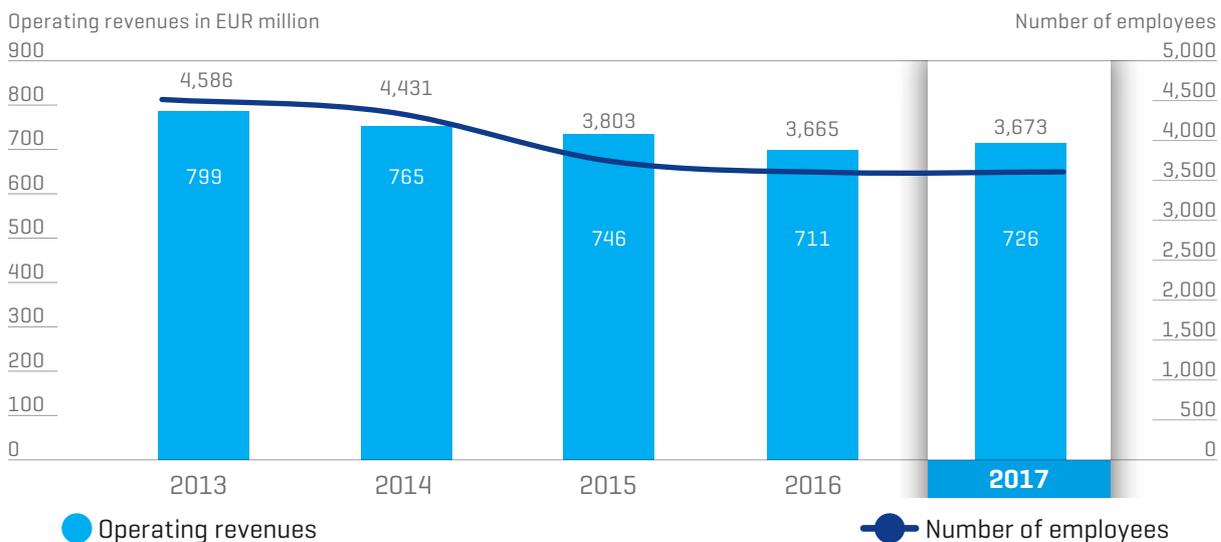
## SOCIAL INDICATORS – COMMUNITY

Connections	2017	2016	2015	Ind 17/16
Mobile telephony	1,809,808	1,769,385	1,802,126	102
Fixed voice telephony	556,265	558,233	572,920	100
Retail broadband	365,285	346,238	327,498	106
Funds earmarked for sponsorships and donations as a proportion of operating revenues	0.3 %	0.3 %	0.4%	100

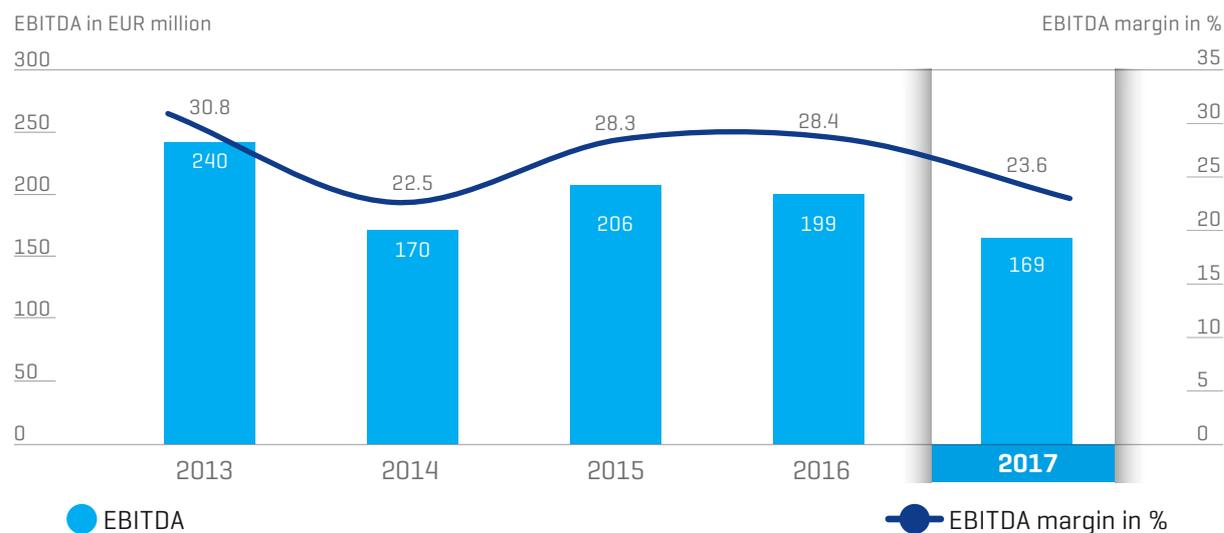
## ENERGY INDICATORS [TELEKOM SLOVENIJE]

	2017	2016	2015	Ind 17/16
Electricity consumption (in million kWh)	76.5	77.3	77.9	99
Direct energy costs (in EUR million)	8.6	8.8	9.2	97

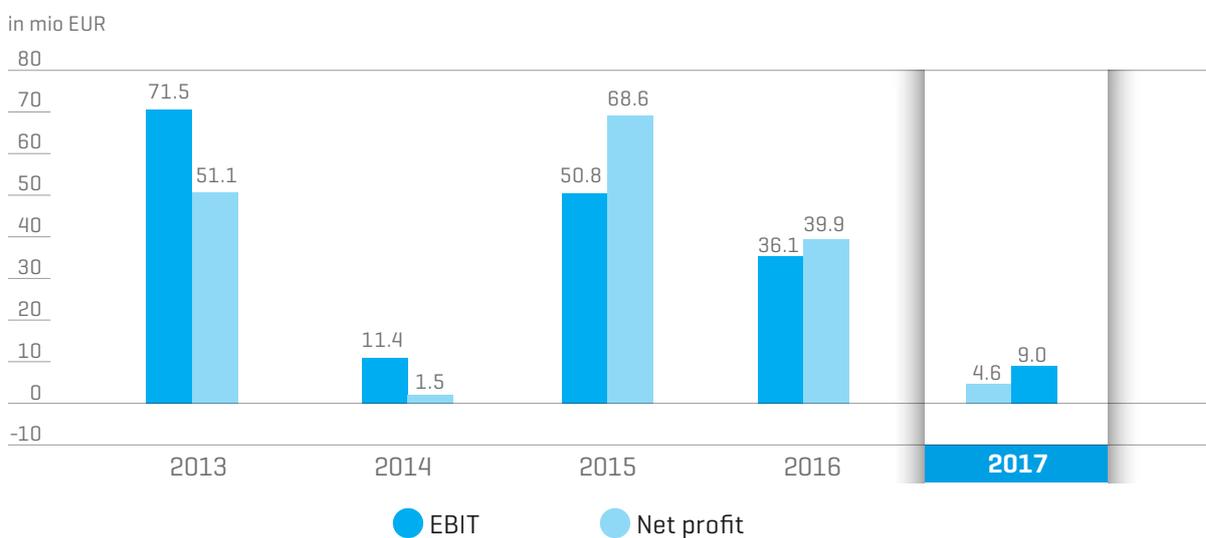
## Operating revenues and number of employees in the Telekom Slovenije Group



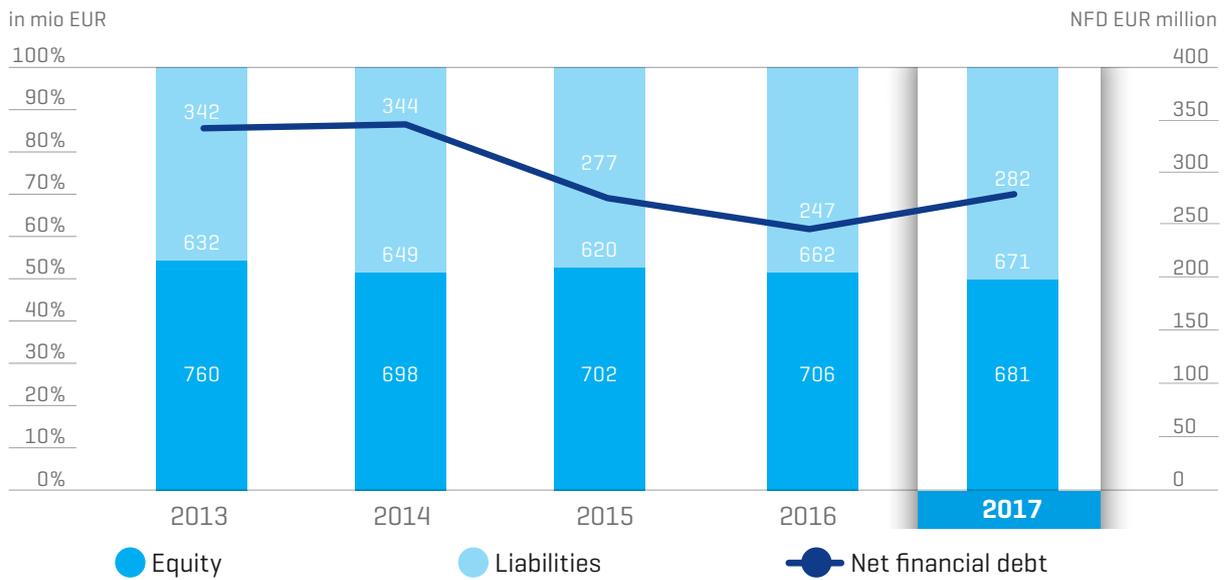
## EBITDA and EBITDA margin (as a percentage of net sales revenue) of the Telekom Slovenije Group



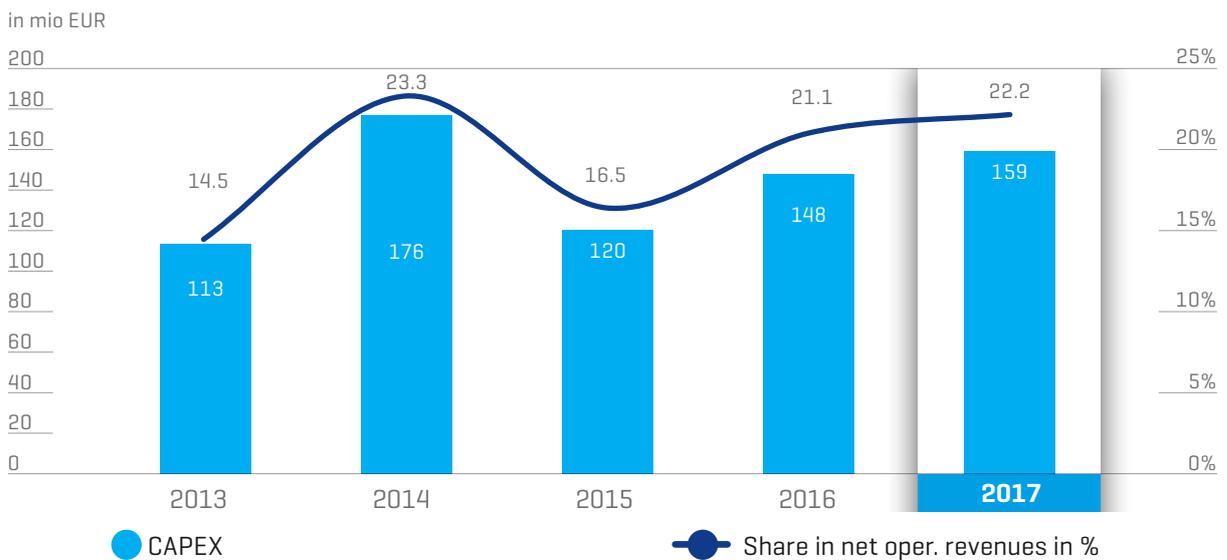
## EBIT and net profit of the Telekom Slovenije Group



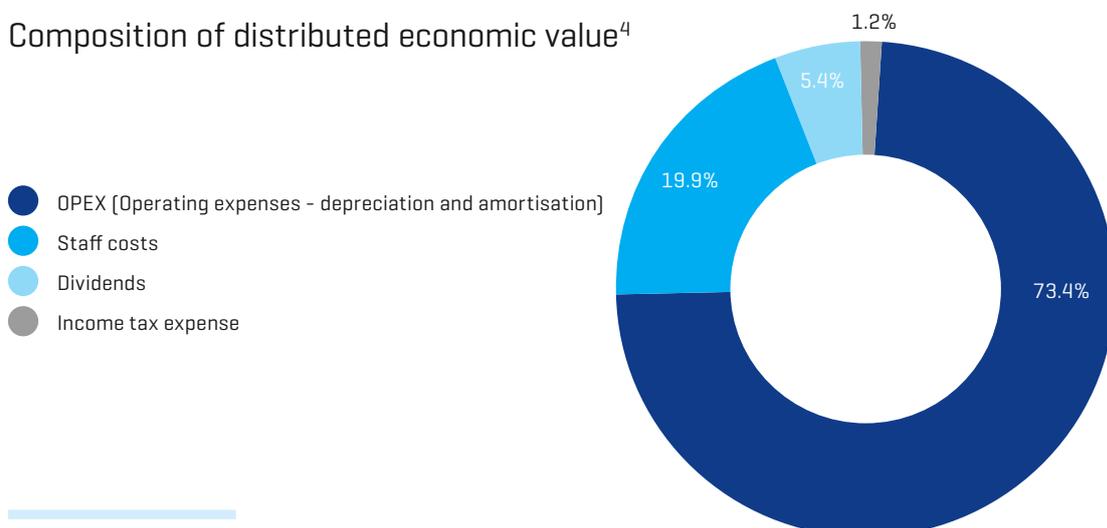
## Structure of the Telekom Slovenije Group's equity and liabilities, and net financial debt



## Investments in property, plant and equipment [CAPEX], and as a proportion of net sales revenue



## Composition of distributed economic value<sup>4</sup>



<sup>4</sup> GRIGS 201-1

## 1.3. LETTER FROM THE PRESIDENT OF THE MANAGEMENT BOARD<sup>5</sup>

DEAR SHAREHOLDERS, INVESTORS, BUSINESS PARTNERS AND CO-WORKERS,

in 2016 we drew up and presented Telekom Slovenije's five-year strategy, the implementation of which will see the Company transform into a lean and agile operator by 2020, with a comprehensive and state-of-the-art portfolio of communication services. We completed the initial phase of the transformation strategy in 2017, when we focused on bringing innovations to our core activity and thus created the conditions necessary to enter a period of intensified digitalisation.

Services that derive from the core telecommunications activity are gradually being upgraded with new services. During the year that just ended, we offered users the option of insuring their mobile devices, actively marketed electricity services, made progress in the development of eCare and financial services, and implemented activities in the scope of the project aimed at the deployment and operation of a multi-lane free-flow electronic fee collection system on motorways and dual carriageways. Our focus when implementing activities is on key strategic policies that are based on maintaining our market position on the mobile services market and increasing our market share on the fixed services market, securing new revenue sources, maintaining our superior network, consolidation on individual markets, the simplification of processes and the IT infrastructure, personnel restructuring, financial stability, and ensuring quality and social responsibility.

The Telekom Slovenije Group earmarked EUR 158.9 million for investments in 2017, with investments in Slovenia accounting for EUR 144.4 million of that amount. The same pace of investments is planned again in 2018. The majority of funds are earmarked for the expansion of the fibre optic access network, which represents the basis for the expansion of our portfolio of advanced fixed communications solutions and the attraction of new customers, as well as the further enhancement of the radio network. Thus in Slovenia during the last year, we built 50,000 new fibre optic connections equipped with GPON technology, to which we have already connected more than 16,000 households.

We continue to upgrade the mobile network with LTE/4G technology. In Slovenia that network already covers 98% of the population, while the



network in Kosovo covers 87% of the population. Also in Slovenia during the last year, we took the next step in the development of mobile networks, as we began to upgrade the fourth generation mobile network with 4G+ technology [LTE-Advanced], which ensures users even higher data transfer speeds, together with even faster and more reliable access to the mobile internet. At the end of the year, more than 35% of the population was provided 4G+ services. We were also the first Slovenian operator to offer users the VoLTE service, which enables the simultaneous and uninterrupted use of voice and data transfer services via the LTE/4G network, and we are the only Slovenian operator included in European projects aimed at the development of fifth generation [5G] mobile technology.

Telekom Slovenije increased the number of broadband connections by 5% in 2017, while IPKO increased the number of broadband connections by 7% in Kosovo and Blicnet in Bosnia and Herzegovina recorded an increase of 5%. In total in 2017, the Telekom Slovenije Group increased the number of broadband connections by 6% relative to the previous year.

The increase in the number of users was accompanied by an increase in revenues. The Telekom Slovenije Group planned operating revenues of EUR 717.8 million for 2017, while actual operating revenues totalled EUR 726.7 million, which was slightly more than 1% higher than planned and 2% higher than the revenues generated in 2016. The Telekom Slovenije Group generated total net sales revenue of EUR 716.2

<sup>5</sup> GRI GS 102-14, GRI GS 103-1, 103-2, 103-3

million, an increase of EUR 14.4 million relative to 2016. Telekom Slovenije generated net sales revenue of EUR 645.2 million in 2017, an increase of 1% or EUR 5.7 million compared with 2016, while the Company recorded a 18% increase in revenues from IT services.

In 2017 the Telekom Slovenije Group generated a net profit of EUR 9.0 million and EBITDA of EUR 168.7 million. Those figures were lower than forecast due to the creation of additional provisions in the amount of EUR 30.3 million, primarily as the result of continuing activities to reduce exposure to lawsuits (the number of which has been reduced significantly in recent years) and on account of continuing personnel restructuring activities, through which we will ensure stable and development-oriented operations in the future.

In addition to ensuring an excellent user experience and a high level of user satisfaction, the guiding principle of our operations is the generation of added value for our owners. The value of Telekom Slovenije shares rose by 16.6% in 2017, while dividends were paid to shareholders for 2016 in the amount of EUR 5.0 per share.

At the same time, we continue to follow our strategy of consolidation on all markets where the Group is present. After joining with the Telekom Austria Group in 2015 to establish the merged company ONE.VIP DOO Skopje, in which Telekom Slovenije held a 45% participating interest and the Telekom Austria Group held a 55% participating interest, we withdrew from the ownership structure of the aforementioned company in 2017. As we envisaged at the time it was signed, the associated agreement included a call and put option for Telekom Slovenije's withdrawal from ONE.VIP DOO Skopje within three years after the conclusion of the merger. The Telekom Austria Group thus exercised the call option last year. The Group received the entire amount of consideration [EUR 120 million] for its participating interest. We absorbed the mobile users of Izimobil on the Slovenian market. Consolidation activities will continue in the future through the expansion of the Group's operations or divestment.

The Telekom Slovenije Group is planning to generate operating revenues of EUR 755.3 million, a net profit of EUR 40.9 million and EBITDA of EUR 209.8 million in 2018.

Sustainable development is also inextricably linked to the Group's impacts on society and the environment. As the leading national operator in Slovenia, we are aware of our responsibilities in those areas. We thus focus on sustainability in all aspects of our business processes, strategic policies, and Telekom Slovenije's vision, mission and values, which were updated in 2017.

Our vision states that we are digitalising a world of opportunities. We will succeed in this respect with employees who possess superior knowledge and experience, and who are guided by commitment and innovative thinking. We make continuous and deliberate investments in the development and education of employees, and in the strengthening of their competences. Our activities in these areas earned the Group recognition last year as a Respected Employer and Master of Knowledge. In addition to reorganisation activities and the revision of the job classification system, which were completed in 2017, we are also creating a contemporary organisational culture that focuses on the user, the development of services and business excellence.

Responsibility for the environment is integrated in all processes of our operations. We monitor progress in this area through the achievement of short-term and long-term energy and environmental objectives. We are introducing and expanding paperless operations, while at the same time installing new equipment and/or replacing old equipment with equipment that consumes less and has fewer other impacts on the environment. We thus reduced electricity consumption [by just over 1%] for the eighth consecutive year. The quality management systems at all Group companies passed all requisite assessments.

All activities are the result of the systematic implementation of the Group's established strategy. We believe that we will continue to successfully address all challenges in the future through creative cooperation with all stakeholders. Our sincerest thanks for your previous cooperation.



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 hereby confirm the financial statements of Telekom Slovenije, d. d. and the Telekom Slovenije Group for the year ending 31 December 2017, as well as the accounting policies applied and the notes to the financial statements.

The members of the Management Board of Telekom Slovenije, d. d. hereby find that:

- to the best of our knowledge, the annual report of the Telekom Slovenije Group and Telekom Slovenije, d. d. for 2017 and all its constituent parts, including the corporate governance statement and the statement regarding non-financial operations, have been compiled and published in accordance with valid legislation and the International Financial Reporting Standards as adopted by the EU;
- the financial report and accompanying notes have been compiled in accordance with the relevant financial reporting framework, and provides a true and fair picture of the assets, liabilities, financial position and operating results of Telekom Slovenije, d. d. and the Telekom Slovenije Group as a whole;
- the selected accounting policies were applied consistently in the compilation of the financial statements and any changes to the policies were disclosed, and that accounting estimates were made fairly and with careful consideration, according to the principle of prudence and the diligence of a good manager, and under the assumption that Telekom Slovenije, d. d. and the Telekom Slovenije Group are going concerns; and
- the business report includes a fair presentation of the development and operating results of the Company and of its financial position, together with a description of the principal types of risk to which Telekom Slovenije, d. d. and the Telekom Slovenije Group as a whole are exposed.

The Management Board is also responsible for taking appropriate measures to secure assets, and for preventing and detecting fraud and other irregularities and unlawful acts.



Rudolf Skobe, MSc,  
President of the  
Management Board



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



Aleš Aberšek,  
Member of the  
Management Board



Ranko Jelača,  
Member of the  
Management Board



Vesna Lednik,  
Member of the  
Management Board  
and Workers Director

## 1.5. REPORT OF THE SUPERVISORY BOARD



Telekom Slovenije's Supervisory Board comprises nine members. The Company's General Meeting of Shareholders appointed Bernarda Babič, Barbara Gorjup, Barbara Kürner Čad, Ljubomir Rajšič and Lidija Glavina to four-year terms of office as new members of the Supervisory Board due to the expiration of the terms of office of previous members in April 2017. The terms of office of the members of the Supervisory Board began on 27 April 2017. The Company's Supervisory Board also includes Dimitrij Marjanović, whose term of office began on 13 May 2016, and three employee representatives, whose terms of office began on 14 November 2017. Lidija Glavina, Lidija Glavina, have served as President and Bernarda Babič has served as Vice-President of the Supervisory Board since the latter's constitutive session. The other Vice-President, who is appointed from employee representatives, was Dean Žigon who resigned from the Supervisory Board on 22 January 2018. Urban Škrjanc was appointed as a replacement member from the Works Council in February 2018.

The diversity of the Supervisory Board in terms of knowledge, skills, experience, professional qualifications, age, gender, work methods and other aspects facilitate the effective exchange of opinions during 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 11 ordinary and five correspondence sessions in 2017. Four sessions were held prior to the expiration of the term of office of the Supervisory Board in April, while other sessions were convened during the new term of office of the aforementioned body. The Supervisory Board has not yet assessed the effectiveness of its current composition. That assessment is planned in 2018.

### MOST IMPORTANT TOPICS OF SESSIONS OF THE SUPERVISORY BOARD IN 2017

With respect to its core competences, in 2017 the Supervisory Board:

- adopted the strategy and plan for 2018 with projections for the period 2019 to 2022 for the Telekom Slovenije Group;
- adopted the annual report of the Telekom Slovenije Group and Telekom Slovenije for 2016;
- together with the Management Board formulated and adopted the updated Telekom Slovenije's Corporate Governance Policy;
- adopted the Internal Audit Service's work plan for 2017 and 2018 and discussed the annual report of the Internal Audit Service for 2016;
- submitted a proposal to the General Meeting of Shareholders for the auditor for the 2017, 2018 and 2019 financial years;
- reappointed Tomaž Seljak to a new four-year term of office as member of the Management Board responsible for technology;
- gave its consent to the appointment of management staff at IPKO and GVO, and gave its consent to the purchase of a disabled workers' company; and
- together with the Management Board formulated the Policy Governing the Diversity of the Management Board and Supervisory Board of Telekom Slovenije.

With respect to supervision of the management of the Company's operations, the Supervisory Board was briefed on the following in 2017:

- reports on the operations of the parent company and the Group;
- the implementation of the Telekom Slovenije Group's strategy;
- assessments of the Company's performance indicators in each period;
- the implementation of strategic projects; and
- other information in connection with Telekom Slovenije, the Telekom Slovenije Group and subsidiaries.

The Supervisory Board carried out other tasks in connection with its supervisory function, and the work of the Supervisory Board and its committees.

The Supervisory Board continuously monitored the existence of conflicts of interest between its members. No such circumstances arose in 2017 with respect to Supervisory Board members.

## WORK OF SUPERVISORY BOARD COMMITTEES

The Supervisory Board initially had five committees in 2017. 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 Strategy Committee, the Supervisory Board also appointed the Nomination Committee. The latter was appointed to assist in the drafting of proposals for the General Meeting of Shareholders regarding the appointment of new members to the Supervisory Board. The Nomination Committee was dissolved when the Supervisory Board deemed that it had completed all of its tasks.

The Supervisory Board continuously monitored the work of its committees and the implementation of their resolutions. The work of committees is described in detail in section [1.12 Corporate governance](#).

## ASSESSMENT OF THE WORK OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

Members of the Supervisory Board 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, 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 operations and management of Telekom Slovenije and Group

companies during the 2017 financial year, and based on the consolidated annual report of the Telekom Slovenije Group for 2017, 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 operations during the 2017 financial year and achieved established objectives.

## APPROVAL OF THE ANNUAL REPORT AND THE PROPOSED USE OF THE DISTRIBUTABLE PROFIT FOR 2017

The Supervisory Board thoroughly reviewed the annual report of Telekom Slovenije, d. d. and the Telekom Slovenije Group for 2017 by the legally prescribed deadline. The Supervisory Board finds that the Telekom Slovenije Group operated in accordance with established objectives during the 2017 financial year.

The Supervisory Board was briefed on and discussed the audit report, in which the audit firm Deloitte Revizija, d. o. o. found 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 2017.



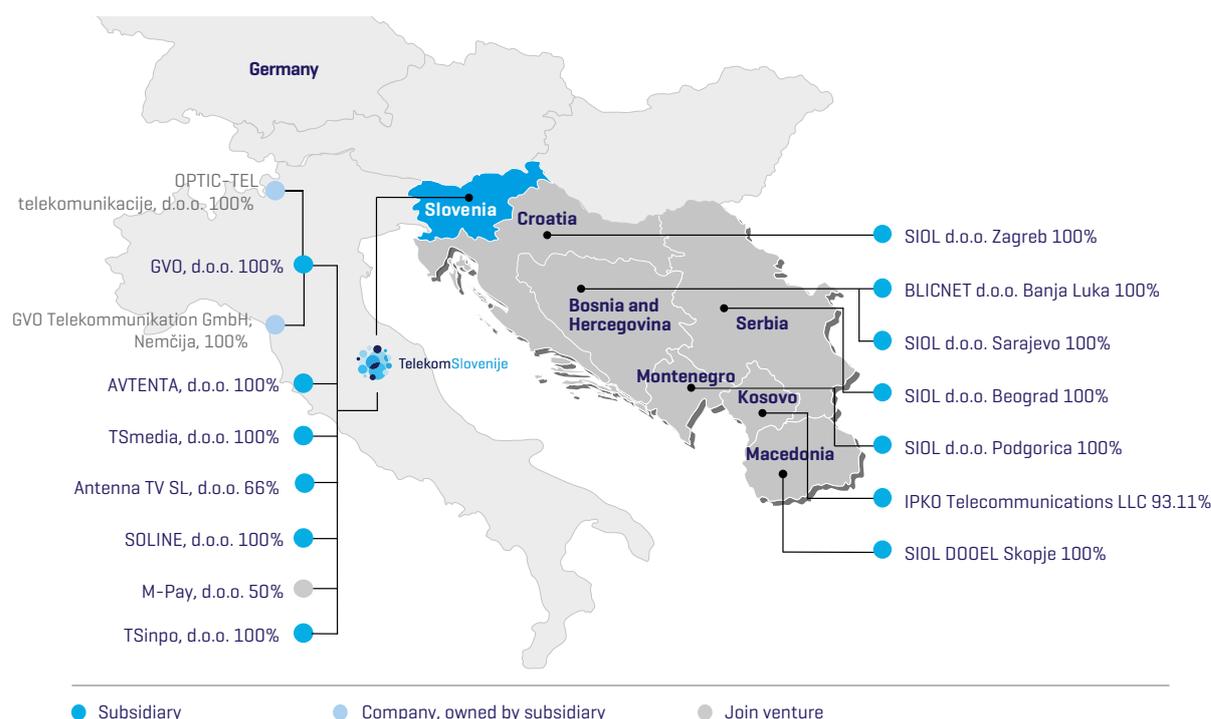
Lidija Glavina  
President of the Supervisory Board  
of Telekom Slovenije, d. d.

## 1.6. MARKETS AND COMPANIES OF THE TELEKOM SLOVENIJE GROUP<sup>6</sup>

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

### SITUATION AS AT 31 DECEMBER 2017

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 GROUP<sup>7</sup>

- Telekom Slovenije and the Telekom Austria Group established the merged company ONE.VIP DOO Skopje on 1 October 2015. At that time, Telekom Slovenije and the Telekom Austria Group held participating interests in the newly established company of 45% and 55%, respectively. The agreement also included a call and put option for Telekom Slovenije's withdrawal from the merged company within three years following the conclusion of the merger. Telekom Austria Group exercised its call option in 2017, such that Telekom Slovenije received the entire amount of consideration [EUR 120 million] for its participating interest on 9 November 2017. With the payment of that consideration, Telekom Slovenije withdrew in full from the ownership structure of ONE.VIP DOO Skopje.
- On 17 November 2017, Telekom Slovenije became the 100% owner of the disabled workers' company JORDAN podjetje za zaposlovanje in usposabljanje invalidov Krško. The company was renamed TSinpo, storitveno in invalidsko podjetje, d. o. o. Telekom Slovenije made the decision to purchase that company with the aim of ensuring that the disabled persons employed by the Telekom Slovenije Group are afforded specially adapted workplaces to perform appropriate work immediately following the receipt of the status of disabled person, and providing the same opportunities to other difficult-to-employ individuals.

6 GRIGS 102-4, 102-6

7 GRIGS 102-10

- GVO and the sole owner of OPTIC-TEL telekomunikacije, d. o. o. reached an agreement on the purchase of a 100% participating interest in the latter. The change in ownership was entered in the companies register on 20 December 2017. Following the purchase, GVO is the company's sole owner, and will continue to perform activities in connection with the OBN in the southern Primorska region. This includes the open fibre optic backbone and access network covering the municipalities of Komen, Sežana, Hrpelje-Kozina and Ilirska Bistrica.

## MANAGEMENT AND GOVERNANCE OF SUBSIDIARIES<sup>8</sup>

As parent company, Telekom Slovenije manages and supervises the operations of subsidiaries, and defines the strategic policies and objectives of their operations, and monitors the achievement of established objectives. Management and supervisory tasks are carried out in accordance with Slovenian law, the applicable laws in the home countries of subsidiaries, and the valid acts of the Company and Group. In all business areas, subsidiaries operate 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.

The Corporate Governance Rulebook of the Telekom Slovenije Group was adopted in August 2017, and defines the rules, criteria and mechanisms for managing and supervising Telekom Slovenije Group companies. 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 monitored and supervised the operations of subsidiaries through membership in their supervisory bodies until September 2017. As a rule, one member of those bodies is a Management Board member responsible for a specific subsidiary. The supervisory bodies of individual subsidiaries met at least quarterly. Since September, the Company may formulate conferences and special advisory groups, committees for specific areas and other bodies for the needs of governing the Telekom Slovenije Group.

## COMPOSITION OF MANAGEMENT AND GOVERNANCE BODIES AT SUBSIDIARIES OF THE TELEKOM SLOVENIJE GROUP

### SLOVENIA

<b>GVO, d. o. o.</b>	Managing Director: Borut Radi
<b>Avtenta, d. o. o.</b>	Managing Director: Miha Praunseis
<b>TSmedia, d. o. o.</b>	Managing Director: Tina Česen, MSc
<b>Soline, d. o. o.</b>	Managing Director: Klavdij Godnič
<b>M-Pay, d. o. o.</b>	Managing Director: Janez Stajnko
<b>Antenna TV SL, d. o. o.</b>	Managing Director: Tina Česen, MSc Directors: Petra Šušteršič and Vladan Anđelković
<b>TSinpo, d. o. o.</b>	Managing Director: Dejan Jordan; Danilo Tomšič was appointed Managing Director, effective 1 March 2018. Procurator: Boštjan Hren

## OTHER COUNTRIES

<b>IPKO Telecommunications LLC, Kosovo</b>	Board of Directors: Rudolf Skobe, MSc (President), Bujar Musa (Vice-President), Artan Lahaj, Tomaž Seljak, MSc and Robert Erzin, MSc CEO: Robert Erzin, MSc
<b>Blicnet, d. o. o. Banja Luka, Bosnia and Herzegovina</b>	Managing Director: Simon Furlan, MSc Igor Bohorč, MSc served as Managing Director until 28 February 2017.
<b>SIOL, d. o. o., Croatia</b>	Managing Director: Igor Rojs, MSc
<b>SIOL d. o. o. Podgorica, Montenegro</b>	Managing Director: Igor Rojs, MSc
<b>SIOL d. o. o. Sarajevo, Bosnia and Herzegovina</b>	Managing Director: Igor Rojs, MSc
<b>SIOL ONE DOOEL Skopje, Macedonia</b>	Managing Director: Igor Rojs, MSc
<b>SIOL DOO BELGRADE, Serbia</b>	Managing Director: Igor Rojs, MSc

## 1.7. COMMITMENTS AND MEMBERSHIP IN ASSOCIATIONS<sup>9</sup>

Through its membership in numerous professional organisations and associations, the Telekom Slovenije Group builds successful business links, creates development opportunities and ensures the flow of professional information. Membership may be at the corporate or individual level, with Group employees serving as members of boards of directors, expert and strategic councils, and other bodies:

### Slovenia - Telekom Slovenije

- Marketing Society of Slovenia (also TSmedia and Avtenta): annual partners of the society,
- Slovenian Advertising Association, which functions under the auspices of the Slovenian Advertising Chamber,
- Electrotechnical Association of Slovenia,
- Slovenian Public Relations Association,
- European Institute for Compliance and Ethics (EICE),
- Slovenian Project Management Association,
- Slovenian Chamber of Commerce and Industry: participant in the general meeting and member of the management board of the Information Technology and Telecommunications Association,
- Slovenian Association of Risk Management and Insurance Management: membership on the board of directors,
- INIS - Institute for Non-Ionising Radiation: participant in the Forum EMS project,
- Interactive Advertising Bureau - IAB (also TSmedia),
- Institute for Corporate Security Studies,
- IPv6 Institute - go6,
- Institute for Labour Law at the Faculty of Law in Ljubljana,
- Chamber for the Development of Slovenian Private Security,
- Institute for Labour Relations and Social Security at the Faculty of Law in Maribor,
- Association of Employers of Slovenia (also GVO),
- Commercial Law Institute,
- Cable Operators Association of Slovenia,
- Slovenian Chamber of Engineers (also GVO),
- Purchasing Association of Slovenia,

- Slovenian Chamber of Crafts [also GVO],
- Slovenian Advertising Chamber [also TSmedia]: membership on the board of directors, membership on the council of members, executive board and expert committee of the council of members of MOSS [measurement of visits to Slovenian websites],

- Slovenian Directors' Association,
- Slovenian Institute for Standardisation: chair of the expert council and member of working groups,
- Managers' Association of Slovenia,
- Association of Slovenian Digital Television Operators: vice-chair, and
- Slovenian Association of Works Councils.

## Membership in international organisations

- American Chamber of Commerce [also TSmedia and Avtenta],
- Broadband Forum,
- European Telecommunications Network Operators' Association [ETNO; as members of working 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 group, and
- Search and Information Industry Association [SIINDA; also TSmedia].

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

- signatories of the European Framework for Safer Mobile Use by Younger Teenagers and Children,
- the Family-Friendly Company certificate,
- 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.

## Bosnia and Herzegovina – Blicnet

- 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.

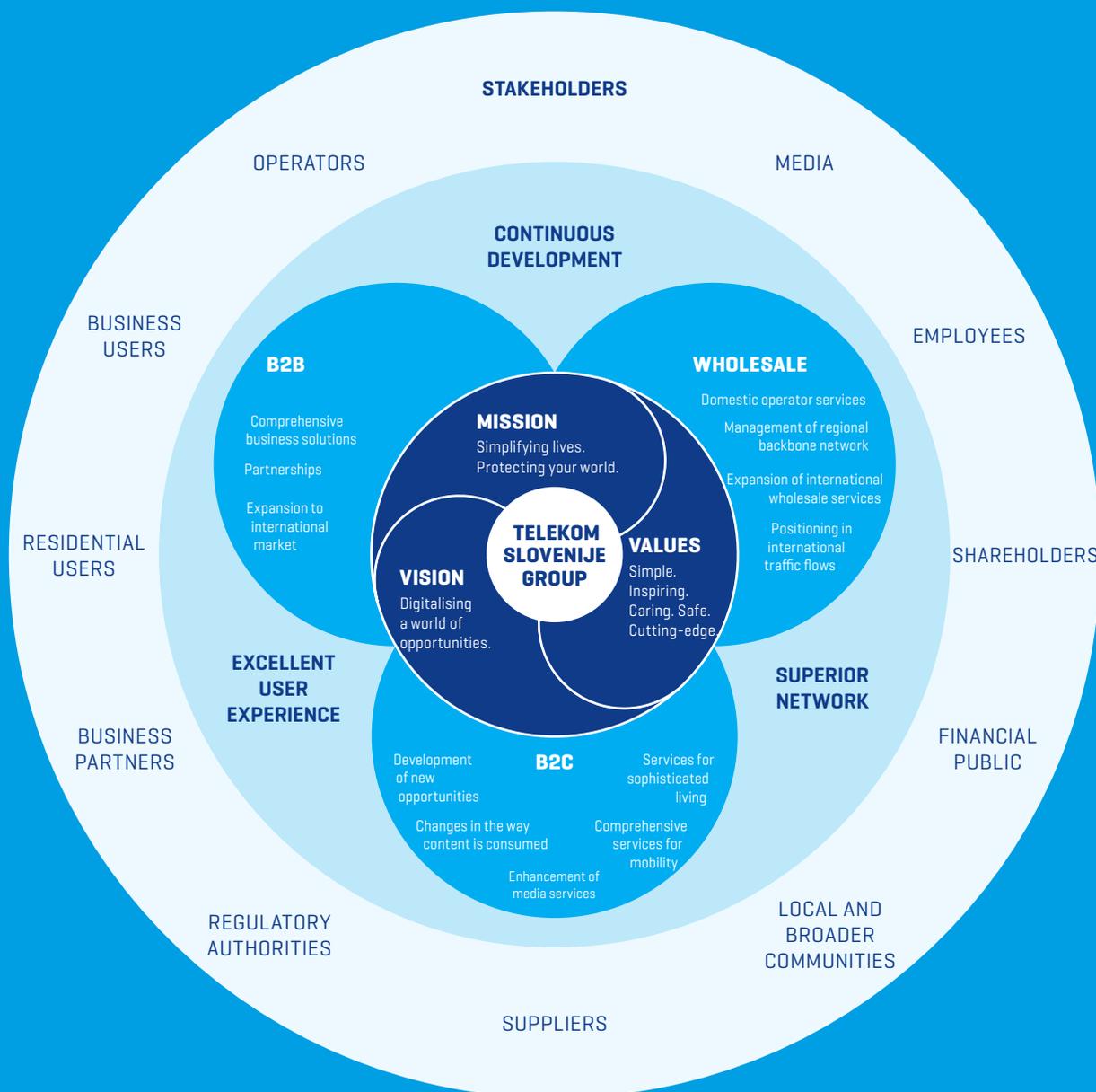
## Kosovo – IPKO

- Chamber of Commerce,
- American Chamber of Commerce, and

- European Investors Council.

## 1.8. DEVELOPMENT STRATEGY AND PLANS

### BUSINESS MODEL OF THE TELEKOM SLOVENIJE GROUP



#### CREATING VALUE FOR

##### USERS:

by pursuing our core activity and expanding to new areas, we generate new revenue sources and increase value for our owners.

##### EMPLOYEES:

we identify and develop our employees' talents, ensure personal and professional development, create a stimulating and dynamic work environment, and facilitate the right work-life balance in the scope of the Family-Friendly Company certificate.

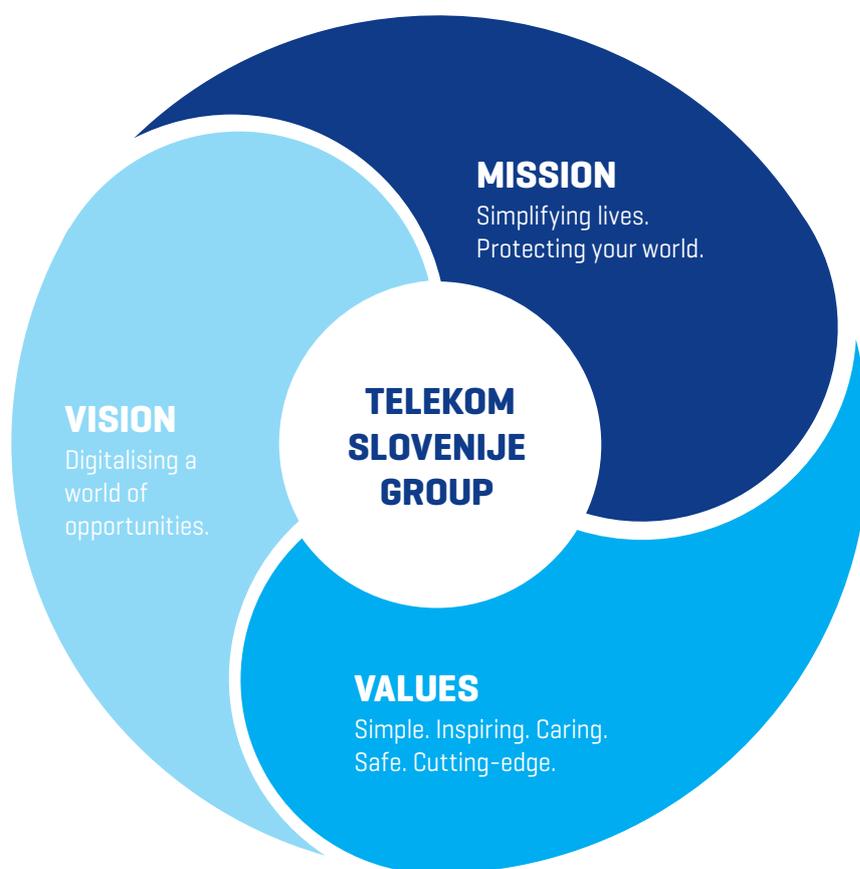
##### USERS:

by maintaining a superior network and creating an innovative portfolio, we provide an excellent user experience and ensure customer satisfaction.

##### LOCAL AND BROADER COMMUNITIES:

through the expansion and upgrading of the fixed and mobile network, we facilitate increased access to broadband and other ICT services. As part of our social responsibility, we support sporting, cultural, humanitarian and educational institutions and projects. We reduce our impacts on the environment by monitoring and managing the use of natural resources.

## 1.8.1. VISION, MISSION AND VALUES<sup>10</sup>



The Telekom Slovenije Group revised its vision, mission and values in 2017 in the scope of its Strategic Business Plan for the period 2018 to 2022.

The key strategic policies of the Telekom Slovenije Group for the period 2018 to 2022 are presented below in [section 1.8.3](#).

## 1.8.2. ACHIEVEMENT OF PLANNED OBJECTIVES BY THE TELEKOM SLOVENIJE GROUP IN 2017

The Telekom Slovenije Group actively and successfully achieved the objectives for 2017 set out in the Strategic Business Plan for the period 2017 to 2021.

### STRATEGIC OBJECTIVES FROM THE STRATEGIC BUSINESS PLAN AND THEIR REALISATION IN 2017

Strategic objective	Achieved in 2017
<p><b>Consolidation on individual markets</b></p> <ul style="list-style-type: none"> <li>Monitor activities on the domestic and foreign markets, and continue consolidation in the future, either through expansion or divestment on specific markets.</li> </ul>	<ul style="list-style-type: none"> <li>The Group sold its 45% participating interest in ONE.VIP D00 Skopje</li> <li>In Slovenia, we absorbed the users of Izimobil and purchased the company OPTIC-TEL, which provides access to the open broadband network in the southern Primorska region.</li> </ul>
<p><b>Expansion of the fibre optic access network</b></p> <ul style="list-style-type: none"> <li>Facilitate high-speed internet access and access to broadband content through the expansion of the network.</li> <li>Modernise and upgrade the fibre optic access network where the highest penetration rate is expected.</li> </ul>	<ul style="list-style-type: none"> <li>In Slovenia, we built 50,000 new fibre optic connections, to which we have already connected more than 16,000 users.</li> <li>Blicnet began offering FTTH services in the Banja Luka region in Bosnia and Herzegovina.</li> </ul>
<p><b>Growth in the number of broadband in IPTV connections</b></p> <ul style="list-style-type: none"> <li>Increase the number of users and share of the broadband and IPTV connection market through the accelerated construction of fibre optic access networks.</li> </ul>	<ul style="list-style-type: none"> <li>We maintained the highest market share in both the fixed and mobile services segments in Slovenia.</li> <li>We increased the number of fixed broadband connections by 6%, while maintaining our market share at the same level.</li> <li>We increased the number of IPTV connections in Slovenia by 11.3%, while increasing our market share by 0.6 percentage points.</li> <li>At 47%, IPKO in Kosovo maintained its leading share of the fixed broadband connection market.</li> <li>Blicnet in Bosnia and Herzegovina holds a 3.9% share of the broadband access market (Q2 2017).</li> </ul>
<p><b>New revenue sources</b></p> <ul style="list-style-type: none"> <li>Develop new services and expand Telekom Slovenije's portfolio to new areas that will generate new revenue sources [electricity, eCare, etc.].</li> <li>Provide the most advanced ICT solutions and services.</li> <li>Projects with ICT solutions and infrastructure.</li> <li>Provide the most advanced IT solutions and services.</li> </ul>	<ul style="list-style-type: none"> <li>We offered the market insurance for mobile devices, which was well-received by users. We will offer new insurance services in 2018.</li> <li>We offered eCare telemedicine treatment services in the scope of the EcoSmart programme.</li> <li>We also continued to offer electricity services.</li> <li>Together with our partners, we are in the process of introducing an electronic toll collection system for freight vehicles.</li> <li>In conjunction with partners, we applied for development and implementation projects for the advanced use of the network infrastructure and associated services relating to the internet of things.</li> <li>We began marketing solutions for providing infrastructure and ICT service security.</li> <li>Revenues from IT solutions and services were up 18% in Slovenia.</li> <li>In Slovenia, we connected 140 new LTE/4G base stations. The associated network already covers more than 952 cities and towns and 98% of the population. IPKO increased coverage of the population in Kosovo with 3G technology from 90% to 91%, while coverage with LTE/4G technology was increased from 85% to 87.4%.</li> <li>We were the first Slovenian operator to offer users the VoLTE [Voice-Over-LTE] service, which enables the simultaneous and uninterrupted use of voice and data transfer services via the LTE/4G network.</li> <li>The mobile network was upgraded with LTE-Advanced/4G+ technology, which provides users significantly higher data transfer speeds. More than 35% of the population is covered by 4G+ technology, while that proportion will rise even further in the future.</li> </ul>

## Strategic objective

## Achieved in 2017

### Optimisation of processes and the IT infrastructure

- Transform into a lean and agile company through the optimisation of business processes and the IT infrastructure.

- We carried out a strategic project to upgrade business support systems (BSS).
- We simplified our portfolio of subscriber packages and services.

### Restructuring of personnel

- Optimise the employee structure and labour costs.
- Develop employee competences.

- The number of employees in the Telekom Slovenije Group was up by 0.22%, while the number of employees at companies in Slovenia was up by 12.5% due to the inclusion of Antenna TV SL in consolidation and the purchase of a disabled workers' company.
- The Group's labour costs were up by 3%.
- Some 14% of Telekom Slovenije's employees were recognised as key personnel with development potential.
- The proportion of employees included in education and training was up by 1% at the Group level and by 7% at Telekom Slovenije.

### Quality and social responsibility

- Quality is ensured through continued development and a comprehensive portfolio of the most state-of-the-art 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.

- The parent company and subsidiaries passed all re-certification and regular assessments of compliance with the requirements of SIST EN ISO/IEC standards. With the ISO 50001 standard and through energy management, we achieve significant savings in terms of energy and the environment.
- Socially responsible projects include support for the Slojenčki (SLObaby) initiative, the Debeli Rtič Youth Health and Holiday Centre and the Botrstvo v Sloveniji child sponsorship project. We earmarked a total of EUR 2.5 million or 0.3% of the Telekom Slovenije Group's operating revenues for socially responsible activities in the scope of sponsorships and donations.

## FULFILMENT OF THE BUSINESS EXPECTATIONS OF THE TELEKOM SLOVENIJE GROUP FOR 2017

	Planned in 2017	Achieved in 2017
<b>Operating revenues</b>	EUR 717.8 million	EUR 726.0 million
<b>EBITDA</b>	EUR 206.8 million	EUR 168.7 million
<b>Net profit or loss</b>	EUR 41.3 million	EUR 9.0 million

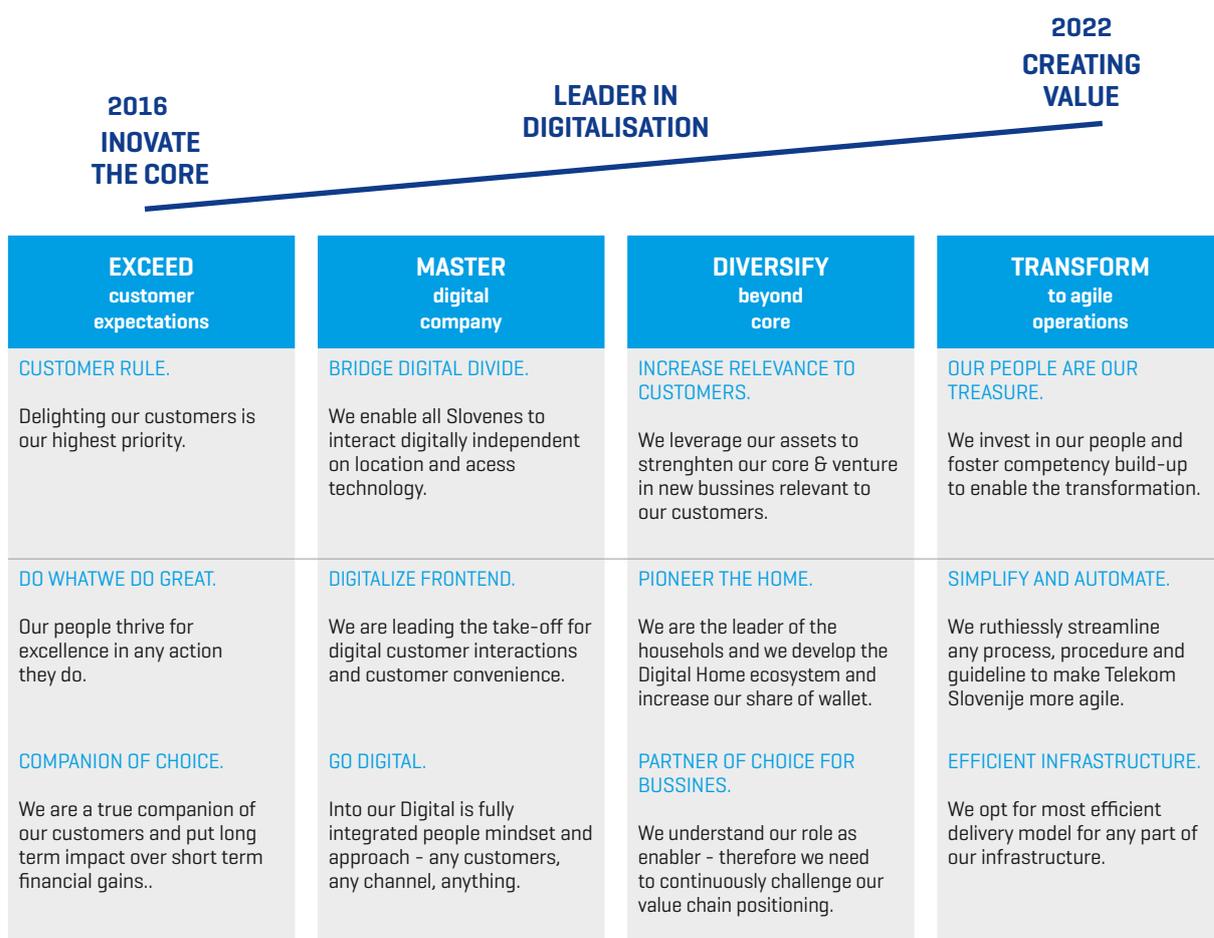
### 1.8.3. STRATEGIC BUSINESS PLAN OF THE TELEKOM SLOVENIJE GROUP FOR THE PERIOD 2018 TO 2022<sup>11</sup>

The development of the Telekom Slovenije Group is based on the key strategic policies set out in the Strategic Business Plan for the period 2016 to 2020, and are also based on the Group's transformation strategy. The Group's strategy is updated every year for the next five-year period. Activities in 2017 were thus carried out in accordance with the Strategic Business Plan for the period 2017 to 2021, while we also adopted a strategy and plan for 2018 with projections for the period 2019 to 2022 during the 2017 financial year.

Telekom Slovenije is implementing its strategy in three phases over a five-year period, which began in 2016. 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.

<sup>11</sup> GRIGS 103-1, 103-2, 103-3

## Phases and substantive pillars of the implementation of the Group's strategy



## KEY STRATEGIC POLICIES OF THE TELEKOM SLOVENIJE GROUP IN THE PERIOD 2018 TO 2022

The markets on which the Telekom Slovenije Group operates are subject to accelerated consolidation within specific countries and between them, making competition even fiercer. We will counter this trend by focusing on the key strategic policies presented below.

### 1. Maintaining our position on the mobile services market and increasing our share of the fixed services market

We will achieve growth in the number of fixed broadband and TV connections by further expanding fibre optic access networks, through a portfolio of convergent packages, by expanding the portfolio of services outside the basic telecommunications activity, and primarily through the development of a superior user experience.

### 2. New revenue sources

By expanding its portfolio to services outside the core telecommunications activity that are important to users, Telekom Slovenije will strengthen its core activity and increase revenues.

### 3. Maintaining a superior network

Through planned investments in a reliable, secure and high-quality network, we will ensure that Telekom Slovenije maintains its position as the leading provider of the most advanced technologies and telecommunication services. We will provide our users the most state-of-the-art solutions and a superior user experience.

### 4. Consolidation on individual markets

In accordance with its Strategic Business Plan for the period 2016 to 2020, the Telekom Slovenije Group has already carried out consolidation activities on the Macedonian market and absorbed the users of Izimobil's mobile services on the Slovenian market. The strategy envisages the possibility of further consolidation, either through expansion or divestment on the markets where the Group operates.

## 5. Simplification of processes and the IT infrastructure

Telekom Slovenije will transform into a lean and agile company through the optimisation of internal business processes and the IT infrastructure, and through the restructuring of personnel. The Company will adapt dynamically to the demands of its users through simple, understandable and user-friendly solutions offered through effective processes and with the support of open access to next-generation fixed and mobile networks.

## 6. Restructuring of personnel

The implementation of the Group's Strategic Business Plan is only possible by ensuring the optimal number of employees, taking into account the needs of the work processes of individual Group companies, and by ensuring the development of competent employees.

## 7. Financial stability

Telekom Slovenije will implement activities that will facilitate the effective management of liquidity and a high level of financial security within the Telekom Slovenije Group. We will ensure the optimal level of debt over the long term, where the value of the Company is most important.

## 8. Quality

Quality will remain the primary comparative advantage of the Telekom Slovenije Group's services. We will continue to provide our users state-of-the-art, high-quality ICT solutions and services. The key tools to ensuring quality are well-maintained quality management systems, verified business excellence models and the implementation of initiatives to ensure an excellent user experience.

## 9. Social responsibility

The Telekom Slovenije Group identifies opportunities where it can contribute to the development of the social and economic environment in which it operates through 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 Telekom Slovenije Group companies, while we responsibly manage the economic, social and environmental impacts of our operations.

## KEY OBJECTIVES OF THE TELEKOM SLOVENIJE GROUP FOR 2018

The achievement of established objectives depends on specific consolidation activities in Slovenia and on foreign markets.

### Operating revenues

EUR  
**755.3**  
million

### CAPEX

EUR  
**158.0**  
million

### EBITDA

EUR  
**209.8**  
million

### Net operating profit

EUR  
**40.9**  
million

## 1.8.4. STRATEGIC PROJECTS

### IMPLEMENTATION OF TELEKOM SLOVENIJE'S STRATEGY

The Group's strategy and the associated policies are implemented in the scope of the following strategic projects:

#### Creation of an 'all-in-one-place' product portfolio

The aim of creating an 'all-in-one-place' product portfolio is to become the market leader in services for the home, business and leisure time. To that end, we developed, tested and implemented pilot solutions, and introduced new services in 2017.

In the area of **eHealth**, we successfully launched the eCare service in the scope of the EcoSmart programme. To that end, we are participating in the establishment of the necessary technological infrastructure, and striving for legislative changes that will facilitate the provision of telemedicine services in the scope of compulsory health insurance and self-paid services.

We continued with the 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.

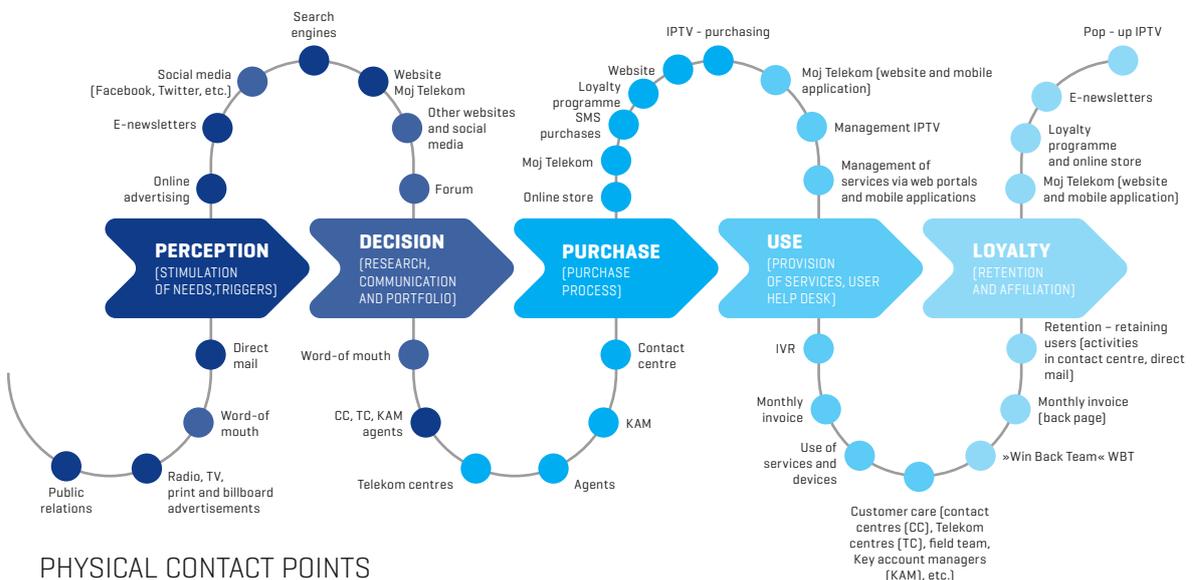
In the area of **insurance**, we successfully marketed insurance for mobile devices, which was well-received by users. As part of the **single sales channel** initiative, we continued developing a platform that will link various sales channels and provide users a comprehensive shopping experience. We successfully implemented activities as part of the online shop, and thus increased the number of purchases via the telekom.si website.

#### Excellence of the user experience

We conducted monitoring and surveyed user experiences at all contact points with Telekom Slovenije in 2017. We formulated a new quality assurance working group that includes experts from different areas of the Company who possess the necessary knowledge to both measure the user experience and verify the quality of a new product or service before it is launched. Activities are designed to meet and support the five key elements of a superior user experience: comfort, simplicity, value for money, assistance and support, and a relaxed shopping environment [i.e. a homogenous and uniform experience].

## Excellence of the user experience at all contact points

### DIGITAL CONTACT POINTS



## SMART INFRASTRUCTURE<sup>12</sup>

Telekom Slovenije continued with the intensive upgrading and expansion of the fibre optic access network with GPON technology, and is thus laying the infrastructure foundations for the future of the telecommunications activity. We provided more than 50,000 Slovenian households access to the fibre optic infrastructure in 2017, and thus gave users the opportunity to use the most advanced, reliable, secure and highest-quality network. See [section Access network](#).

### Development of business solutions

Telekom Slovenije's objective is to become the leading provider of comprehensive ICT solutions for the most demanding business users. The product portfolio includes six categories (illustrated in the picture below) for which we defined the planned target portfolio until 2020.

Voice and data	Business networks	Security	Infrastructure	Management services	Applications
Managed telephony and broadband connections	Managed WAN	Data security	Managed mobility	Co-location	SaaS
Managed telephony systems	Managed LAN	Information security	Managed office and IT equipment	IaaS	Management of applications
			Sale of goods	PaaS	Application development
			Smart infrastructure (IoT)	DCaaS	

### Change in the organisational culture

Telekom Slovenije continued to redefine its organisational culture, which is based on a focus on the user, the development of services and business excellence. We have created 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

The aim of this project is to simplify work in all areas of our operations. In 2017 we simplified the product portfolio, consolidated all product catalogues and introduced a standard process for the introduction of new products or changes to the existing portfolio. We thus provided users the most advanced portfolio under competitive conditions.

## UPGRADING OF THE BUSINESS SUPPORT SYSTEM (BSS)

We continued to introduce a complex business support system, which plays a key role in the IT architecture of telecommunication operators. The upgrade programme includes consolidation of fixed and mobile service billing, consolidation of customer relation management (CRM) systems, consolidation of order management systems (OMS), team resource management (TRM) and the consolidation of product management.

## ELECTRONIC TOLL COLLECTION PROJECT

The establishment of an electronic toll collection system (for vehicles weighing in excess of 3.5 tonnes) was one of the largest and most demanding projects in 2017. Due to a change in legislation and the expansion of the network of toll collection points from the original number of 16 locations to 137, the system will begin operating in 2018. We continued to develop, test and deploy both hardware and software elements of that system. The establishment of two data centres with server equipment was carried out in parallel with the construction of toll collection and control portals, and the establishment of the necessary fibre

12 GRIGS 103-1, 103-2, 103-3

optic infrastructure. The contracting authority (DARS) opened a web portal ([www.DarsGo.si](http://www.DarsGo.si)) to the public, while a call centre that DARS is already using was set up and equipped. We completed the development of all functionalities, carried out testing and prepared the system for the start of trial operation.

Establishment of a toll portal in the scope of the electronic toll collection project.



## MERGERS AND ACQUISITIONS

The objective of M&A activities is to strengthen the operations of the Telekom Slovenije Group in the scope of its core activity (the stabilisation of revenues and solidification of its market position) and to expand operations outside of the core activity (to financial services, IoT, etc.).

Through November's purchase of a 100% participating interest in the disabled workers' company Jordan, d. o. o. (and the renaming of that company to TSinpo, d. o. o.), we ensured that the disabled persons employed by the Telekom Slovenije Group are afforded specially adapted workplaces to perform appropriate work immediately following the receipt of the status of disabled person, and provided the same opportunities to other difficult-to-employ individuals.

Telekom Slovenije withdrew from the ownership structure of ONE.VIP DOO Skopje in October, and thus completed consolidation activities on the Macedonian market. By concluding an agreement on the absorption of the users of Izimobil's mobile services, we continued with consolidation activities on the Slovenian telecommunications market.

GVO purchased the 100% participating interest of OPTIC-TEL telekomunikacije in December, and thus the performance of activities in connection with the open broadband network (OBN) in the southern Primorska region. This will facilitate the use of broadband services in the municipalities of Komen, Sežana, Hrpelje-Kozina and Ilirska Bistrica.

GVO and the sole owner of INFRATEL, telekomunikacijska infrastruktura, d. o. o. reached an agreement on the purchase of a 100% participating interest in the latter. GVO became the owner of the aforementioned company with entry in the companies register on 24 January 2018. By purchasing that company, GVO acquired ownership of a portion of the telecommunications network in commercial areas (so-called grey areas) in the municipalities of Komen, Sežana, Hrpelje-Kozina and Ilirska Bistrica.

On 16 February 2018 Telekom Slovenije, d. d. signed an agreement on the purchase of a 6.89% participating interest in IPKO Telecommunications LLC and will become that company's sole owner when the change is entered in the companies register.

We will continue with consolidation activities in the future, either through expansion or divestment on specific markets

## 1.9. INCLUSION AND PARTICIPATION OF STAKEHOLDERS<sup>13</sup>

Telekom Slovenije strives for an inclusive relationship with its key stakeholders. Based on direct and indirect relations [research, data analyses, statistics, etc.], we identify mutual impacts and their interests. Stakeholder groups and the strategy for communication with those groups are defined in Telekom Slovenije's Corporate Governance Policy.

In connection with the definition of the content of the annual report, we performed a stakeholder analysis in 2017 in the form of an online questionnaire via the corporate website at [www.telekom.si](http://www.telekom.si). We supplemented our overview of stakeholders and the content of the annual report on the basis of answers received. See [section 2.9 Content according to GRI Reporting Standards](#) for more information.

### OVERVIEW OF TELEKOM SLOVENIJE'S STAKEHOLDERS AND THE INCLUSION THEREOF

Stakeholders	What is most important to them?	Frequency of contact	How are they included?	Activities
<b>Shareholders, analysts and other financial publics</b>	<ul style="list-style-type: none"> <li>Relevant, current and timely information regarding operations and TLSSG shares.</li> <li>Operations that facilitate the payment of dividends.</li> <li>Effective corporate governance.</li> </ul>	<ul style="list-style-type: none"> <li>Regular responses to questions sent to the following contact emails: <a href="mailto:ir@telekom.si">ir@telekom.si</a>, <a href="mailto:skupscina@telekom.si">skupscina@telekom.si</a>, <a href="mailto:dividenda@telekom.si">dividenda@telekom.si</a>.</li> <li>Quarterly contact through the publication of reports on operations and the issue of the electronic TLSSG newsletter.</li> <li>Once a year in conjunction with the publication of the annual report and General Meeting of Shareholders.</li> <li>Periodic contact at investment conferences.</li> </ul>	<ul style="list-style-type: none"> <li>Investor relations section of the Company's website.</li> <li>Publications for shareholders.</li> <li>Participation in investment conferences at home and abroad.</li> <li>Participation at meetings organised by the Group and other institutions.</li> <li>Publication of information in the Ljubljana Stock Exchange's SEOnet system.</li> <li>Electronic online TLSSG newsletter.</li> </ul>	<ul style="list-style-type: none"> <li>Regular, proactive and comprehensive communication with existing and potential shareholders regarding the operations of the Telekom Slovenije Group.</li> <li>We paid shareholders gross dividends of EUR 5.00 per share in July 2017.</li> <li>We updated Telekom Slovenije's Corporate Governance Policy and the Corporate Governance Rulebook of the Telekom Slovenije Group.</li> <li>We adopted the Policy Governing the Diversity of the Management Board and Supervisory Board of Telekom Slovenije.</li> </ul>
<b>Users</b>	<ul style="list-style-type: none"> <li>High-quality networks and the development of services that meet their needs and expectations.</li> <li>The best quality-to-price ratio for services.</li> <li>The most state-of-the-art and innovative services.</li> <li>Reliable, stable and far-reaching networks.</li> <li>Simple and prompt communication with the Group.</li> <li>The prompt elimination of faults.</li> </ul>	<ul style="list-style-type: none"> <li>Regular personal contacts with employees and on social networks.</li> <li>Twice a year through migration analyses for the fixed and mobile segments.</li> <li>Twice a year through research according to the mystery shopping principle.</li> <li>Through annual user satisfaction research.</li> <li>Regular contact through page view statistics.</li> <li>Regular measurement of the NPS (Net Promoter Score) at contact points.</li> </ul>	<ul style="list-style-type: none"> <li>Personal contact with professional employees.</li> <li>Web services for users.</li> <li>Advertising of the portfolio in broad reaching media and communication on social networks.</li> <li>Regular communication regarding the portfolio of products in the media and communication via other channels (invoices, direct mailing, catalogues, trade fairs, social networks, promotions at events, special events, etc.).</li> <li>Communication via social networks.</li> <li>The possibility of selecting a return call option to avoid extended waits for responses to calls to the contact centre.</li> </ul>	<ul style="list-style-type: none"> <li>We take a personal approach to users in our centres and present new services and technologies, as well as special promotions through advertisements and via other channels.</li> <li>We improved the availability and stability of the LTE/4G network, and introduced an even higher capacity LTE-A/4G+ network. We built 50,000 new connections for broadband fibre optic access to the internet.</li> <li>We maintained customer satisfaction at a high level in both the fixed and mobile segments.</li> <li>Our contact centres received 1.1 million calls for general and sales information, and 823 thousand calls for technical assistance. We made 57,565 successful promotional calls. We answered 123,338 user messages via the <a href="mailto:info@telekom.si">info@telekom.si</a> email address.</li> <li>We conducted monitoring and surveyed user experiences at all contact points with Telekom Slovenije in 2017.</li> </ul>

Stakeholders	What is most important to them?	Frequency of contact	How are they included?	Activities
<b>Employees</b>	<ul style="list-style-type: none"> <li>• Career development opportunities.</li> <li>• Acquisition of additional knowledge.</li> <li>• Professional and effective management.</li> <li>• Information regarding the Company's operations and strategic plans.</li> </ul>	<ul style="list-style-type: none"> <li>• Regular contacts via internal portals.</li> <li>• Regular contacts via the Works Council and trade unions.</li> <li>• Appraisal-development interviews twice a year.</li> <li>• Every two years through the measurement of organisational vitality.</li> </ul>	<ul style="list-style-type: none"> <li>• Briefing of employees on business events at Telekom Slovenije and within the Group via established channels [intranet, bulletin boards, email, the system of meetings, etc.].</li> <li>• Promotion of innovation in the scope of the Brihta programme.</li> <li>• Cooperation with the Works Council and trade unions.</li> <li>• Activities relating to employee health as part of the Modro jabolko [Wise Apple] portal.</li> <li>• Measurement of organisational vitality and annual appraisal-development interviews.</li> </ul>	<ul style="list-style-type: none"> <li>• We have created a culture of mutual trust, respect, continuous learning, and efficient and responsible work.</li> <li>• A total of 91.4% of Group employees were included in education and training in 2017.</li> <li>• In 2017 a total of 32 employees had contracts with the Group to obtain a higher level of education, an increase of 100% relative to 2016.</li> <li>• We maintained constant dialogue with social partners [notifications, joint consultations, issuing of consents, etc.]. Telekom Slovenije's Works Council met at 14 regular and seven correspondence sessions in 2017, at which the Management Board briefed members of the Works Council on the Company's current activities.</li> </ul>
<b>Suppliers and other business partners<sup>14</sup></b>	<ul style="list-style-type: none"> <li>• Compliance with business agreements.</li> <li>• Consistent settlement of agreed liabilities.</li> <li>• Long-term cooperation.</li> <li>• Clear supplier selection criteria.</li> <li>• Responsiveness and approach of the ordering party.</li> </ul>	<ul style="list-style-type: none"> <li>• Regular contact through assessment of cooperation with suppliers.</li> <li>• Once a year via a questionnaire.</li> </ul>	<ul style="list-style-type: none"> <li>• Compliance with the Code of Ethics of the Telekom Slovenije Group and Rules on the Procurement of Goods and Services at Telekom Slovenije, and other internal acts.</li> <li>• Establishment of long-term relationships with suppliers.</li> <li>• Assessment of cooperation with suppliers.</li> </ul>	<ul style="list-style-type: none"> <li>• We settled our liabilities by the agreed payment deadlines, and even before those deadlines in the event of surplus liquid funds.</li> <li>• We dedicated a great deal of attention to addressing current challenges effectively.</li> <li>• Based on an assessment of each supplier, we define a development strategy, possibilities for additional cooperation, or measures to mitigate/eliminate risks.</li> <li>• The transparent and equal treatment of potential suppliers is ensured through a standardised procurement procedure that defines clear selection criteria.</li> </ul>
<b>Regulatory and government bodies</b>	<ul style="list-style-type: none"> <li>• Compliance with regulations and decisions of the regulatory body.</li> <li>• Provision of high-quality access to telecommunication services.</li> </ul>	<ul style="list-style-type: none"> <li>• Periodic contact in the event of legislative changes.</li> <li>• Regular contact following inspections in connection with imposed obligations by the AKOS on regulated relevant markets.</li> </ul>	<ul style="list-style-type: none"> <li>• Expert responses to decisions of regulatory bodies.</li> <li>• Participation in the drafting of legislation, with expert comments.</li> </ul>	<ul style="list-style-type: none"> <li>• We consistently adhered to applicable laws, regulatory measures, regulations and best practices [i.e. the abolishment of roaming within the EU] in all phases of the business process and operations.</li> <li>• We responded by preparing comments to published analyses of relevant markets.</li> </ul>
<b>Media</b>	<ul style="list-style-type: none"> <li>• Continuous and current information about the operations of the Telekom Slovenije Group.</li> <li>• Continuous communication about current activities within the Telekom Slovenije Group and the latest news regarding the development of products and services.</li> </ul>	<ul style="list-style-type: none"> <li>• Daily responses to journalists' questions; ad-hoc press conferences and press releases.</li> <li>• Through semi-annual and annual media analyses.</li> </ul>	<ul style="list-style-type: none"> <li>• Management of media relations [press conferences, press releases and responses to journalists' questions].</li> <li>• Communication about the latest corporate developments, and new services and products.</li> </ul>	<ul style="list-style-type: none"> <li>• Telekom Slovenije responded to around 300 questions from journalists in 2017 and sent 30 press releases, while nearly 10,000 articles about the Company were published in the media.</li> </ul>

Stakeholders	What is most important to them?	Frequency of contact	How are they included?	Activities
<b>Local and wider community</b>	<ul style="list-style-type: none"> <li>Sponsorship and donation activities in the areas of sport, culture, science and humanitarian causes.</li> <li>Access to fixed and mobile services.</li> <li>Limitation of environmental impacts.</li> <li>Responsible expansion of the infrastructure (fixed and mobile network).</li> </ul>	<ul style="list-style-type: none"> <li>Regular contact when signing donation and/or sponsorship agreements.</li> <li>Regular cooperation in the scope of humanitarian and other activities.</li> <li>Regular contact with local communities when upgrading and building networks.</li> </ul>	<ul style="list-style-type: none"> <li>Support for sporting, cultural, education and humanitarian organisations and projects.</li> <li>Selection of projects with an emphasis on social responsibility and the monitoring of associated effects.</li> <li>Assessment of environmental impacts as an integral aspect of all development activities.</li> </ul>	<ul style="list-style-type: none"> <li>Sponsorships and donations were earmarked for very broad groups at the national and regional levels. The Telekom Slovenije Group earmarked EUR 2.5 million for those purposes in 2017.</li> <li>We improved accessibility to mobile and fixed services: the LTE/4G network in Slovenia already covers 98% of the population, while the LTE-A/4G+ network already covers 35% of the population. We also built an additional 50,000 connections for broadband fibre optic access to the internet. The LTE/4G network in Kosovo covers 87.4% of the population.</li> <li>Due to the expansion of the LTE/4G network, we performed additional measurements of electromagnetic radiation, which we ensured does not exceed the legally prescribed thresholds. We conducted 278 measurements in Slovenia in 2017. The results of EMR measurements are accessible by local communities.</li> <li>We designed the long-term #zanaše communication platform, in the scope of which we connected athletes and fans through a special cheerleading dance.</li> </ul>

## COMMUNICATION WITH STAKEHOLDERS

We build the trust of our stakeholders through long-term, consistent and systematic communication in all areas of our operations. Our key guidelines in the area of communication are based on openness, balancing proactive and reactive communication, balancing communication on the domestic and foreign markets, and on the provision of accurate, relevant and clear messages.

We also report on communication with individual groups of stakeholders in other sections that comprehensively address responsibility to employees, investors, shareholders, suppliers, business partners, and the local and wider communities.

## INFORMATION OF A PUBLIC NATURE

In accordance with the Public Information Act [ZDIJZ], access to information of a public nature also includes companies under the controlling influence of the government. We thus proactively published information and handled requests for access to information, and implemented support activities such as employee training in 2017.

Basic information regarding representatives, members of management and supervisory bodies, and the agreed amount and payment of remuneration to those bodies, 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.

Telekom Slovenije has two public information officers, while subsidiaries in Slovenia have either one or two. 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](mailto:ijz@telekom.si).

## COMMUNICATION WITH THE MEDIA<sup>15</sup>

Media relations represent an important element of public relations management. We communicated with the media in 2017 regarding various themes, such as operations, strategic policies, the development of services and the network, new features in the portfolio, social responsibility, new services, etc.

15 GRI GS 102-43, 102-44

That communication was carried out in the form of ad-hoc events and press releases, through the promotion of media reports, and through regular and prompt responses to journalists' questions. Telekom Slovenije responded to around 300 questions from journalists, while nearly 10,000 articles about the Company were published in the media. The majority of reports were linked to the value of the Company's shares, operations, sponsorship activities and new features in the portfolio.

## COMMUNICATION WITH REGULATORY AND GOVERNMENT BODIES<sup>16</sup>

The AKOS and other similar bodies in the countries where Group companies are present have a significant impact on our operations, as telecommunications represent one of the most regulated economic sectors. 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.

In addition to the telecommunications sector, Telekom Slovenije also operates in other sectors governed by their own regulations and rules.

## 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.

### SUSTAINABLE ASPECTS OF OPERATIONS<sup>17</sup>

Our sustainable impacts on the economy, society and environment are monitored and reported on in accordance with the international Global Reporting Initiative (GRI) Guidelines since 2009. During the compilation of the annual report in 2017, we once again performed materiality and stakeholder analyses, and supplemented the annual report on that basis. Additional information is reported in [section 2.9. Content according to GRI Reporting Standards](#). The identification of sustainable impacts was further enhanced in 2017. Using references (glej SDG reference), we indicated the areas in which we contribute to the achievement of the United Nations' Sustainable Development Goals.

### DRAFTING OF THE REPORT AND SCOPE OF REPORTING<sup>18</sup>

Telekom Slovenije's Controlling Sector and the Public Relations Department coordinate the compilation and publication of the annual report. Data and information are captured with the help of structured questionnaires, while content is prepared by experts for specific areas from Telekom Slovenije, GVO, TSmedia, Antenna TV SL, Soline, Avtenta, IPKO and Blicnet. The financial report is compiled by the Finance and Accounting Department.

The annual report presents sustainable development indicators for the previous calendar year. The most recent annual report, for 2016, was published on 21 March 2017. The report is primarily intended for shareholders and the financial public, as well as users, employees and other stakeholders. Reporting 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.<sup>19</sup>

16 GRI GS 102-43, 102-44

17 GRI GS 102-46, 102-54

18 GRI GS 102-48, 102-49, 102-50, 102-52

19 GRI GS 102-51

Antenna TV SL was included in consolidation in 2017, while in 2016 it was disclosed as a financial investment. 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 REPORTING<sup>20</sup>

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 [section 2.10](#) on page 162.

## 1.11. SIGNIFICANT EVENTS AND ACHIEVEMENTS IN 2017

- The ratings agency S&P Global Ratings gives Telekom Slovenije a long-term rating of BB+, with a stable outlook. The ratings agency S&P assesses that Telekom Slovenije, which faces stiff competition and pressure on its prices and margins on the domestic market, will maintain its market position through additional investments in the development of its network, and that the Company's operations will be stable in the future.
- Telekom Slovenije adopts an updated version of the Corporate Governance Policy of Telekom Slovenije, d. d., which takes into account the strategic policies and objectives of Telekom Slovenije and the Telekom Slovenije Group in the coming years, significant regulatory, economic and business changes in the environments in which Group companies operate, and amended recommendations and best practices in the areas of compliance and corporate governance.
- Telekom Slovenije signs an agreement with Telemach on the arrangement of mutual relations. By signing the aforementioned agreement, the companies put in order their mutual relations. Telekom Slovenije will not reveal the details of the signed agreement. In accordance with that agreement, the Ljubljana District Court rejects the claim of the plaintiff Telemach against Telekom Slovenije regarding the payment of EUR 1,392,153.00 with appertaining costs, and regarding the payment of EUR 86,186,000.00 with appertaining costs under an amended claim.
- In cooperation with Google, Telekom Slovenije becomes the first operator in Slovenia to provide the possibility of paying for purchases via the Google Play application store directly through subscribers' monthly invoices for communication services. Purchases of applications, games, films, music and other content can thus be made without a credit card or bank card.
- In cooperation with Apple, Telekom Slovenije becomes the first Slovenian operator to facilitate the use of the VoLTE service via the LTE network by its subscribers who use iPhones. The VoLTE service allows subscribers to simultaneously use voice and data transfer services, as well as the quicker establishment of calls, high-quality sound through the default use of HD voice and reduced mobile phone battery usage in the LTE/4G network. The VoLTE service is now available in Telekom Slovenije's network for users of the iPhone 6 and newer models.

20 GRI GS 102-56

- Telekom Slovenije offers its TV subscribers the possibility of taking advantage of special offers for the purchase of devices and the use of services through their TV or set-top box. The aforementioned possibility is available to the users of Telekom Slovenije's TV services who have not entered into a subscriber agreement. Those users may thus purchase selected products or take advantage of a discount on their monthly subscription fee through a few simple clicks on their remote control.
- At the 28<sup>th</sup> General Meeting of Shareholders of Telekom Slovenije held on 21 April, shareholders appoint Bernarda Babič, Barbara Gorjup, Barbara Kürner Čad, Ljubomir Rajšič and Lidija Glavina to four-year terms of office as new members of the Supervisory Board.
- Telekom Slovenije's Supervisory Board meets for the first time in its new composition on 10 May. Members of the Supervisory Board elect Lidija Glavina to serve as President of the Supervisory Board, Bernarda Babič (shareholder representative) as Vice-President and Dean Žigon as employee representative.
- Telekom Slovenije prepares the Office 365 packages for the secure storage of corporate data in the cloud. The aforementioned packages facilitate simple use on both computers and mobile devices, and provide everything necessary for efficient and responsive operations, without purchasing and installing server software. In addition to the secure storage of and access to data, Office 365 turnkey packages also provide companies with solutions for the management of risks in the event of the loss or malfunction of a computer, tablet or mobile phone.
- The eCare service, developed at Telekom Slovenije together with partners from eight European countries in the scope of the HoCare (Home Care) international project and conference, is recognised as an example of best practice. The Ministry of Labour, Family, Social Affairs and Equal Opportunities defines eCare as a social service and issues the relevant licence to Telekom Slovenije for the provision thereof.
- At the New Challenges in Financial Service Activities conference, Telekom Slovenije presents activities related to the development of a new mobile wallet ecosystem. Based on the knowledge derived from the development of Moneta, it begins the establishment of a new mobile wallet ecosystem that will link rapid payments with mobile devices, advanced POS devices, service providers and an extensive user database.
- Telekom Slovenije signs an agreement with Izimobil on the arrangement of mutual relations. The implementation of that agreement depends on specific suspensive conditions. Telekom Slovenije thus refuses to reveal the details of the aforementioned agreement until further notice.
- At the SAP Forum 2017, Avtenta's experts present new guidelines and approaches in ICT management, the leading digitalisation trends and a reference example of the introduction of an SAP-managed solution: SAP ERP as a service.
- Telekom Slovenije revamps its portfolio of mobile packages. Three new packages are introduced under the name Dostopni (Accessible), and include up to 60 GB of data transfer. Certain packages are renamed, while others include additional services for subscribers at the same price. Telekom Slovenije also comprehensively overhauls its portfolio of mobile packages for young users.
- The Siol.net online media becomes the most-read Slovenian online media, and thus assumes the leading position among Slovenian websites. Research on the measurement of visits to Slovenian websites (MOSS) indicates that Siol.net was visited by more than 684,000 different users in September, which is more than half of all Slovenian internet users.
- The Supervisory Board appointed Tomaž Seljak, MSc to a new four-year term of office that begins on 1 May 2018.
- Telekom Slovenije's Works Council appoints Dean Žigon, Samo Podgornik and Primož Per to four-year terms of office as employee representatives on the Supervisory Board.



- Coverage of the population by Telekom Slovenije's LTE/ 4G network reaches more than 98%. The Company begins upgrades with 4G+ technology (LTE-Advanced), which ensures users even higher data transfer speeds, together with even faster and more reliable access to the mobile internet. Coverage of the population by 4G+ technology thus reaches more than 35%, while that proportion will rise even further in the future.
- Through the *Modri Fon* promotion, Telekom Slovenije offers its users a mobile phone every month at an exceptional price, as well as various models and brands of mobile phones for different target groups. The *Modri Fon* promotion applies to all *Dostopni* and *Modri* packages, and to the *Neodvisni B* package (intended for young people) and to certain business packages.
- Telekom Slovenije successfully tests the standardised NarrowBand IoT technology, a low power network technology that uses the existing network infrastructure. It is intended for the effective communication of a wide range of devices (up to 50,000 on one network cell), both across a broad geographical region and within a city infrastructure, while it is also intended for data flows between those devices. It is appropriate for devices that generate a low amount of data traffic, such as sensors. Telekom Slovenije will soon set up test environments in Ljubljana and Maribor, in which interested companies, individual developers and educational institutions will be able to test the functioning of their own internet of things (IoT) solutions.

## RECOGNITIONS AND AWARDS RECEIVED IN 2017:



- **Trusted Brand 2017** – Telekom Slovenije receives two awards for the most trustworthy brand in the categories of internet services and mobile telephony. The Company also receives special recognition for the most trustworthy brand in the category of mobile telephony for the 10th consecutive year.

- **Best Buy Award** – two certificates for the best price-to-quality ratio in the categories of internet service provider and mobile operator.

- **Respected Employer** – Telekom Slovenije is recognised as the most respected employer in the fields of electronics and telecommunications. The aforementioned award is presented by MojeDelo.com, the largest employment portal in Slovenia.

- **Employer Appeal** – Telekom Slovenije ranks amongst the 15 most appealing employers in Slovenia.

- **WebSI 2016** – TSmedia ranks third in the category Media for a new economic context for *Posel danes* (Business Today) on Siol.net.

- **DiGGIT 2017** – Telekom Slovenije receives grand prize in the social media category and two gold medals in the IT and communication and Sports categories.

- **Master of Knowledge Award** – Telekom Slovenije ranks amongst the 10 best masters of knowledge in Slovenia. The SOFOS Institute and Planet GV monitor the effectiveness and success of corporate management education.

- **Bisnode Slovenija** – GVO receives the highest credit rating excellence grade of AAA.

- Soline is recognised as the **best store in Ljubljana**.

- **Customer's Friend Certificate** – Blicnet is the first telecommunications operator in Bosnia and Herzegovina to receive the Customer's Friend Certificate, awarded by ICERTIAS to companies who offer their customers the best user experience.



Significant events after the balance sheet date are presented in the financial report in section 41 and 43 Event after the reporting date.

## 1.12. CORPORATE GOVERNANCE STATEMENT

Telekom Slovenije, d. d. [hereinafter: Telekom Slovenije] hereby issues its 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.

The corporate governance statement is an integral part of the audited annual report of the Telekom Slovenije Group and Telekom Slovenije, d. d. for 2017. It relates to the period 1 January 2017 to 31 December 2017. 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](http://www.telekom.si) and in the Ljubljana Stock Exchange's electronic information system at <http://seonet.ljse.si>.

During the 2017 financial year, the governance of Telekom Slovenije was based on valid legislation, the rules and recommendations of the Ljubljana Stock Exchange, the recommendations of Slovenski državni holding, d. d., best practices, the publicly accessible Corporate Governance Policy of Telekom Slovenije, d. d. and the Company's internal acts.

### 1.12.1. CORPORATE GOVERNANCE POLICY

Corporate governance at Telekom Slovenije and within the Telekom Slovenije Group is based on the following principles and guidelines:

- the Corporate Governance Policy of Telekom Slovenije, d. d., adopted in December 2011 and updated on 22 February 2017, and
- the Corporate Governance Rulebook of the Telekom Slovenije Group of 22 August 2017, which replaced the Corporate Governance Rulebook of the Telekom Slovenije Group from 2014.

The Corporate Governance Policy defines, inter alia, groups of stakeholders, a strategy for communication and cooperation with those groups, a policy governing links between the parent company and its subsidiaries, and a commitment to identify conflicts of interest and to ensure the independence of members of the Supervisory Board and Management Board. It also defines a system for segregating responsibilities and competences between members of management and supervisory bodies, the role of Supervisory Board committees and the protection of employees' interests. The Supervisory Board and Management Board adopted updates to the Corporate Governance Policy, taking into account current guidelines in the area of corporate governance, as well as binding regulations and best practices.

The Corporate Governance Rulebook of the Telekom Slovenije Group defines the rules, criteria and mechanisms for managing and supervising companies in the Telekom Slovenije Group [i.e. Group Corporate Governance].

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 Corporate Governance Rulebook of the Telekom Slovenije Group, which is binding for all Telekom Slovenije Group companies. The same high standards of corporate governance that apply to Telekom Slovenije are applied in the management and governance of subsidiaries.

The Management Board and Supervisory Board function in accordance with the law and other regulations, the Articles of Association of Telekom Slovenije, d.d. [hereinafter: the Articles of Association], and the rules of procedure of the Management Board and Supervisory Board.

The Corporate Governance Policy of Telekom Slovenije, d. d., the rules of procedure of the Management Board and the other documents linked to corporate governance are publicly accessible at the website [www.telekom.si](http://www.telekom.si), under: <http://www.telekom.si/o-podjetju/predstavitev/organiziranost-in-upravljanje/upravljanje-druzbe>.

## 1.12.2. STATEMENT OF COMPLIANCE WITH CODES AND RECOMMENDATIONS

Telekom Slovenije, 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 the corporate governance recommendations set out in the following documents to the greatest extent possible during the 2017 financial year:

- the **Corporate Governance Code** adopted by the Ljubljana Stock Exchange and the Slovenian Directors' Association on 27 October 2016. The code entered into effect on 1 January 2017 and is published at the website [www.ljse.si](http://www.ljse.si);
- the **Corporate Governance Code for Companies with Capital Assets of the State**, which was adopted by Slovenski državni holding, d. d. in May 2017, and the **Recommendations and Expectations of Slovenski državni holding** from May 2017 [both documents are published on the website [www.sdh.si](http://www.sdh.si)]; and

the **Recommendations to Public Companies Regarding Notification** adopted by the Ljubljana Stock Exchange on 28 October 2016. Those recommendations are published on the website [www.ljse.si](http://www.ljse.si).

In its work and operations, Telekom Slovenije also complies with the guidelines set out in the Code of Ethics of the Telekom Slovenije Group of 1 February 2017 [published on the Company's website at [www.telekom.si](http://www.telekom.si)].

### STATEMENT OF COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Telekom Slovenije explains below deviations from individual recommendations set out in the Corporate Governance Code:

#### **External assessment of the adequacy of the corporate governance statement**

##### [Recommendation 5.7:](#)

Telekom Slovenije deviates in part from this recommendation. Telekom Slovenije has not yet commissioned an external assessment of the adequacy of its corporate governance statement.

#### **Chairman of the Supervisory Board**

##### [Recommendation 15.3:](#)

Telekom Slovenije deviates in part from this recommendation, as the President of its Supervisory Board also chairs the Strategy Committee.

#### **Publication of rules of procedure of bodies**

##### [Recommendation 29.9:](#)

Telekom Slovenije deviates in part from this recommendation, as it has not published the rules of procedure of the Management Board on its website.

### STATEMENT OF COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE FOR COMPANIES WITH CAPITAL ASSETS OF THE STATE

Telekom Slovenije explains below deviations from individual recommendations set out in the Corporate Governance Code for Companies with Capital Assets of the State:

#### **Supervisory board**

##### [Recommendation 6.13.2:](#)

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 an average of one session a month, which exceeds the recommended number.

#### **Transparency of operations and reporting**

##### [Recommendation 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.

##### [Recommendation 8.4:](#)

Telekom Slovenije deviates in part from this recommendation. Telekom Slovenije does not disclose the education and training costs of the Supervisory Board in its annual report, while the Supervisory Board did not incur any of the other costs stated in this recommendation.

## STATEMENT OF COMPLIANCE WITH THE RECOMMENDATIONS AND EXPECTATIONS OF SLOVENSKI DRŽAVNI HOLDING

Telekom Slovenije explains below deviations from individual recommendations and expectations:

### **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. A summary of the strategy and plan of the Telekom Slovenije Group for 2018 with projections for the period 2019 to 2022 is published by Telekom Slovenije in the Ljubljana Stock Exchange's SEOnet system and on the Company's website.

### **Quarterly reporting on the performance of a company/group – points 2.1 and 2.5**

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) – points 3.6 and 3.9**

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 the Company, Telekom Slovenije 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](http://www.telekom.si/o-podjetju/ijz)) relating to donations and sponsorships, and advisory and other copyright or intellectual services.

### **Employee remuneration – point 4.3.2**

Telekom Slovenije deviates in part from this recommendation, as the amount of the Christmas bonus is set out in the collective agreement of Telekom Slovenije, d. d. in an amount equal to 70% of the last known average monthly wage in the Republic of Slovenia.

### **Publication of data regarding executed payments – point 4.4**

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 4.5**

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

### **Achieving quality and excellence in the operations of companies/groups – point 5.1, 5.3 and 5.4**

The Company deviates in part from this recommendation, as the only self-assessment of business excellence according to the EFQM model carried out in 2016 was performed for Telekom Slovenije. Comparison with previous years will be possible following the next self-assessment.

### 1.12.3. EXPLANATIONS IN ACCORDANCE WITH THE COMPANIES ACT (ZGD-1)

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

#### 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 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 the efficiency and effectiveness of operations, the accuracy and completeness of accounting records, the reliability, timeliness and transparency 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 accounting data, which is ensured in different ways, e.g. through the reconciliation of 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.

#### 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

The corporate governance system and the communication strategy for shareholders and other stakeholders ensure the equal treatment of shareholders and the consistent exercising of the rights of all Telekom Slovenije shareholders, 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 at the General Meeting of Shareholders in person or through authorised representatives. 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 date that the convening of the General Meeting of Shareholders is published on the website of Agency of the Republic of Slovenia for Public Legal Records and Related Services is deemed the official date of that convocation and the date from which the deadlines set out in the ZGD-1 apply. The convening of the General Meeting of

Shareholders and other important activities related thereto are set out in the Articles of Association.

The competences and functioning of the General Meeting of Shareholders are set out in the ZGD-1, the Company's 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/en/investor-relations/shareholders-meeting> 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.

## WORK OF THE GENERAL MEETING OF SHAREHOLDERS

The convening of the 28<sup>th</sup> 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://www.telekom.si/o-podjetju/28-General-Meeting-210042017\\_1.pdf](http://www.telekom.si/o-podjetju/28-General-Meeting-210042017_1.pdf) and on the stock exchange's electronic information system at <http://seonet.ljse.si>. Shareholders were afforded the opportunity to view the full materials for the General Meeting of Shareholders in the information office at the Company's registered office, from the day of publication of the convening of the General Meeting of Shareholders until the day thereof. The timely publication of materials for the General Meeting of Shareholders and proper procedures for the convening of the General Meeting of Shareholders enabled shareholders to actively exercise their rights. Shareholders may submit requests to [skupscina@telekom.si](mailto:skupscina@telekom.si) for additional items on the agenda, proposed resolutions and voting proposals, as well as written registration forms for participation at the General Meeting of Shareholders.

The shareholders of Telekom Slovenije met at the 28<sup>th</sup> General Meeting of Shareholders held on 21 April 2017, where they:

- adopted amendments to the Articles of Association;
- approved the proposed use of distributable profit for the 2016 financial year;
- conferred official approval on the Management Board and Supervisory Board for the 2016 financial year;
- appointed the audit firm Deloitte Revizija, d. o. o., Dunajska cesta 165, Ljubljana to audit the financial statements of Telekom Slovenije, d. d. for the 2017, 2018 and 2019 financial years; and
- appointed new members to the Supervisory Board: Lidija Glavina, Bernarda Babič, MSc, Barbara Kürner Čad, Barbara Gorjup, MSc and Ljubomir Rajšič. The four-year terms of office of new members began on 27 April 2017. New members were appointed due to the expiration of the terms of office of members of the Supervisory Board, i.e. shareholder representatives Borut Jamnik, Adolf Zupan, MSc, Dr Marko Hočevar, Tomaž Berločnik, MSc, and Bernarda Babič, MSc, on 27 April 2017.

No challenges were announced.

The resolutions of the General Meeting of Shareholders and documentation from previous meetings are published on the Company's website.

According to the Company's financial calendar for 2018, the 29<sup>th</sup> General Meeting of Shareholders is planned for 11 May 2018.

## INFORMATION REGARDING THE COMPOSITION AND FUNCTIONING OF MANAGEMENT AND SUPERVISORY BODIES AND THEIR COMMITTEES:

Telekom Slovenije has a two-tier system of governance that comprises its Management Board and Supervisory Board.

### MANAGEMENT BOARD<sup>21</sup>

#### 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 five years of work experience in management positions and active knowledge of at least one foreign (global) language, and who fulfils other conditions defined by the Supervisory Board may be appointed as a member of the Management Board. These conditions do not apply to the Worker's Director as member of the Management Board. Those conditions and criteria are defined jointly by the Supervisory Board and Works Council.

21 GRIGS 102-18

**The Management Board comprised the following members as at 31 December 2017:**

Name	Office	Area of work on the Management Board	First appointment to function	Completion of function / term of office	Gender	Nationality	Year of birth	Education / professional profile	Membership in supervisory bodies of unaffiliated companies
<b>Rudolf Skobe, MSc</b>	President	Management Board Office, Human Resource Management, Internal Audit, Public Relations, Legal Affairs, Strategy and Regulation, Security, Product House and the subsidiary IPKO	1 September 2012	1 September 2020	Male	Slovenian	1973	Holds a master's degree in management and organisation, and a bachelor's degree in electrical engineering.	Member of the board of directors of the Olimpija Ljubljana basketball club.
<b>Tomaž Seljak, MSc</b>	Vice-President	Application Solutions, Core Network, Access Networks, and the subsidiaries GVO, SIOL Zagreb, SIOL Podgorica, SIOL Sarajevo, SIOL Skopje and SIOL DOO Belgrade.	1 May 2014	1 May 2022	Male	Slovenian	1972	Holds a master's degree and bachelor's degree in electrical engineering.	
<b>Ranko Jelača</b>	Member	B2C, B2B, Central Marketing, and the subsidiaries Avtenta and Blicnet	15 March 2016	15 March 2020	Male	Slovenian/ Croatian	1977	Holds a bachelor's degree in economics.	Member of the Supervisory Board of IEDC – Bled Business School and member of the strategic council of ABCITI, družba za investiranje.
<b>Aleš Aberšek</b>	Member	Finance and Accounting, Controlling, Wholesale, Procurement, Real Estate, Logistics and General Affairs, and the subsidiaries TSmedia, Soline, Antenna TV SL and TSinpo.	15 March 2016	15 March 2020	Male	Slovenian	1977	Holds a bachelor's degree in economics.	Member of the supervisory boards of Skupna pokojninska družba, Gorenjska banka and Sava Turizem until 20 March 2017 and member of the Ljubljana Stock Exchange's board of issuers.
<b>Vesna Lednik</b>	Member of the Management Board – Workers Director	Responsibilities derive directly from the law.	23 April 2014	23 April 2018	Female	Slovenian	1973	High school graduate in the field of education.	

## WORK OF THE MANAGEMENT BOARD

The 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 60 regular and 11 correspondence sessions in 2017. It drew up the strategy and business plan of the Telekom Slovenije Group for 2018 with projections for the period 2019 to 2022, and carried out activities to achieve the objectives set out in the current strategic plan. Its activities included the adoption of decisions regarding the sale of the Company's 45% participating interest in ONE VIP, the absorption of Izimobil users and the purchase of a disabled workers' company that was renamed TSinpo. It also adopted numerous business decisions and carried out activities that included the following:

- 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 remuneration, 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.

The conditions for profit sharing by the Management Board are governed by the Articles of Association. The earnings of the Management Board in 2017 are presented in [section 38 of the financial report](#).

## SUPERVISORY BOARD

### COMPOSITION OF THE SUPERVISORY BOARD<sup>22</sup>

The Supervisory Board comprises nine members, six of whom are shareholder representatives and three of whom are employee representatives.

The Supervisory Board is fully liable for the performance of its supervisory function and makes its decisions independently. All members of the Supervisory Board submitted statements of compliance with the criteria of independence for 2017 in accordance with the Corporate Governance Code [the statements are published on the Company's website at: <http://www.telekom.si/Documents/izjave-neodvisnost-clana-NS-Kodeks-javnih-dd-maj2017.pdf>].

The Management Board and Supervisory Board worked together in 2017 to formulate and adopt the Policy Governing the Diversity of the Management Board and Supervisory Board of Telekom Slovenije, the aim of which is to improve the effectiveness of both bodies. The policy defines a method for ensuring the optimal composition and promoting the diversity of both bodies in terms of knowledge, experience, skills, age, gender and other aspects.

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

The four-year terms of office of the Supervisory Board's employee representatives ended on 14 November 2017, at which time the Works Council appointed those members to new four-year terms of office.

22 GRIGS 102-18

### The Supervisory Board comprised the following members as at 31 December 2017:

Name	Office	First appointment to function	Completion of function / term of office	Gender	Nationality	Year of birth	Education / professional profile	Independence according to Article 23 of the Code	Existence of conflicts of interest during the financial year	Membership in supervisory bodies of other companies	Employment
<b>Shareholder representatives</b>											
<b>Lidija Glavina</b>	President	27 April 2017	27 April 2021	Female	Slovenian/ Italian	1969	Dottore Magistrale, Italy [comparable with second-cycle higher education in the Republic of Slovenia]	YES	NO		President of the Management Board of Slovenski državni holding, d. d.
<b>Bernarda Babič, MSc</b>	Vice-President	27 April 2013	27 April 2021	Female	Slovenian	1966	Hold a master's degree in business policy and organisation, with a major in banking.	YES	NO	Terme Olimia, d. d.	Assistant to the Managing Director of Slovenske železnice, d. o. o.
<b>Barbara Gorjup, MSc</b>	Member	27 April 2017	27 April 2021	Female	Slovenian	1973	Holds a master's degree in international economics.	YES	NO	HSE, d. o. o.	Managing Director of Baklus, d. o. o.
<b>Barbara Kúrner Čad</b>	Member	27 April 2017	27 April 2021	Female	Slovenian	1964	Holds a bachelor's degree in law.	YES	NO		Attorney at the Čad Law Firm
<b>Dimitrij Marjanović</b>	Member	13 May 2016	13 May 2020	Male	Slovenian	1970	Holds a bachelor's degree in economics.	YES	NO	Iskra ESV, d. d.	Director of the Financial Management Department at Slovenski državni holding, d. d.
<b>Ljubomir Rajšič</b>	Member	27 April 2017	27 April 2021	Male	Serbian	1949	Holds a bachelor's degree in mechanical engineering.	YES	NO		Retired
<b>Employee representatives</b>											
<b>Dean Žigon</b>	Vice-President of the Supervisory Board	14 November 2013	22 January 2018	Male	Slovenian	1971	General secondary education in the field of retail management.	YES	NO		Telekom Slovenije: B2B, president of the SINEKS trade union and member of the Works Council.
<b>Samo Podgornik</b>	Member	15 May 2014	14 November 2021	Male	Slovenian	1965	General secondary education in the field of electrical and electronic engineering.	YES	NO		Telekom Slovenije: Access network, president of the Nova Gorica chapter of Telekom Slovenije's trade union, and member of the Works Council.
<b>Primož Per</b>	Member	15 May 2014	15 November 2021	Male	Slovenian	1974	Holds a master's degree in technical security engineering.	YES	NO		Telekom Slovenije: Human Resource Management and member of the Works Council.

In 2018 the Supervisory Board was briefed on the letter of resignation of employee representative Dean Žigon, who resigned from his office, effective 22 January 2018. On 14 February 2018 Telekom Slovenije's Works Council appointed Urban Škrjanc to serve as employee representative on the Supervisory Board.

## WORK OF THE SUPERVISORY BOARD

The Supervisory Board met at four ordinary sessions prior to the expiration of the terms of office of five of its members. Following the replacement of employee representatives on 27 April 2017, the Supervisory Board met at seven ordinary and five correspondence sessions. Attendance by members at sessions of the Supervisory Board and its committees was very high. 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. To that end, it exercised control over the implementation of Telekom Slovenije's strategy and over 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 COMMITTEES<sup>23</sup>

The Supervisory Board had five committees in 2017: the Audit Committee, Technical Committee, HR Committee, Strategy Committee and Nomination Committee. The aforementioned committees discussed individual areas of expertise in accordance with their respective competences and tasks. Presented below are the most important areas addressed by committees, and the composition of committees at the end of 2017.

Information regarding the members of the Audit Committee who are also members of the Supervisory Board is presented in the table detailing the members of the Supervisory Board on page 45, while information regarding external members is presented in the tables detailing the members of committees.

The **Audit Committee** met at 10 sessions, of which five were correspondence sessions. The committee's duties and competences are set out in the ZGD-1, the rules of procedure of the Supervisory Board, the rules of procedure of the Audit Committee and Supervisory Board resolutions.

The Audit Committee's tasks in 2017 included the following:

- it monitored and discussed financial reporting procedures, the functioning of internal controls, the Internal Audit Service's reports, recommendations and annual plan, risk management systems, and the external auditing of the unconsolidated and consolidated financial statements;
- it adopted the Guidelines for Ensuring the Independence of the External Auditor;
- it oversaw the conclusion of agreements with audit firms, the type and scope of the non-audit services provided by those firms, and the independence of the certified auditor;
- it carried out the procedure to select a candidate for the mandatory audit of the operations of Telekom Slovenije, its subsidiaries and the Telekom Slovenije Group, submitted a proposal to the Supervisory Board on the appointment of an auditor of the annual report for the 2017, 2018 and 2019 financial year, and discussed the agreement with the certified auditor for 2017 financial year; and
- it discussed quarterly reports on the operations of Telekom Slovenije and the Telekom Slovenije Group in 2017, and other quarterly reports [risk management report, report of the Whistleblowing Committee, report on legal actions and report on the implementation of internal audit recommendations].

### **The Audit Committee's members were as follows as at 31 December 2017:**

- Bernarda Babič, MSc [chairperson],
- Barbara Gorjup,
- Dimitrij Marjanovič,
- Dean Žigon, and
- Barbara Nose [external member].

23 GRIGS 102-18

Information regarding the members of the Audit Committee who are also members of the Supervisory Board is presented in the table detailing the members of the Supervisory Board on page 45, while information regarding the external member is presented in the table below:

Name	Nationality	Level of education	Year of birth	Professional profile	Membership in supervisory bodies of other companies
<b>Barbara Nose</b>	Slovenian	Holds a bachelor's degree in economics and specialises in the auditing of accounting.	1964	Auditing and accounting.	Member of the Supervisory Board of Luka Koper, d. d.

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

**The Technical Committee's members were as follows as at 31 December 2017:**

- Ljubomir Rajšič [chairman],
- Barbara Gorjup,
- Samo Podgornik, and
- Slavko Ovčina [external member].

Information regarding the members of the Technical Committee who are also members of the Supervisory Board is presented in the table detailing the members of the Supervisory Board on page 45, while information regarding the external member is presented in the table below:

Name	Nationality	Level of education	Year of birth	Professional profile	Membership in supervisory bodies of other companies
<b>Slavko Ovčina</b>	Slovenian	Holds a bachelor's degree as an IT organiser-manager.	1978	IT	/

The **HR Committee** met at seven sessions, where candidates for managerial positions at subsidiaries were presented. The committee monitored the achievement of objectives, and drafted proposals for the payment of a bonus to the Management Board for 2016, as well as objectives for 2017. Over the remainder of the year, the committee conducted interviews with candidates for the external members of the Supervisory Board's Audit Committee and Technical Committee.

**The HR committee's members were as follows as at 31 December 2017:**

- Barbara Kürner Čad [chairperson],
- Lidija Glavina,
- Dimitrij Marjanović, and
- Primož Per.

Information regarding the members of HR Committee is presented in the table detailing members of the Supervisory Board on page 45.

The **Strategy Committee** met at one session, where it discussed in detail the points of departure of the Telekom Slovenije Group's Strategic

Business Plan for the period 2018 to 2022. All members of the Supervisory Board were invited to that session.

**The Strategy Committee's members were as follows as at 31 December 2017:**

- Lidija Glavina [chairperson],
- Barbara Kürner Čad,
- Ljubomir Rajšič, and
- Dean Žigon.

Information regarding the members of Strategy Committee is presented in the table detailing members of the Supervisory Board on page 45.

**Nomination Committee**

The Nomination Committee met at six sessions in 2017 at which it carried out the procedure for selecting candidates for members of the Supervisory Board. It conducted structured interviews and proposed candidates to the Supervisory Board for the new term of office of that body. The Supervisory Board approved those proposals and dissolved the Nomination Committee after its task had been completed.

## REMUNERATION OF SUPERVISORY BOARD MEMBERS

Supervisory Board members are entitled to attendance fees, basic payment for performing their functions and additional payments for participation in Supervisory Board committees. The remuneration of members of the Supervisory Board is defined by a resolution of the General Meeting of Shareholders. 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.

At the beginning of 2017 (or when they assumed their function), 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. Those statements are accessible at <http://www.telekom.si/o-podjetju/predstavitev/organiziranost-in-upravljanje/upravljanje-druzbe>.

## 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 2017. 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 2017 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 2017: the Republic of Slovenia with 4,087,569 shares or 62.54% of the issuer's 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**

Telekom Slovenije has not issued securities that would provide special controlling rights.

### **Share scheme for shareholders**

Telekom Slovenije does not have a share scheme for shareholders.

### **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 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 made in accordance with the law and the Articles of Association themselves.

**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 the Company and the members of its management or supervisory body 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**

Telekom Slovenije 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 the Communications Strategy of Telekom Slovenije, d. d.

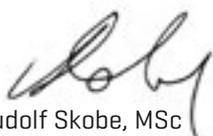
With the listing of its shares on the prime market of the Ljubljana Stock Exchange, Telekom Slovenije undertook to comply with the relevant reporting standards. Telekom Slovenije once again provided investors with high-quality, timely, relevant and reliable information in 2017.

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 Telekom Slovenije and the other companies of the Telekom Slovenije Group.



Rudolf Skobe, MSc  
President of the Management Board



Lidija Glavina  
President of the Supervisory Board

## 1.13. COMPLIANCE AND AUDITING

### 1.13.1. COMPLIANCE AND ANTI-CORRUPTION<sup>24</sup>

The Telekom Slovenije Group incorporates best practices and guidelines in the areas of corporate integrity and compliance in all levels of its operations. To that end, we follow a strategy of mitigating compliance risks, in particular in the following areas:

- competition law,
- the prevention of corruption and conflicts of interest,
- data protection, 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. The compliance and integrity officer is responsible for performing the compliance function.

Telekom Slovenije adopted Guidelines on Conflicts of Interest in February 2017. Those guidelines govern in detail the prohibition of competition, as well as the performance of supplementary and other activities by employees. They also call for the continuous reporting of the existence of conflicts of interest by employees. In accordance with those guidelines, employees forward information regarding potential conflicts of interest to the Compliance Committee appointed by the Management Board.

Internal acts define the protection of trade secrets and inside information, while mechanisms have also been established to prevent the leakage of inside information.

The Group adopted the Guidelines for Ensuring Compliance with Competition Law, which define internal controls and additional measures for improving Group employees' awareness about the core principles and rules governing competition protection.

In 2017 the Group adopted the Rules on the Prevention of Money Laundering and Terrorist Financing and Instructions on the Implementation of Internal Controls in the Prevention of Money Laundering and Terrorist Financing in respect of the Moneta service. Telekom Slovenije is bound by the Prevention of Money Laundering and Terrorist Financing Act [ZPPDFT-1] because it provides Moneta payment services.

The Group has had a system in place since 2014 for receiving, discussing and investigating reports. In 2017 we facilitated the use of that system by the external public, and not only by employees. The Whistleblowing Committee handled two reports in 2017. Neither case involved alleged breaches of the Code of Ethics of the Telekom Slovenije Group or some other unethical or inappropriate conduct. Both matters were thus sent to the responsible organisational units for resolution.

No cases of corruption were confirmed within the Telekom Slovenije Group in 2017.

The new Code of Ethics of the Telekom Slovenije Group entered into force in February 2017 and applies to all Group companies. The Code of Ethics 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 organised a mandatory e-training course to brief employees appropriately on the Code of Ethics. We also organised extensive training in the areas of compliance, competition law, regulatory specifics and the prevention of money laundering and terrorist financing.

#### ADOPTED GUIDELINES ON CONFLICTS OF INTEREST

<sup>24</sup> GRI GS 103-1, 103-2, 103-3, GS 102-16, GS 205-1

In 2017 the compliance and integrity officer was included in the process of selecting a provider of audit and non-audit services, with the aim of ensuring the independence and impartiality of the legally appointed auditor of the financial statements.

We introduced acts in connection with the prevention of corruption and conflicts of interest, and competition law at subsidiaries in Slovenia in 2017, while we also began drafting the relevant acts in the area of compliance at the subsidiaries Blicnet and IPKO.

Telekom Slovenije manages potential risks associated with corruption in sponsorship and donation activities through the Rules on the Treatment and Approval of Sponsorships and Donations. Updated rules, which define additional internal controls, entered into force at the end of April 2017. Discussions regarding sponsorships and donations thus include the compliance and integrity officer as a committee member. The provisions of those rules are applied mutatis mutandis by Group companies that have adopted their own internal acts. Those rules are also in line with the Code of Ethics of the Telekom Slovenije Group, which states that Group companies may not use their financial resources or in any other way support political parties. Slovenian companies are also bound to the publications set out in the ZDIJZ.<sup>25</sup>

## 1.13.2. AUDITING

### INTERNAL AUDITING

Telekom Slovenije's Internal Audit Service (IAS) conducts internal auditing for all Telekom Slovenije Group companies. The IAS's objective is to contribute to continuous improvements in the effectiveness of risk management, control procedures and corporate governance at Group companies through the effective and high-quality performance of its tasks, and by providing consultancy services. Telekom Slovenije's IAS performs its work in accordance with the International Standards for the Professional Practice of Internal Auditing, as confirmed in 2016 by an independent external assessment and the continued internal assessment of quality.

The areas of auditing for 2017 were defined in the IAS's work plan, and derive from its plan for the period 2017 to 2021. 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. External service providers were included in the performance of certain audits.

The IAS performed audits at Group companies in 2017 in the following areas: the effectiveness of a market project, specific areas of compliance,

the security of information systems, and the effectiveness and efficiency of business processes in connection with product development, procurement, sales and the fulfilment of services, including quality assurance in terms of data in information systems. It issued recommendations for improving internal controls and the more effective management of risks in areas subject to audit. The IAS regularly monitors the implementation of recommendations. The IAS reports to the Management Board and Supervisory Board's Audit Committee on findings and recommendations, and the implementation thereof. It also provides consultancy services, particularly in the upgrading of the internal controls system.

### EXTERNAL AUDITING

At Telekom Slovenije's 28th General Meeting of Shareholders, the audit firm Deloitte Revizija was appointed to audit the Company's financial statements for the 2017, 2018 and 2019 financial year. Audit costs are disclosed in the financial report in [section 39](#). for the Telekom Slovenije Group and in [section 37](#). for Telekom Slovenije.

25 GRI GS 415-1

## 1.14. SHARE TRADING AND OWNERSHIP STRUCTURE<sup>26</sup>

### GENERAL INFORMATION REGARDING TELEKOM SLOVENIJE SHARES AS AT 31 DECEMBER 2017

General information regarding shares	
Ticker symbol	TLSG
ISIN	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 2017	9,599

**22.6% DIVIDEND YIELD, 5 EUR DIVIDEND**

#### SHARE TRADING IN 2017

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 included in the SBITOP index, and accounted for a 9.384% share of that index at the end of 2017.

Share prices were up on average on the Ljubljana Stock Exchange in 2017. The index of the most liquid and most important shares, the SBI TOP, ended the year at 806.52 points, an increase of 12.4% relative to the end of 2016. Total turnover on the stock exchange amounted to EUR 347.4 million, an increase of 4.1% on 2016. The positive trend in share prices contributed to an increase in total market capitalisation, which reached EUR 5.3 billion.

Turnover in Telekom Slovenije shares totalled EUR 23.8 million, or 7.1% of total turnover on the stock exchange. The price of TLSG shares closed at EUR 82.9 on the last trading day of 2017, a year-on-year increase in value of 16.6%. The highest share price of EUR 88.0 was achieved in February 2017. The market capitalisation of Telekom Slovenije stood at EUR 541.7 million at the end of 2017, accounting for 10.3% of the market capitalisation of all shares on the stock exchange.

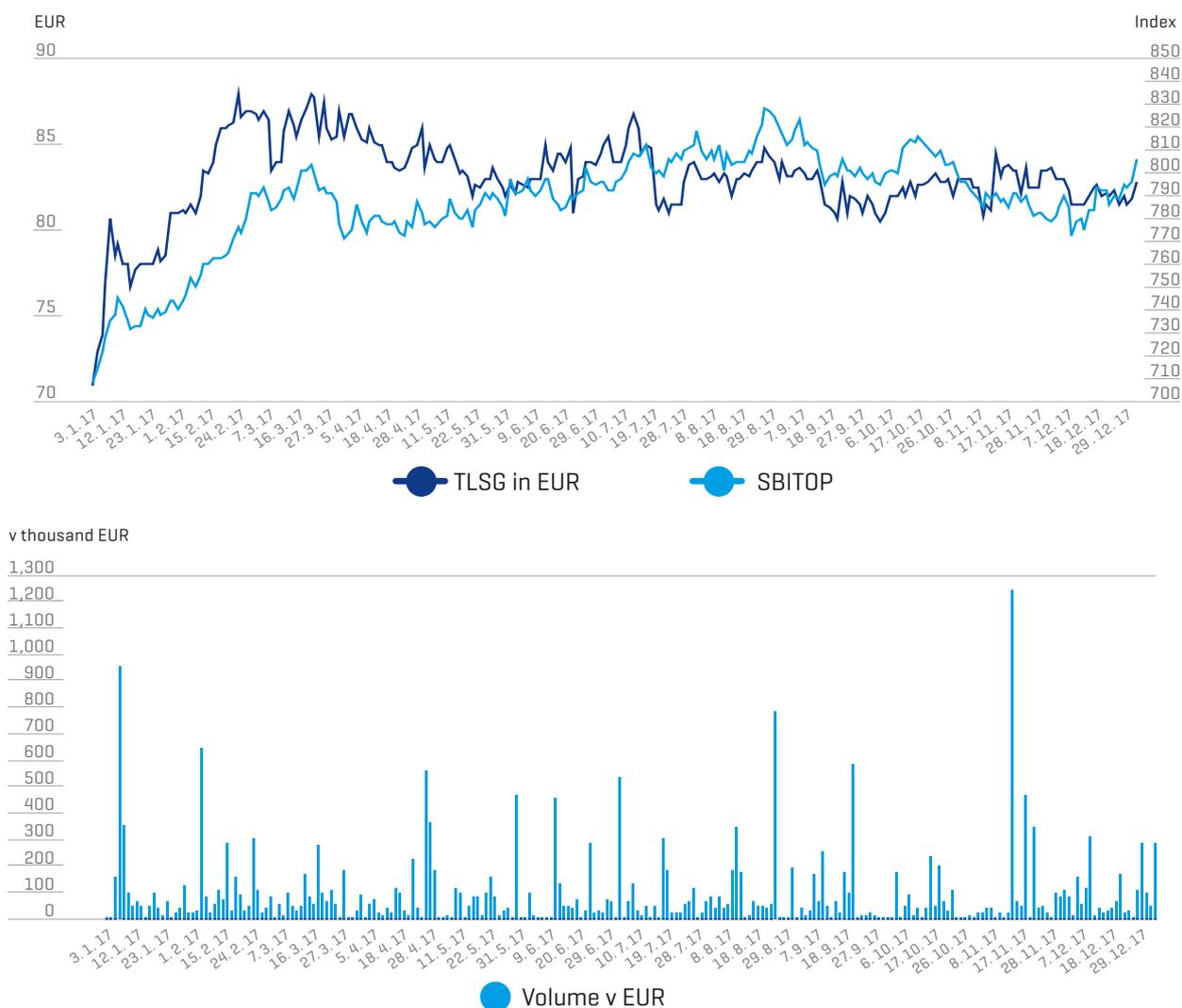
Together with a dividend yield of 6.0%, Telekom Slovenije shares recorded a yield of 22.6% in 2017.

#### TRADING STATISTICS FOR TLSG SHARES ON THE LJUBLJANA STOCK EXCHANGE

Standard price in EUR	2017	2016
Highest daily price	88.00	82.90
Lowest daily price	71.01	67.81
Average daily price	83.07	73.01
Volume in EUR thousand	2017	2016
Total volume for the year	23,839.50	18,174.80
Highest daily volume	1,253.18	2,959.71
Lowest daily volume	0.25	0.07
Average daily volume	97.70	72.41

26 GRIGS 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 2017	31 December 2016 Restated*
Closing price [P] of one share on the last trading day of the period in EUR	82.88	71.10
Book value [BV] <sup>1</sup> of one share in EUR	104.18	108.00
Earnings per share [EPS] <sup>2</sup> in EUR	1.39	6.14
P/BV	0.80	0.66
Capital return per share during the year <sup>3</sup> in %	16.57	-2.62
Dividend yield <sup>4</sup>	6.03	7.03

### Notes:

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

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

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

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

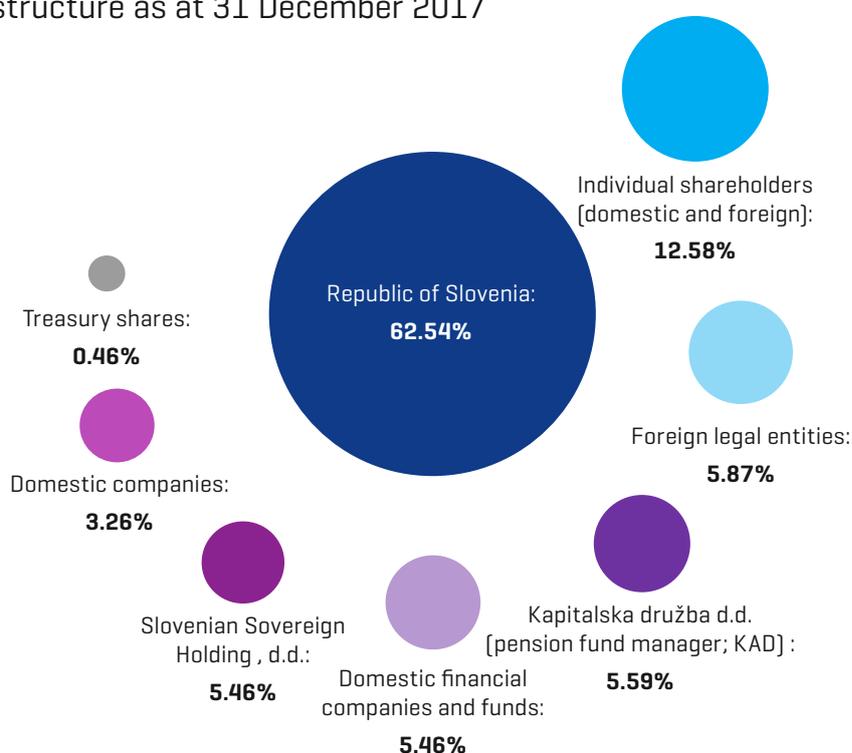
## OWNERSHIP STRUCTURE AND LARGEST SHAREHOLDERS AT THE END OF 2017<sup>27</sup>

Telekom Slovenije had 9,599 shareholders at the end of 2017, a decrease of 403 on the end of 2016. The most notable decline (of 381) was recorded by the category of individual shareholders.

With a total stake of 94%, 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, 73.60% 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 2017. Foreign corporates also increased their ownership stake, while domestic financial corporations and funds reduced their stake.

### Ownership structure as at 31 December 2017



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	% of ownership as at 31 December 2017	% of ownership as at 31 December 2016	Annual change in percentage points
Individual shareholders (domestic and foreign)	12.58	12.16	0.42
Slovenian corporate investors	3.26	3.24	0.02
Slovenian financial corporations and funds	5.46	6.82	-1.36
Foreign corporate investors	5.87	4.94	0.93

## TEN LARGEST SHAREHOLDERS

The concentration of ownership, as measured by the ownership stake held by the ten largest shareholders, stood at 78.15% at the end of the year, an increase of 0.47 percentage points in year-on-year terms. There was also a change in the structure of the ten largest shareholders. The First Pension Fund and its guarantee fund in the form of Modra zavarovalnica continued to reduce its stake in 2017 and is thus no longer one of the ten largest shareholders. Triglav vzajemni skladi – delniški Triglav likewise sold half of its stake in the Company. Two new legal entities, Citibank N.A. [fiduciary account] and Aktsiaselts Trigon Asset Management entered the top ten shareholders in 2017.



## SHARES HELD BY THE MANAGEMENT BOARD AND SUPERVISORY BOARD OF TELEKOM SLOVENIJE

Members of the Management Board and Supervisory Board held 448 TLSSG shares as at 31 December 2017. The total number of shares held by the Management Board and Supervisory Board was down by 1,094 relative to the end of 2016, primarily as the result of changes in the composition of the two aforementioned bodies.

Name	Office	Number of shares	% of equity
<b>Management Board</b>			
Rudolf Skobe, MSc	President of the Management Board	300	0.00459
Aleš Aberšek	Member of the Management Board	50	0.00077
<b>Supervisory Board</b>			
Samo Podgornik	Member of the Supervisory Board	92	0.00141
Primož Per	Member of the Supervisory Board	5	0.00008
Dean Žigon	Member of the Supervisory Board	1	0.00002
<b>Total</b>		<b>448</b>	<b>0.00687</b>

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

## INVESTOR RELATIONS<sup>28</sup>

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, and via teleconferences and the following email addresses: [ir@telekom.si](mailto:ir@telekom.si), [skupscina@telekom.si](mailto:skupscina@telekom.si) in [dividenda@telekom.si](mailto:dividenda@telekom.si). We also publish answers on the Company's website to shareholders' questions received by email or regular post.

Shareholders may address their proposals and suggestions to the Company via the investor relations email at [ir@telekom.si](mailto:ir@telekom.si).

We carried out the following activities in 2017 in the scope of investor relations:

- following the publication of operating results, we sent the quarterly TLSG electronic newsletter 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.

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 31 press releases were issued in 2017, 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 (subject to moderate growth) 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 28<sup>th</sup> General Meeting of Shareholders held on 21 April 2017, shareholders adopted a resolution on the use of distributable profit for the 2016 financial year. Dividends in the gross amount of EUR 5.00 per share were paid in July 2017 on the basis of that resolution. Dividends were paid for the first time in accordance with the harmonised European standards for corporate actions, according to which cash and information flow from the issuer to the CSCC, from the CSCC to members of the CSCC, and then from members of the CSCC to their clients.

## 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 2017, representing 0.46% of equity.

---

28 GRI GS 102-43





BUSINESS REPORT

# SIMPLE

TODAY'S WORLD OF COMMUNICATIONS IS BECOMING INCREASINGLY COMPLEX. WE ARE THEREFORE ADAPTING OUR PORTFOLIO WITH A WIDE RANGE OF THE MOST ADVANCED SERVICES FOR BOTH RESIDENTIAL USERS AND THE MOST DEMANDING BUSINESS USERS.



## WE SUPPORT PROGRESS

We are all linked by business. Our contemporary portfolio helps you operate efficiently, safely and successfully.

## 2. BUSINESS REPORT

### 2.1. FINANCIAL RESULTS OF THE TELEKOM SLOVENIJE GROUP

#### FINANCIAL RESULTS OF THE TELEKOM SLOVENIJE GROUP<sup>29</sup>

in EUR thousand and %	2017	2016	2015	Ind 17/16
Net sales revenue	716,174	701,748	728,279	102
Other operating revenues	9,867	9,433	17,663	105
Total operating revenues	726,041	711,181	745,942	102
EBITDA	168,740	199,264	206,380	85
EBITDA margin = EBITDA / net sales revenue	23.6%	28.4%	28.3%	83
EBIT	4,561	36,122	50,825	13
Return on sales = EBIT / net sales revenue	0.6%	5.1%	7.0%	12
Net profit	9,023	39,940	68,559	23
Assets	1,351,994	1,367,419	1,321,567	99
Equity	680,865	705,862	701,727	96
Return on assets (ROA)	0.7%	3.0%	5.1%	22
Return on equity (ROE)	1.3%	5.7%	9.8%	23
Equity ratio	50.4%	51.6%	53.1%	98
Net financial debt	281,785	246,501	277,008	114
NFD / EBITDA	1.7	1.2	1.3	135
Investments in property, plant and equipment (CAPEX)	158,935	147,737	119,896	108
EBITDA - CAPEX	9,805	51,527	86,485	19
Ratio of (EBITDA - CAPEX) to EBITDA (cash margin)	5.8%	25.9%	41.9%	22
Number of employees as at	3,673	3,665	3,803	100
CAPEX as a proportion of operating revenues	21.9%	20.8%	16.1%	105

#### INCOME STATEMENT ANALYSIS<sup>30</sup>

The Telekom Slovenije Group generated EUR 726.8 million in **operating revenues** in 2017, an increase of 2% on the revenues generated in 2016. Net sales revenue totalled EUR 716.2 million, which is likewise an increase of 2% or EUR 14.4 million relative to the revenues generated in 2016, primarily as the result of higher revenues on the wholesale market and higher revenues from IT services. Net sales revenue was higher despite the lower revenues from mobile subscribers and pre-paid users (due to the transition to

<sup>29</sup> GRIGS 102-7, GS 201-1

<sup>30</sup> More information can be found in the financial report beginning on page 168.

new packages that are more affordable for subscribers] and the expected drop in revenues from traditional voice telephony services, which are being replaced by more contemporary forms of telephony].

The **operating expenses** of the Telekom Slovenije Group amounted to EUR 721.5 million, an increase of 7% relative to 2016. Other operating expenses, in particular, were up [due to the creation of necessary provisions in order to ensure stable and development-oriented operations in the future, as well], as were the historical cost of goods sold and the costs of services as the result of an increase in the scope of sales.

**Earnings before interest, taxes, amortisation and depreciation (EBITDA)** totalled EUR 168.7 million, or 23.6% of net sales revenue. Contributing most to the deviation from the plan and the figures achieved in 2016 was the creation of provisions.

**Operating profit (EBIT)** totalled EUR 4.6 million.

**Finance income** was lower relative to 2016 and amounted to EUR 5.5 million. Finance costs in the amount of EUR 8.3 million were down by more than one half or EUR 11.1 million due to lower effective interest rate applied in the refinancing of euro bonds.

Following the calculation of income tax (including deferred taxes) in the amount of EUR 7.3 million, the Telekom Slovenije Group generated a **net profit** of EUR 9.0 million in 2017.

## ANALYSIS OF THE STATEMENT OF FINANCIAL POSITION

**Total assets** stood at EUR 1,352.0 million as at 31 December 2017, down 1% or EUR 15.4 million on the balance at the end of 2016.

**Non-current assets** totalled EUR 989.9 million, an increase of 1% or EUR 14.1 million. The proportion of the Company's total assets accounted for by non-current assets rose to 73.2% [2016: 71.4%]. The balance of intangible assets was up by EUR 5.2 million because purchases of intangible assets [in particular capitalised broadcasting rights] exceeded write-offs during the year, while the balance of other intangible assets was up by EUR 9.5 million due to the transfer of the long-term broadcasting rights of Antenna TV SL from that company's intangible assets. Deferred tax assets were up by EUR 8.7 million. The balance of property, plant and equipment was down by

EUR 10.9 million [surplus of write-offs over the value of investments during the year] due to lower investments.

**Current assets** amounted to EUR 362.1 million, a decrease of 8% or EUR 29.5 million. Of that amount, current financial assets were down by EUR 41.7 million, while cash and cash equivalents were down by EUR 13.3 million. Current deferred expenses and accrued revenues were up by EUR 19.0 million, while operating and other receivables were up by EUR 9.0 million.

**Equity and reserves** totalled EUR 680.9 million, a decrease of 4% or EUR 25.0 million relative to the end of 2016, and fell to 50.4% as a proportion of total assets [2016: 51.6%].

**Non-current liabilities** in the amount of EUR 358.5 million represented 26.5% of total assets. The reason for the increase relative to the end of 2016 lies in the fact that financial liabilities from issued bonds were reclassified to current liabilities during the compilation of last year's annual report. 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.

**Current liabilities** in the amount of EUR 312.7 million represented 23.1% of total assets and were down significantly relative to the end of 2016 [index of 63] for the reason stated above.

## ANALYSIS OF THE STATEMENT OF CASH FLOWS

In addition to investments in fixed assets, major items amongst **outflows from investment activities** included the purchase of the subsidiaries Optic-Tel [EUR 4,354 thousand] and Jordan [EUR 169 thousand], and a net increase in deposits with a maturity exceeding three months in the amount of EUR 79.0 million.

The Group's **inflows from investing activities** included consideration of EUR 120 million received in November from the sale of Telekom Slovenije's 45% participating interest in ONE.VIP, while the sale of fixed assets generated revenues of EUR 4,049 thousand.

The Group's **outflows from financing activities** included the repayment of the short-term portion of long-term loans in the amount of EUR 20.9 million (accounted for primarily by a syndicated loan from NLB), for which the Group paid EUR 7,402 thousand, together with interest on issued bonds. Outflows also included the payment of dividends to Telekom Slovenije's shareholders in the total amount of EUR 32.6 million, as voted on by the General Meeting of Shareholders in May. The Group and parent company drew down and repaid revolving loans in the amount of EUR 84.5 million during the year.

## 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 section [3.2.2 Segment reporting](#).

## 2.2. FINANCIAL MANAGEMENT AND PERFORMANCE

The core objective of the Telekom Slovenije Group's financial policy is to ensure the financial stability of the entire Group. 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 long-term sustainable structure of the Group's capital and its solvency are the result of successful operations, the active planning and management of cash flows, ensuring the appropriate maturities and the diversification of financial debt, financing and cash pooling within the Group, the optimisation of working capital and the management of financial risks.

Long-term credit lines in the amount of EUR 70 million were secured in 2017 as a form of liquidity reserves, which together with short-term revolving loans ensure a high level of liquidity within the Group. Short-term credit lines are regularly rolled over, but were not drawn at the end of the year. The Group's total liquidity reserves amounted to EUR 170 million at the end of 2017.

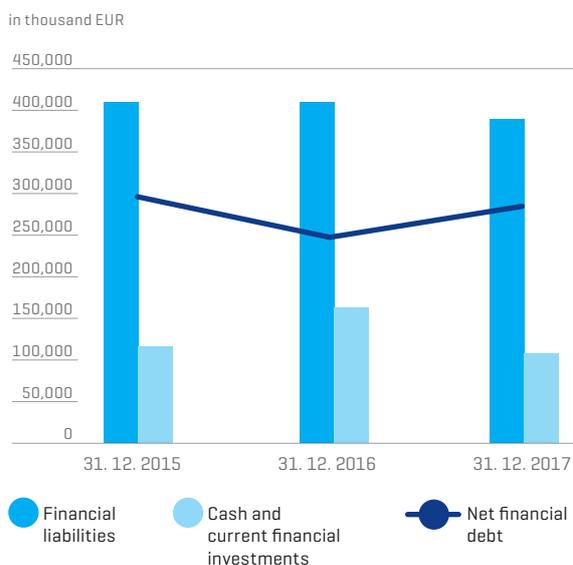
Indebtedness is relatively low at the Group level. The Group's total financial liabilities stood at EUR 389 million at the end of 2017, a decrease of EUR 19.7 million relative to the end 2016, primarily on account of the repayment of long-term loans. The net financial debt to EBITDA ratio was 1.7 at the end of the year. The majority of financial liabilities relate to the issue of a five-year bond in the amount of EUR 100 million and a long-term syndicated loan in the amount of EUR 284.6 million. The first tranche of that loan in the amount of EUR 100 million falls due for payment in March 2018.

As a rule, subsidiaries secure borrowings from the parent company. 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.

### COMPOSITION OF AND CHANGES IN NET FINANCIAL DEBT

Existing long-term loans are repaid regularly in accordance with the provisions of loan agreements. The Group's net financial debt amounted to EUR 281.8 million at the end of 2017, an increase of 14.3% relative to 2016, despite a reduction in financial liabilities, as the balance of current financial assets and cash was down 33.9% relative to the previous year.

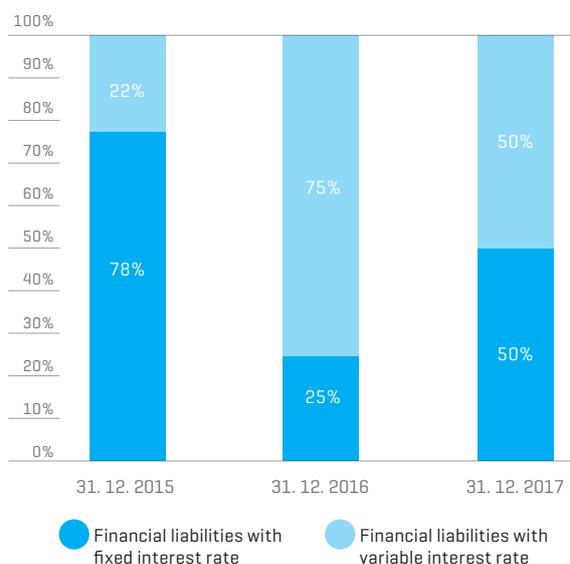
## Net financial debt of the Telekom Slovenije Group



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.

Loans raised bear variable interest rates tied 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 165 basis points at the end of the year.

## Ratio of variable to fixed-rate sources of financing



## FINANCIAL RISK MANAGEMENT

A detailed description of the financial risk management process is found in section [2.4 Risk management](#) on page 65 and in the financial report in points for Telekom Slovenije on pages [238](#) and [317](#).

## 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 2017. One contractual provision was breached, but creditor banks had already issued a waiver by the balance-sheet date.

## CREDIT RATING

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. That rating and the associated outlooks were reconfirmed by the aforementioned ratings agency in January 2018. According to S&P, the stable outlook reflects the expectation that Telekom Slovenije will maintain its leading position on the Slovenian market, in both the mobile and fixed segments, despite stiff competition. S&P also expects Telekom Slovenije to successfully complete the planned upgrading and expansion of the network, and to maintain its current level of revenues and EBITDA through new services.

## 2.3. INVESTMENTS IN FIXED ASSETS AND FINANCIAL INVESTMENTS

### INVESTMENTS IN FIXED ASSETS<sup>31</sup>

In 2017 the Telekom Slovenije Group earmarked EUR 158.9 million for investments in the construction, modernisation and development of networks and services, an increase of 8% or EUR 11.2 million relative to 2016. Of the aforementioned amount, EUR 141.4 million was earmarked for investments by Telekom Slovenije, while the remainder was earmarked for investments in development by subsidiaries. The majority of investments were earmarked for the expansion of the fibre optic access network, which will provide users a superior user experience in terms of broadband content and high-speed internet access. Investments were also earmarked for the modernisation and development of the fourth-generation mobile network, for the development of new services and for further optimisation at all levels of the Group's operations, through which we are creating a platform to attract new subscribers and secure new revenue sources.

In line with the strategy to strengthen our market position, we continued with the intensive construction of a fibre optic network with GPON (gigabit passive optical network) technology, with which we already cover more than 85,000 Slovenian households.

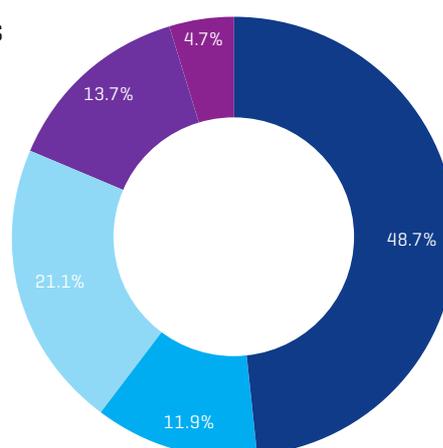
For more information, see [section 2.7 Network, technologies and IT](#).

#### Investments in fixed assets

in EUR thousand	2017	2016	Ind 17/16
Telekom Slovenije	141,383	130,799	108
Other companies in Slovenia	3,043	2,839	107
IPKO – Kosovo	11,100	11,915	93
Other companies abroad	5,077	3,561	143
Eliminations and adjustments	-1,668	-1,377	121
<b>Telekom Slovenije Group</b>	<b>158,935</b>	<b>147,737</b>	<b>108</b>

#### Breakdown of investments in fixed assets

- Network
- CPE - Customer equipment
- Customers solutions
- IT, internal ICT infrastructure, R&R projects
- Other



### 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 in [section 15. Investments in subsidiaries](#).

<sup>31</sup> GRI GS 203-1, GS 103-1, 103-2, 103-3, GRI I01

## 2.4. RISK MANAGEMENT

### RISK MANAGEMENT SYSTEM

Risk management is an integral part of the Group's corporate governance, and ensures the identification and understanding of risks, and the appropriate assessment and management of those risks. We constantly strive to ensure awareness of the importance of risk management and for the focused achievement of business objectives. We also aim to promote an entrepreneurial approach to opportunities and the benefits that accompany them.

The risk management system provides us:

- an overview of the scope of risks to which the Company and Group are exposed;
- total understanding of risks and the basis for decisions;
- the definition of acceptable levels of risk;
- transparent reporting on risks; and
- clear responsibility for risk management.

### RISK MANAGEMENT FRAMEWORK

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. Risk assessment and measures to prevent risks that could affect the values and objectives of the Group are an integral part of the risk management framework.



The risk management framework is based on a bottom-up process, through which we ensure comprehensive coverage at the company and Group levels, with a focus on areas that represent significant risks. Emphasis is also placed on key strategic projects and those areas of the Company that are most exposed to changes. That framework is an integral part of planning and the drafting of the strategic policies of the Company and Group.

To understand the risk profile and to align strategic objectives and the decision-making process, we have established a methodology that ensures the identification and assessment of risks, the implementation of measures as a response to those risks, the monitoring of risks, reporting on risks and the implementation of control activities. Such a risk management framework provides comprehensive information for the timely and correct response to risks in a dynamic economic environment.

The chief risk officer is responsible for coordinating that system, which 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 work 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 five sessions in 2017, 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

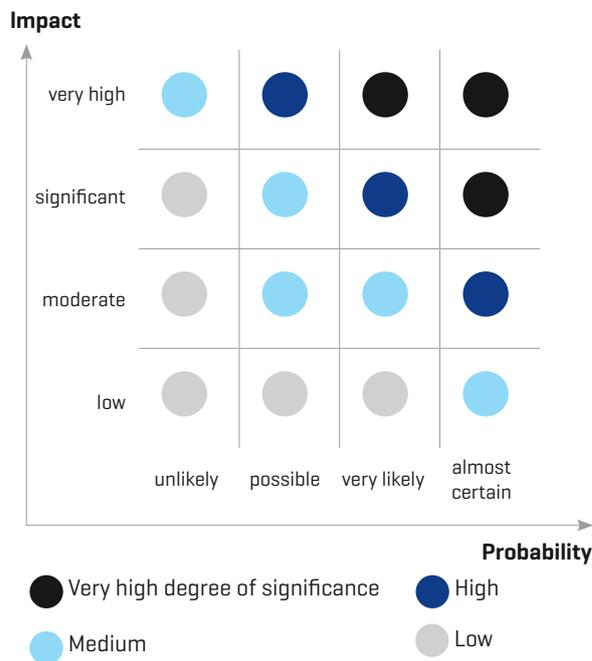
In every major business decision and project, and in every business plan, potential risks are identified and analysed, and a plan drawn up for their continued management. This process includes systematic communication and consultation. It also includes defining, analysing, assessing, amending, controlling,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

Identified risks are classified into the following four major categories:

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

## RISK ASSESSMENT METHODOLOGY

The risk assessment methodology is based on the criterion of the probability of an event and its effect on operations, while the product of probability and effect represents the scope or significance of a particular risk.



We continuously improve the risk management process in cooperation with risk owners. We have introduced a system of key risk indicators with the aim of improving the monitoring of risks and to ensure that measures are taken earlier to address those risks. As warning signs, risk indicators give an early indication of the potential presence, level and trends of a particular risk, with our attention given to the most significant risks.

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 risk owners play an important role in the risk management process: members of the Management Board, the managing directors of Group companies, the directors of strategic organisational units, corporate functions and departments, 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 risk management measures is monitored quarterly, and results reported to the Management Board, Supervisory Board and the latter's Audit Committee. An enclosure regarding perceived risks is also an integral part of the material submitted to the Management Board in decision-making processes.

## RISKS FOR TELEKOM SLOVENIJE

Measures were implemented for key risks identified by Telekom Slovenije that were assessed as very high or high in 2017, resulting in the successful reduction of exposure to those risks relative to 2016.

The tables below present key risks by risk category for Telekom Slovenije. Risk management measures and the level of risk are presented for each identified risk.

### Diminishing profitability of subscribers and services – B2B

Risk category	What is the effect?	Level of risk
Strategic (business) risks	Drop in revenues	
<b>What is the risk?</b>	<b>How is the risk managed?</b>	
Aggressive competition and portfolio, lower prices of services and rapid changes to the portfolio.	Adaptation of portfolios to the needs of users, sales promotions and ensuring the quality functioning of services. Implementation of activities to maintain subscribers. Education and training of sales staff.	

### Diminishing profitability of subscribers and services – wholesale market

Risk category	What is the effect?	Level of risk
Strategic (business) risks	Drop in revenues	
<b>What is the risk?</b>	<b>How is the risk managed?</b>	
Saturated wholesale services market. The migration of traffic to OTT platforms. Ever increasing competition in Slovenia and the region in terms of services and the infrastructure.	Monitoring of market conditions. Links with OTT suppliers, the adaptation of the prices of wholesale services and promotional campaigns.	

### Loss of subscribers – B2B

Risk category	What is the effect?	Level of risk
Strategic (business) risks	Drop in revenues	
<b>What is the risk?</b>	<b>How is the risk managed?</b>	
Loss of subscribers due to migrations between operators.	Promotional sales activities. Adaptation of portfolio and monitoring of sales effects.	

### Credit risk and payment indiscipline

Risk category	What is the effect?	Level of risk
Financial risks	Recovery costs and the provision of services, despite payment indiscipline, and costs due to unrecovered receivables.	
<b>What is the risk?</b>	<b>How is the risk managed?</b>	
Failure to settle past-due liabilities and late payments, and the risk associated with the provision of regulated wholesale services, despite payment indiscipline.	Active analysis of credit ratings and the securing of appropriate collateral to cover exposure. Active recovery and the timely use of available legal remedies during court-enforced recovery, and active communication with the regulatory body.	

### Risks associated with securing, implementing and managing IT projects

Risk category	What is the effect?	Level of risk
Operational risks	Loss of transactions.	
<b>What is the risk?</b>	<b>How is the risk managed?</b>	
Securing and implementing IT projects due to aggressive competition in the sale of IT projects and services.	Adaptation of the portfolio to market demands, and improvements to the quality of services and the training of sales staff.	

### Risks associated with cyber security

<b>Risk category</b> Operational risks	<b>What is the effect?</b> The inability to protect the information of users and provide services could affect the Company's reputation, have financial and regulatory implications and cause the departure of subscribers.	<b>Level of risk</b> 
<b>What is the risk?</b> The inability to provide services to users and protect data due to the hacking of information systems [cyber-attacks] or internal events.	<b>How is the risk managed?</b> Strategy to manage cyber threats and continuous activities to mitigate such risks. Upgrading of firewalls and systems to prevent DDoS attacks. Implementation of penetration tests. Establishment of a Cyber Security Operation Centre [CSOC].	

### Risks associated with the functioning of the backbone network

<b>Risk category</b> Operational risks	<b>What is the effect?</b> Loss of network data traffic and international connectivity; deterioration in the quality of services.	<b>Level of risk</b> 
<b>What is the risk?</b> Suspension or limited performance of key business processes associated with the WAN or international and transit traffic due to the failure of network elements or the MPLS-VPN or ICT infrastructure. Inability to fulfil SLAs.	<b>How is the risk managed?</b> Strategy for managing the MPLS core. Continuous improvements to operational and security procedures and knowledge; strengthening of personnel. Comprehensive information security management system [ISMS].	

### Risks associated with the functioning of the ICT platform

<b>Risk category</b> Operational risks	<b>What is the effect?</b> Failure of managed services; deteriorating quality of services.	<b>Level of risk</b> 
<b>What is the risk?</b> Suspension or limited performance of key business processes due to the failure of the ICT platform. Inability to fulfil SLAs.	<b>How is the risk managed?</b> Ensuring generational exchange, and upgrading the capacities of server, disk, archive and network equipment.	

### Risks associated with the development of an operational service centre

<b>Risk category</b> Operational risks	<b>What is the effect?</b> Loss of revenues and reputation, increased costs and user dissatisfaction.	<b>Level of risk</b> 
<b>What is the risk?</b> Failure to manage technological changes and limited user technical support. Failure to detect malicious threats and system hacks.	<b>How is the risk managed?</b> Regular implementation of an information security management system [ISMS] and business continuity management system [BCMS]. Upgrading of existing support tools and introduction of new tools. Ensuring the transfer of knowledge, and additional education and training. Certification [ISO 27001] of processes and employees.	

### Risks associated with the development of an OSS

<b>Risk category</b> Operational risks	<b>What is the effect?</b> Loss of revenues and reputation, increased costs and user dissatisfaction.	<b>Level of risk</b> 
<b>What is the risk?</b> Failure of business-critical systems and processes, and the provision of business continuity.	<b>How is the risk managed?</b> Management and development of support systems for automated fulfilment and assurance processes. Adaptation of systems to meet changing legislation [ZEKOM].	

### Risks associated with the abuse of electronic communications [EC]

<b>Risk category</b> Operational risks	<b>What is the effect?</b> Loss of revenues and reputation, increased costs and user dissatisfaction.	<b>Level of risk</b> 
<b>What is the risk?</b> The unauthorised use, changes to or interference in the electronic communications network, equipment or services with the purpose of unlawful gains or other benefits.	<b>How is the risk managed?</b> Identification of threats and the vulnerability of the network, equipment, processes and services. Introduction of primary controls and an IT system to prevent abuse. Analysis of traffic and corrective measures. Spreading of the security culture. Cooperation with international organisations in the detection and prevention of abuse.	

## Risk of regulatory pressures and frequency auctions

<b>Risk category</b> Regulatory and compliance-related risks.	<b>What is the effect?</b> Increase in costs due to the implementation of imposed measures, the payment of fines and the loss of revenues. Increase in costs due to frequency auctions.	<b>Level of risk</b> 
<b>What is the risk?</b> Expected new models for setting prices, additional obligations for regulated services and the risk of higher prices due to frequency auctions.	<b>How is the risk managed?</b> Active participation in the market analysis process. Monitoring of market development and conditions on other EU markets. Active briefing of the relevant EU institutions. Use of available legal remedies. The development of cost models and the calculation of cost prices.	

## Ensuring compliance with competition law

<b>Risk category</b> Regulatory and compliance-related risks.	<b>What is the effect?</b> Loss of reputation, payment of fines and claims for damages from third parties.	<b>Level of risk</b> 
<b>What is the risk?</b> The conclusion of restrictive agreements and other prohibited acts in connection with competition law and the abuse of a dominant position.	<b>How is the risk managed?</b> Implementation of Guidelines for Ensuring Compliance with Competition Law. Employee training in the area of compliance.	

## STRATEGIC (BUSINESS) RISKS

Like the majority of other incumbent operators in Europe, Telekom Slovenije also faces stiff competition and the price sensitivity of users. Users demand high-quality services at low prices. At the same time, markets are becoming increasingly saturated. There is thus increasingly less manoeuvring room to attract new users. To manage these types of risks, we take an active approach on the market, introduce new products and services, adapt the portfolio and offer packages that are tailored to the needs of users. Alternative operators are gaining market share primarily through aggressive pricing policies.

## FINANCIAL RISKS

Uncertainty and changes in the financial environment are also actively monitored by Telekom Slovenije, as that environment represents various types of financial risks. We monitor liquidity, credit and interest-rate risks.

Liquidity risk is managed centrally by the parent company by ensuring solvency through the active planning and management of cash flows, by ensuring the appropriate maturities and the diversification of financial debt, and through financing within the Group and the optimisation of working capital and cash. Cash flows are managed through short-term revolving loans from banks, while we also have long-term reserve credit lines as an additional element of financial security.

Credit risk is managed through the active monitoring of customers' credit ratings, by mitigating the risk of exposures to receivables through collateral instruments and insurance, by monitoring subscribers' high traffic levels and through active recovery.

Telekom Slovenije hedges against interest-rate risk by concluding interest rate swaps. Liabilities with a variable interest rate account for slightly less than three quarters of all interest-bearing financial liabilities. The remaining liabilities are accounted for by issued bonds with a fixed interest rate.

Telekom Slovenije takes steps to reduce its exposure using various financial risk management models and through the use of derivatives. Processes are in place for monitoring the operations of subsidiaries and managing cash flows, while we also take steps to optimise the level of exposure to subsidiaries.

## REGULATORY AND COMPLIANCE-RELATED RISKS

Regulatory risks remain high for Telekom Slovenije, and are the result of changes to the regulatory framework and policies, and potential decisions of the regulator regarding the imposition of additional obligations and changes in prices in individual market segments. On 20 August 2017 the Act amending the Electronic Communications Act [ZEKom-1C] entered into force, introducing measures to reduce costs

associated with the construction of high-speed electronic communication networks. The European Commission published the draft of a new directive aimed at establishing a European electronic communications code and drafts of regulations regarding the competences and functioning of the joint body of European Regulators for Electronic Communications and regarding the expansion of wireless networks in public areas and local communities, which in the future will represent an extensive change to the European regulatory framework. Telekom Slovenije also takes into account sectoral and framework regulations when introducing new services.

### OPERATIONAL RISK

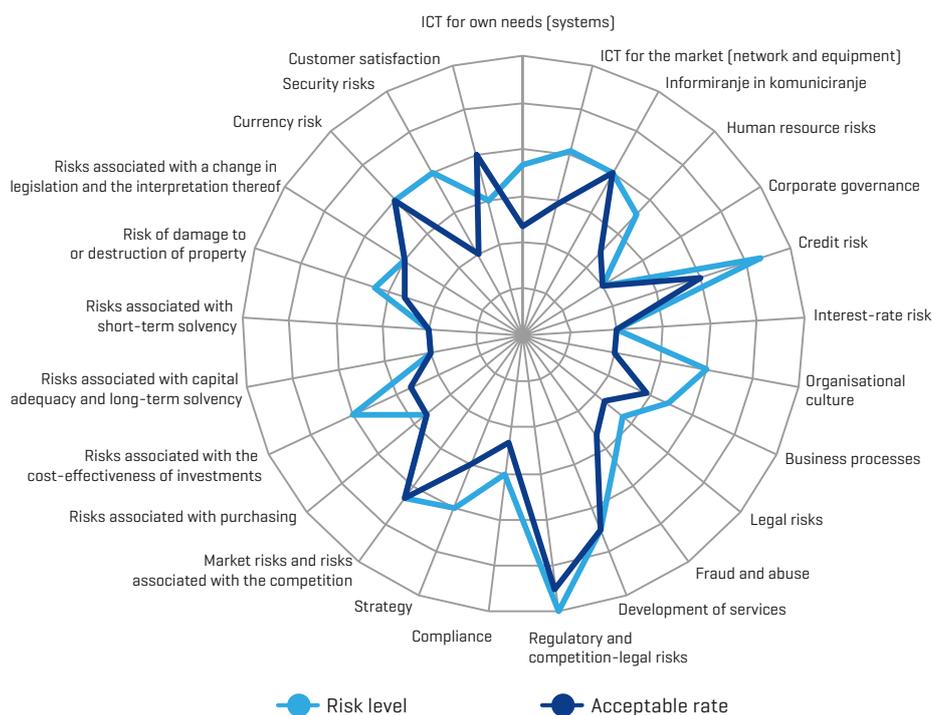
We also dedicated a great deal of attention to managing operational risks associated with ICT networks, services and devices in 2017. Due to the development of technologies and ICT services, and the growing demand for applications and devices, we are faced with the challenge of growing complexity in the comprehensive management of technologies. We manage this risk through the development of BSS and OSS systems, and by improving operational efficiency and by supporting new business opportunities.

In the scope of business continuity, we ensure the necessary capacities of access and regional fibre optic transfer systems, and ensure active access equipment through the appropriate number of connection points, and the construction of connection points in the cable network and the construction of a backbone fibre optic cable network.

With regard to ICT security, we are developing a system for monitoring traffic flows in network environments, preparing the bases for penetration testing and proactively introducing the control and management of cyber security with the establishment of a CSCC. With the aim of managing the risk of abuse, we have implemented a security policy, identified security threats and vulnerabilities in a timely manner, and spread the security culture to employees and the users of our services. 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.

### RISKS BY RISK CATEGORY AT TELEKOM SLOVENIJE

The graph presents risk levels by risk category in 2017 and a comparison with acceptable levels of risk.



## RISK ASSESSMENT FOR TELEKOM SLOVENIJE

The following tasks were completed in 2017 in the area of comprehensive risk management:

- we regularly updated the list of identified risks and reported accordingly;
- we monitored deviations from acceptable levels of risk and implemented the appropriate measures;
- we introduced key risk indicators;
- we strengthened cooperation with risk owners; and
- we enhanced the culture of responsible risk management.

The risks that we are prepared to take up are those that derive from the strategy and facilitate the achievement of strategic objectives. The Company is not prepared to take up risks that harm its reputation, risks that result in the loss

of corporate integrity or risks in the area of occupational health and safety.

Acceptable levels of risk [risk appetite] are set out in our strategy, and depend on our objectives and the types of risk. The monitoring and analysis of implemented measures are carried out in close cooperation with risk owners. Through the risk management framework, we have reasonable assurances that we will achieve our business objectives and fulfil our obligations to users, shareholders, business partners, employees and society.

## RISKS AT SUBSIDIARIES

The tables below present key risks in Q4 2017. Risk management measures are presented for each identified risk. The monitoring and analysis of implemented measures are carried out in cooperation with the managing directors of subsidiaries.

## AVTENTA

### Human resource risks

Risk category	What is the effect?	Level of risk
Operational risks	Project implementation.	
What is the risk?	How is the risk managed?	
Lack of professionally qualified staff.	Establishment of staff links with external partners.	

## ANTENNA TV SL

### Liquidity risk and the risk of an inappropriate capital structure

Risk category	What is the effect?	Level of risk
Financial risks	Over-indebtedness.	
What is the risk?	How is the risk managed?	
The inability to settle obligations and a high level of debt.	Financing of operations by owners and the optimisation of operations.	

## GVO

### Risks associated with operational implementation and the quality of implemented projects

Risk category	What is the effect?	Level of risk
Operational risks	Implementation of projects and the quality thereof.	
What is the risk?	How is the risk managed?	
Payment of contractual penalties. Loss of reputation.	Transfer of simple works to subcontractors. Adjustment of the number of employees through temporary employment. Adaptation of the work organisation and internal processes. Drafting of project plans.	

## SOLINE

### Risk associated with the operations of the Lepa Vida Thalasso Spa

<b>Risk category</b> Strategic (business) risks	<b>What is the effect?</b> Deteriorating business results.	<b>Level of risk</b>	
<b>What is the risk?</b> Failure to achieve growth in revenues.	<b>How is the risk managed?</b> Active marketing and links with local hotel chains.		

### Risk associated with inclement weather

<b>Risk category</b> Operational risk	<b>What is the effect?</b> Low salt production. Drop in number of visits to the spa.	<b>Level of risk</b>	
<b>What is the risk?</b> Inclement weather conditions.	<b>How is the risk managed?</b> No insurance product to transfer risk.		

## TSMEDIA

### Market risks

<b>Risk category</b> Strategic (business) risks	<b>What is the effect?</b> Lower revenues than planned.	<b>Level of risk</b>	
<b>What is the risk?</b> Reduced scope of advertising on outdoor screens and fewer visits to portals.	<b>How is the risk managed?</b> Regular monitoring of sales and revenues. Conclusion of annual agreements. Exclusive sales of advertised products. Package marketing.		

### Human resource risks

<b>Risk category</b> Operational risks	<b>What is the effect?</b> Underachievement of revenue planned	<b>Level of risk</b>	
<b>What is the risk?</b> Dependence on external contractors.	<b>How is the risk managed?</b> Drafting of personnel strategy and sales channel strategy.		

## BLICNET

### Risk of the loss of subscribers

<b>Risk category</b> Strategic (business) risks	<b>What is the effect?</b> Departure of subscribers. Lower revenues.	<b>Level of risk</b>	
<b>What is the risk?</b> Aggressive competition on the market.	<b>How is the risk managed?</b> Adaptation to market conditions. Improved quality of portfolio.		

### Risk of protracted legal proceedings

<b>Risk category</b> Operational risks	<b>What is the effect?</b> Individual sections of the network operate without the requisite permits. Protracted proceedings.	<b>Level of risk</b>	
<b>What is the risk?</b> Protracted proceedings to obtain building and operating permits to legalise the network.	<b>How is the risk managed?</b> Initiation of proceedings to legalise the network.		

### Risks associated with the obsolescence of equipment

<b>Risk category</b> Operational risks	<b>What is the effect?</b> Smooth provision of services.	<b>Level of risk</b>	
<b>What is the risk?</b> Risks associated with the obsolescence of equipment and the smooth functioning of the IP platform.	<b>How is the risk managed?</b> Replacement of equipment.		

## IPKO

### Risk associated with the loss of users and revenues

<b>Risk category</b>	<b>What is the effect?</b>	<b>Level of risk</b>	
Strategic (business) risks	Risk associated with the loss of users and revenues.		
<b>What is the risk?</b>	<b>How is the risk managed?</b>		
Market risk due to unfair and aggressive competition. Risk of the loss of exclusive rights to TV content.	Monitoring of market development and the appropriate market approaches. Use of legal remedies.		

### Risks associated with the regulator's methodology for purchasing frequencies

<b>Risk category</b>	<b>What is the effect?</b>	<b>Level of risk</b>	
Strategic (business) risks	High costs of the purchase of frequencies.		
<b>What is the risk?</b>	<b>How is the risk managed?</b>		
Methodology used by the regulator to set prices for the purchase of frequencies.	Initiation of the relevant proceedings.		

### Regulatory risks in connection with the provision of TV services

<b>Risk category</b>	<b>What is the effect?</b>	<b>Level of risk</b>	
Regulatory and compliance-related risks.	Loss of revenues and increased costs.		
<b>What is the risk?</b>	<b>How is the risk managed?</b>		
Requirement of the organisation for collective rights to initiate proceedings to set the prices of programme content.	Use of the appropriate legal remedies.		

## RISK ASSESSMENT FOR SUBSIDIARIES

Acceptable levels of risk (risk appetite) are set out in the strategies of subsidiaries. Through the risk management framework, we have reasonable assurances that business objectives will be achieved by subsidiaries.

## 2.5. BUSINESS ENVIRONMENT AND TRENDS IN THE SECTOR

### 2.5.1. IMPACT OF THE MACROECONOMIC ENVIRONMENT ON OPERATIONS

#### SLOVENIA

Slovenia has made progress in recent years in terms of economic development and the welfare of the population. The economic picture is improving and Slovenia is outpacing more economically developed countries in the European Union [EU]. GDP growth of 4.4% is forecast for 2017 (2018: 3.9%; 2019: 3.2%), primarily as the result of high growth in exports and the impact of government investments. In the coming years, demographic factors will gradually impact economic growth, as disposable income and private consumption will rise in conjunction with growth in employment. Domestic consumption will remain an important driver of growth in the period 2017 to 2019. Employment will continue to rise significantly this year (by 2.7%) in nearly all sectors, while inflation will fluctuate at around 2% in the coming years. Following a period of low inflation and deflation, growth in domestic and foreign demand will result primarily in growth in the prices of services.

The favourable climate in the EU provides additional impetus to kick off the cyclical economic growth, which could result in higher growth than forecast. Uncertainty in the domestic environment is linked primarily to the dynamics of private investment, which could be even higher in the context of accelerated bank lending. By contrast, government investment could be lower than expected, particularly in the event of lower disbursements of European funds. The greatest uncertainty over the longer-term is linked to the approach taken to addressing demographic changes. The dynamics of economic growth and the effects on the welfare of the population will depend on that approach.<sup>32</sup>

#### KEY MACROECONOMIC INDICATORS IN SLOVENIA

	2013	2014	2015	2016	Projection [autumn forecast 2017]		
					2017	2018	2019
GDP [real growth in %]	-1.1	3.0	2.3	3.1	4.4	3.9	3.2
GDP in EUR million [current prices]	36,239	37,615	38,837	40,418	42,761	45,265	47,507
Registered unemployment rate [in %]	13.1	13.1	12.3	11.2	9.5	8.7	8.4
Labour productivity [GDP per employee]	0.0	2.6	1.0	1.1	1.6	2.2	2.3
Inflation [year-end rate]	0.7	0.2	-0.5	0.5	1.7	1.9	2.1
Inflation [annual average]	1.8	0.2	-0.5	-0.1	1.5	1.6	2.1
Private consumption [real growth in %]	-4.1	1.9	2.1	4.2	3.3	3.0	2.3
Government consumption [real growth in %]	-2.1	-1.2	2.7	2.5	1.1	0.9	0.9

Source: SORS, Bank of Slovenia, ECB and IMAD calculations and forecasts [Autumn Forecast of Economic Trends, September 2017].

#### SOUTH-EASTERN EUROPE

Gross domestic product (GDP) in the countries of South-Eastern Europe where the Telekom Slovenije Group operates is at the level of emerging countries, and is 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 economies on those markets remain dependent on economic and employment developments in Western Europe.

32 Vir: Jesenska napoved gospodarskih gibanj 2017, Urad RS za makroekonomske analize in razvoj, Ljubljana, september 2017

Economic growth was 3.4% in **Kosovo** in 2016. According to forecasts, that growth is expected to increase somewhat next year, to 3.5%. The situation on the labour market is also improving, as the unemployment rate is falling gradually, and stood at 27.5% in 2016.

Economic growth continued in **Bosnia and Herzegovina** in 2016, but was slightly lower, at 2%. Growth is expected to strengthen slightly next year, to 2.5%, which is still below the level achieved in 2015. Although the unemployment rate is gradually falling, it remained relatively high in 2016, at 25.4%, and is forecast at 20.5% in 2017.

## MACROECONOMIC INDICATORS FOR THE MARKETS OF SOUTH-EASTERN EUROPE

<b>GDP per capita</b>	<b>Slovenia</b>	<b>Kosovo</b>	<b>Bosnia and Herzegovina</b>
2015	18,823	3,159	3,775
2016	19,576	3,254	3,884
2017 forecast	20,708	3,370	4,093
2018 forecast	21,922	3,492	4,262
<b>GDP growth in %</b>			
2015	2.3	4.1	3.1
2016	3.1	3.4	2.0
2017 forecast	4.4	3.5	2.5
2018 forecast	3.9	3.5	2.6
<b>Inflation (in %)</b>			
2015	-0.5	-0.1	-1.2
2016	0.5	1.3	-0.3
2017 forecast	1.7	1.0	2.3
2018 forecast	1.9	1.8	1.4
<b>Unemployment rate in %</b>		*	
2015	12.3	32.9	27.7
2016	11.2	27.5	25.4
2017 forecast	9.5	n/a	20.5
2018 forecast	8.7	n/a	25.1

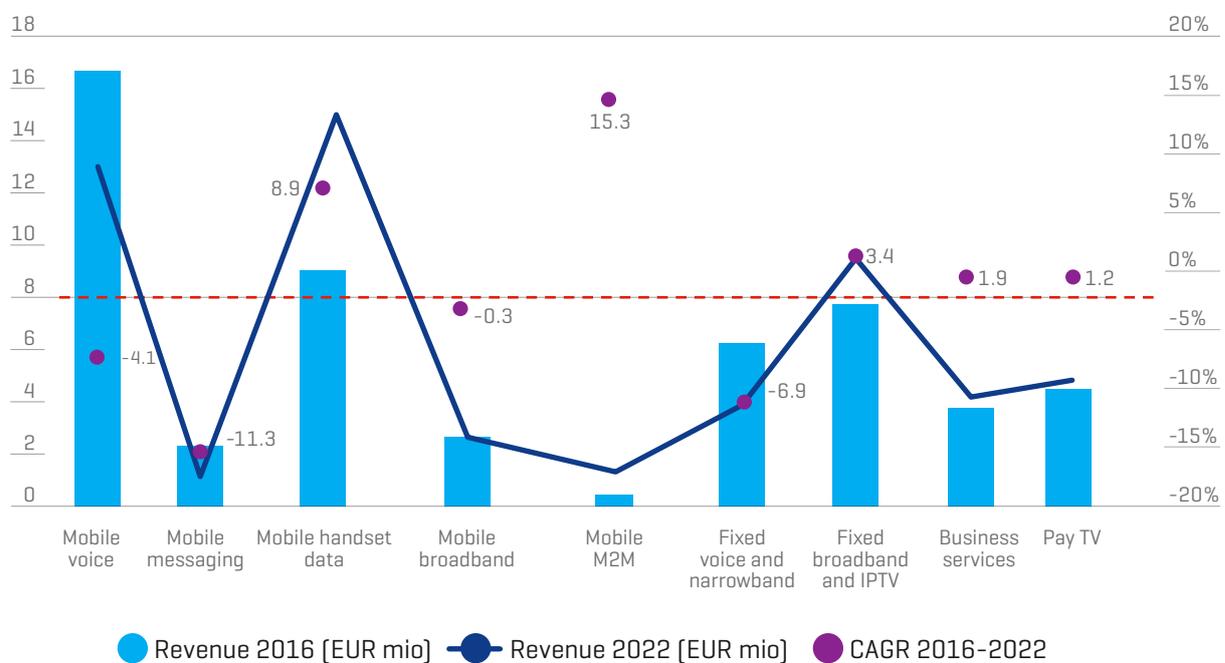
Source: Slovenia: IMAD, Autumn Forecast 2017, September 2017; SEE: IMF Outlook October 2017; \* The unemployment rate in Kosovo is provided by the Statistical Office, May 2017.

## 2.5.2. STATE OF THE TELECOMMUNICATIONS SECTOR AND TRENDS

The analysts of Analysys Mason are forecasting a partial recovery in revenues from telecommunication services until 2022 for Central and Eastern Europe. Contributing most to that recovery will be growth in revenues from mobile data transfer services, which will account for more than one quarter of all retail sales revenue by 2022, and investments in fixed, advanced networks. Operators who offer fixed-mobile convergence (FMC) packages will exploit the opportunities presented by next generation (NGA) networks. They will focus on upgrading speeds, content and pay TV and IPTV packages that will increase average use per user and revenues.

Total revenues from mobile and fixed services will grow at an annual rate of 0.5% (CAGR) in the period 2016 to 2022, while pay TV will grow at a rate of 0.7% (CAGR).

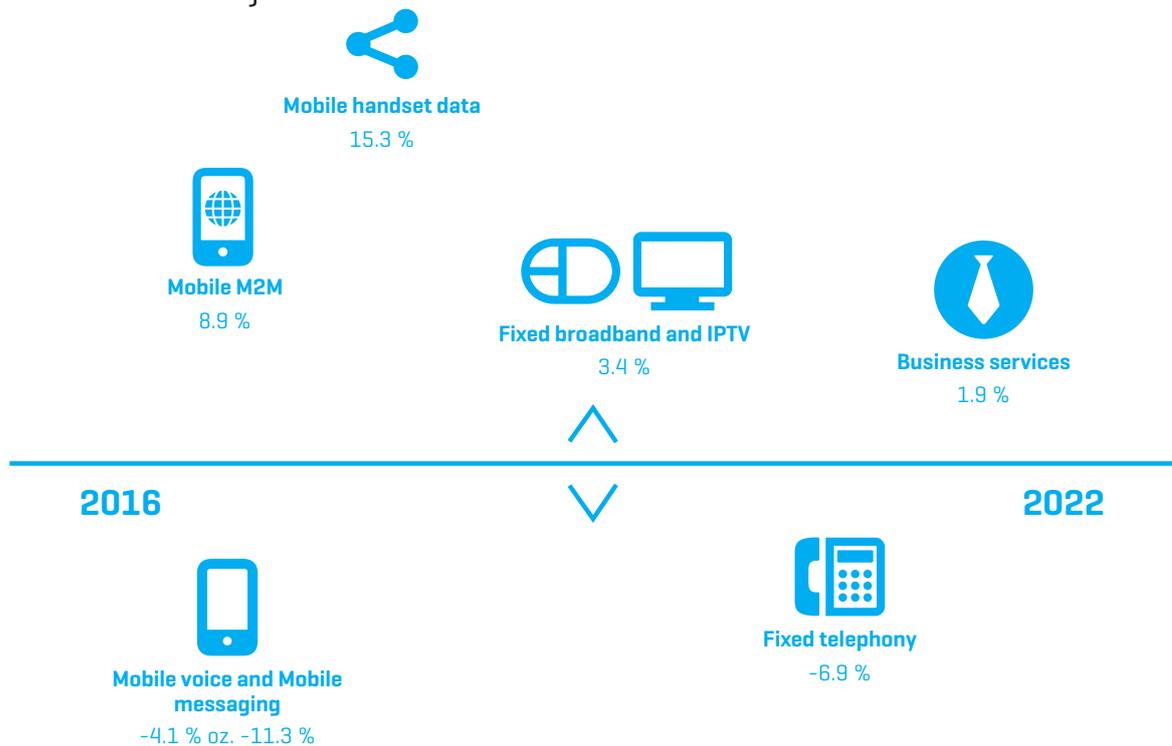
Revenue from telecommunications services – Central and Eastern Europe in the period 2016 to 2022 (in billion)



Source: Analysys Mason – Central and Eastern Europe telecoms market: trends and forecasts 2017–2022

Amongst individual services, the highest growth will be achieved by M2M (machine to machine, i.e. communication between devices) and mobile data transfer on mobile devices, followed by fixed broadband access and IPTV. The sharpest decline in revenues will be seen in traditional mobile services (calls and messages) and fixed telephony.

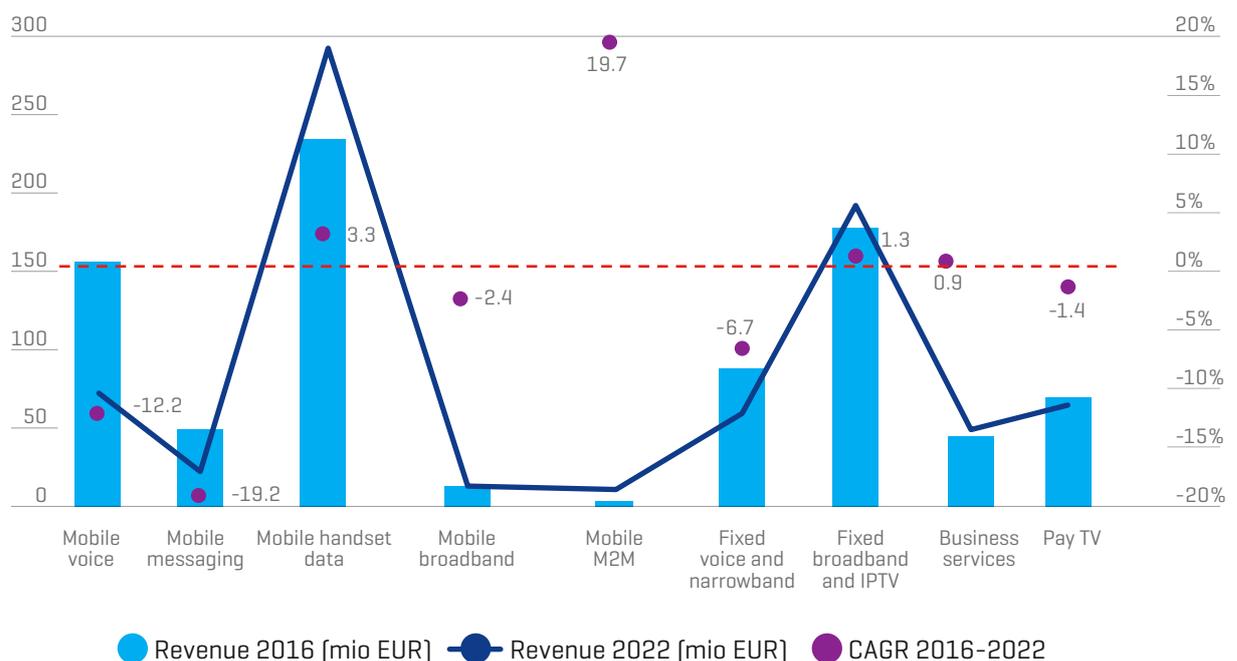
## Growth in revenues by service in Central and Eastern Europe by 2022 [CAGR 2016–2022]



Source: Analysys Mason – Central and Eastern Europe telecoms market: trends and forecasts 2017–2022

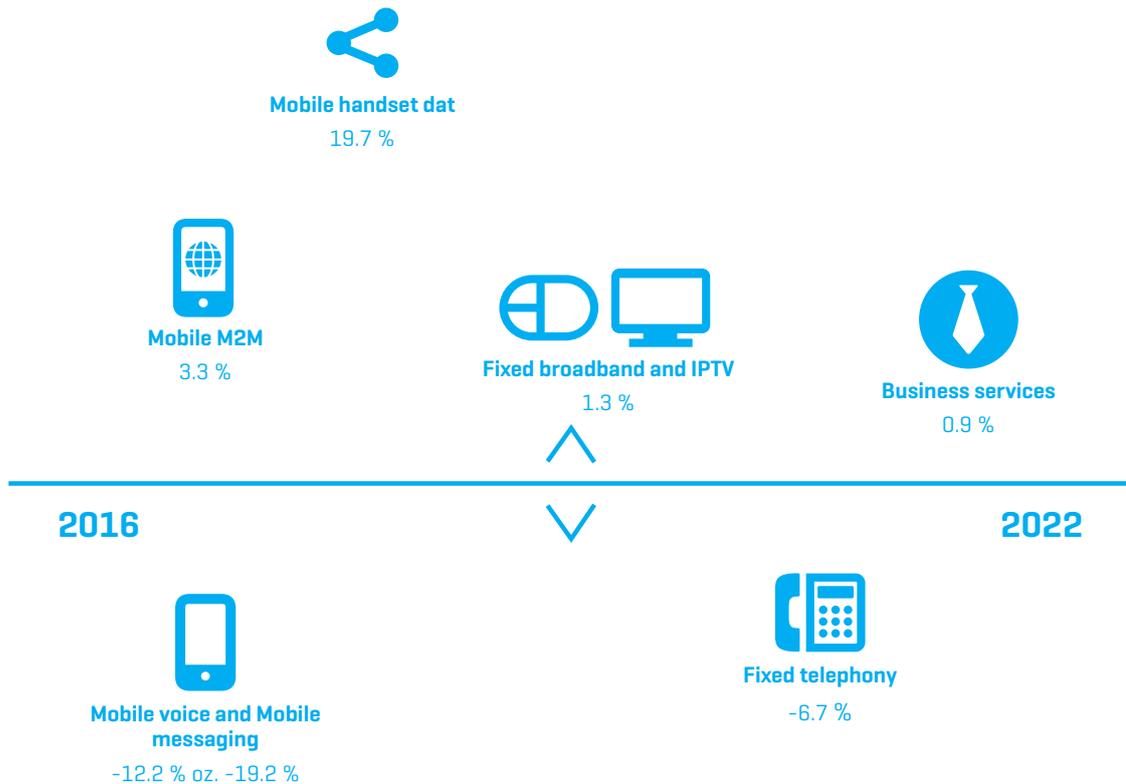
The mobile services market in Slovenia will contract more than the fixed services market, while the decline in revenues in the mobile telephony segment in the period 2016 to 2022 will be most significant amongst all countries in Central and Eastern Europe.

## Revenue from telecommunications services – Slovenia in the period 2016 to 2022 [in million]



Source: Analysys Mason – Central and Eastern Europe telecoms market: trends and forecasts 2017–2022

## Growth in revenues by service in Slovenia until 2022 [CAGR 2016–2022]



Source: Analysys Mason – Central and Eastern Europe telecoms market: trends and forecasts 2017–2022

### IT MARKET IN SLOVENIA

Opportunity on the Slovenian IT market is seen in growth in upgrades of existing software products and in the simplified use of wireless services, while data services remain a key element of the product portfolio. There will be an increasing number of competitors with new services on the IT market, while operators will consolidate IT within their services. There is an influx of new operators on the market who offer innovative cloud services, while established competitors are merging. At the same time, traditional licencing distributors are transforming into systems integrators. A trend can also be seen in the use of over-the-top (OTT) services that are affordable and through which companies are bypassing operators.

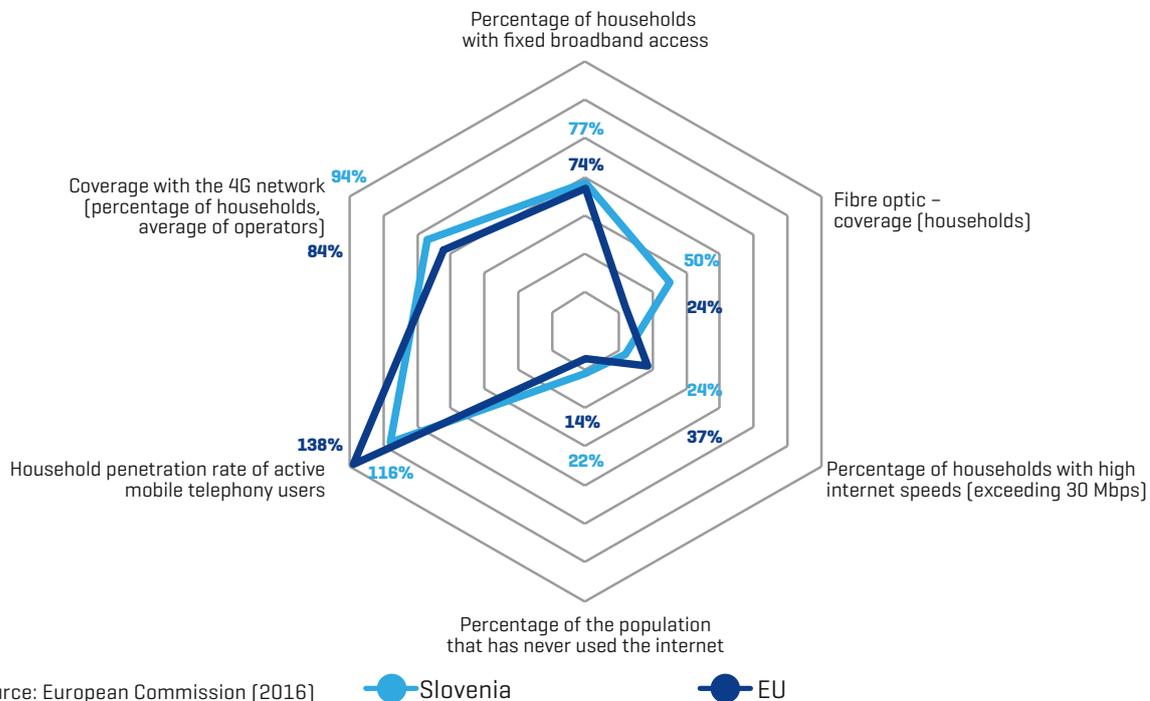
IT is a strategic segment today that concerns all areas of companies' operations, while its impact can also be felt in everyday life. Companies and organisations have been more optimistic over the

last three years in their decisions to invest in the purchase of new and the upgrading of previously implemented IT solutions.

Trends such as big data, cloud computing and mobility, artificial intelligence and automation will play a key role in the digital transformation of companies. An online survey indicates that digital transformation is already on the agenda of the majority of Slovenian companies (more than 85%), but there is still no visible effect on revenues and costs. According to forecasts, one half of all revenues will be generated from digital business models or channels by 2020. The Telekom Slovenije Group therefore continuously adapts and follows sectoral trends in the implementation of SAP solutions and document systems, and thus develops innovative, effective and high-quality solutions.<sup>33</sup>

## 2.5.3. COMPARISON OF THE DEVELOPMENT OF THE SLOVENIAN TELECOMMUNICATIONS MARKET WITH THE EU

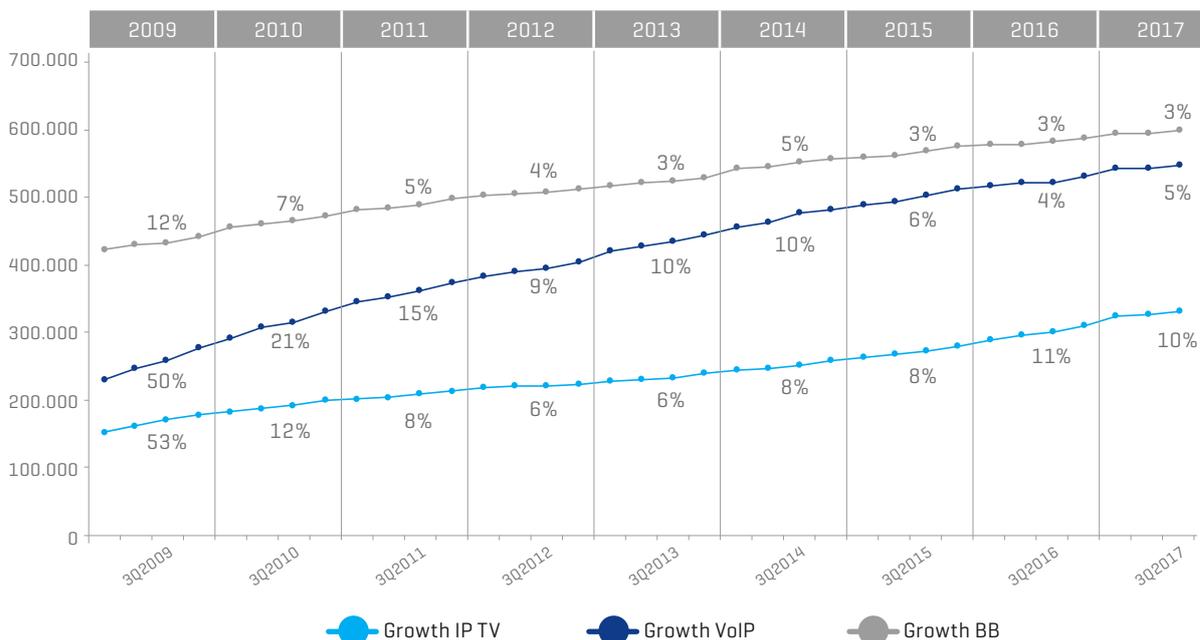
Comparison of the development of the telecommunications markets of Slovenia and the EU



### FIXED BROADBAND ACCESS MARKET

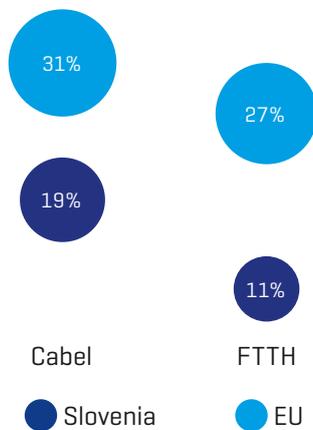
Growth in the broadband connections market has slowed in Europe and Slovenia in recent years. According to figures from the European Commission (July 2016), Slovenia is below the EU average (32.7%) in terms of household fixed broadband access penetration, at 29.5%. Growth in penetration is likewise below the EU average. The fixed broadband connection market continues to grow in Slovenia, but that growth is slowing. IP television (IPTV) and IP telephony (VoIP) are recording somewhat higher growth.

### Growth in fixed broadband connections in Slovenia



Although xDSL remains the most widely used fixed broadband technology in Europe, its market share continued to fall in 2016 (and has fallen from 80% in 2009 to 67% in 2016). 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 31.1% of all broadband connections in Slovenia in the third quarter of 2017.

### Proportion of broadband internet connections accounted for by fibre optic and cable connections [2016]



Source: Digital Agenda for Europe, European Commission, 2017

### PAY TV MARKET

IPTV and multimedia content services, such as video-on-demand, HD content, interactive TV content and internet TV, continue to record growth. IPTV accounts for 52.6% of all TV connections in Slovenia (Q3 2017) and continues to grow. At 51.0% (Q3 2017), Telekom Slovenije holds the highest share of the IPTV market.

The use of and revenues generated by non-linear, audio-visual and over-the-top (OTT) services, such as Netflix, are growing exponentially. Despite rapid growth in the number of new TV-related services, the impact of those services is still limited. At the moment, traditional TV content remains at the forefront.

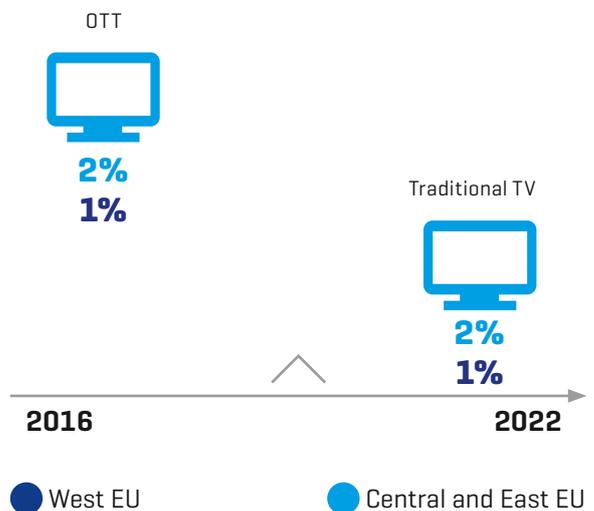
Research by iPROM at the end of 2016 indicated that TV promotes internet use, as 71% of all users use the internet while watching TV: 36% of users used social networks, while one quarter browsed websites, and read and responded to emails. OTT is a tremendous success amongst people less than 40 years of age, as they are able to enjoy TV content [series, shows and movies] when time

allows. At the fore in this respect are video-on-demand and the back-viewing function, which are used by close to one half of Slovenian households (iPROM and Valicon, 2016).

Revenues from OTT video services will rise sharply, particularly compared to growth in revenues from traditional TV [1.0% CAGR 2016–2022].

### Growth in revenues from OTT services and traditional TV in Western, Central and Eastern Europe [CAGR 2016–2022]

The household penetration rate of fixed-line TV connections stands at 76.8% in Slovenia (third quarter of 2017).



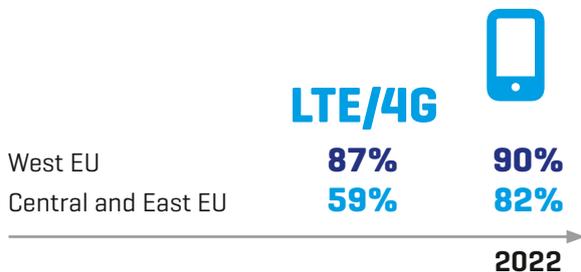
Source: Analysys Mason – Western, Central and Eastern Europe telecoms market: trends and forecasts 2017–2022

### MOBILE BROADBAND ACCESS

The highest growth on the broadband services market is in mobile broadband access, which is used by more than 60% of all users with active mobile SIM cards. The majority of mobile broadband subscriptions are used on smart phones, only then followed by tablets and laptop computers. The average penetration rate for active mobile internet users is 83.9% in the EU. The leaders are northern countries (Finland, Denmark, Sweden, Estonia, Luxembourg and Poland), where penetration exceeds 100%, while the penetration rate in Slovenia is 56.9%.

## Number of 4G connections and smart phone penetration rate in 2022

Telekom Slovenije already covers more than 98% of the population with its LTE/4G network.



Source: Analysys Mason – Western, Central and Eastern Europe telecoms market: trends and forecasts 2017–2022, 2017

## FIXED AND MOBILE TELEPHONY

According to the forecasts of analysts at Analysys Mason, the **fixed telephony market** will contract at an annual rate of 1.1% [CAGR] in Western Europe until 2022.

The proportion of the aforementioned market accounted for by IP telephony is constantly growing. Thus at the end of the third quarter of 2017, the share of the Slovenian market

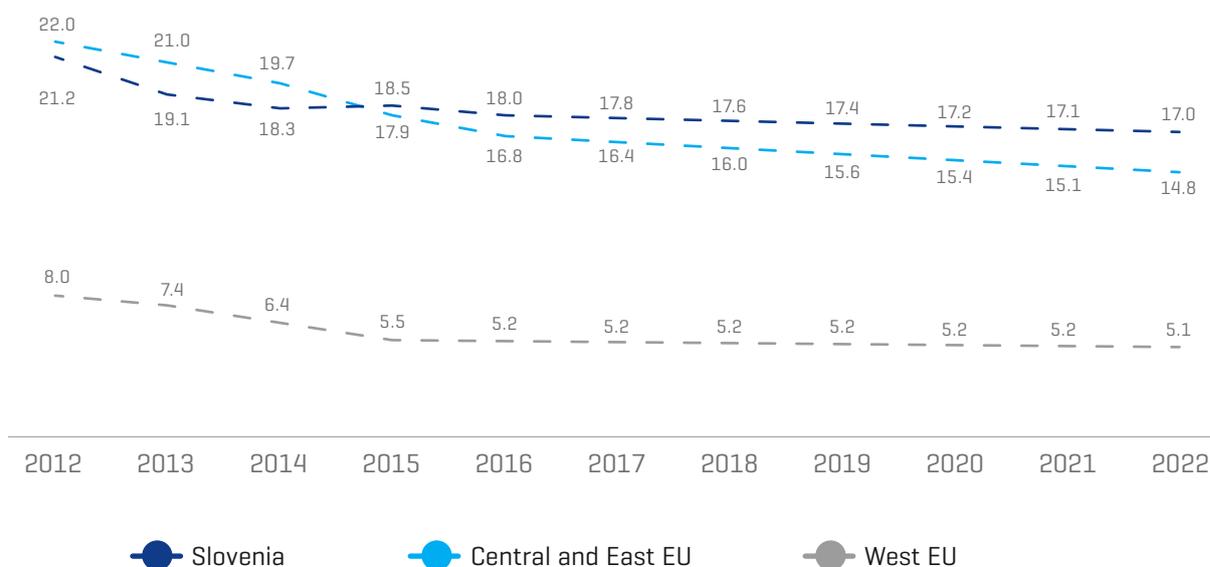
accounted for by IP connections had already reached 78.5%, while the share accounted for by traditional telephony continues to decline and stood at 21.5%. **In the mobile segment**, Slovenia has one of the lowest per capita penetration rates of active mobile telephony users in the EU (117.0% in the third quarter of 2017), giving it sufficient room for further development.

The proportion of traffic from the mobile network and VoIP is also rising, while the proportion of traffic from the fixed network is declining. That trend is quite obvious in Slovenia, as traffic from the fixed network accounted for just 10.3% of total traffic in the third quarter of 2017 compared with 89.7% from the mobile network.

The migration from prepaid to subscriber services is characteristic of the EU mobile telephony market, where the average is 63%, while Slovenia is among the countries with the highest proportion of subscriptions, at 77%.

Average revenue per user [ARPU] will stabilise in Central and Western Europe by 2022 due to the easing of competitive pressures on prices and on account of the growing number of more expensive data packages.

## Average revenue per user (ARPU) in Europe and Slovenia until 2022



Source: Analysys Mason DataHub Export, August 2017

## PACKAGE SERVICES

Operators are attempting to stop the declining number of subscribers by offering increasingly varied packages that include fixed telephony, internet, TV and mobile telephony (quadruple play). Growth in all packages, most notably in quadruple play packages, is rising in both the EU and Slovenia, while the number of stand-alone broadband access connections is falling.

## Penetration rate for connections including packages of services

The household penetration rate for connections including packages of services was 66.5% in Slovenia in the third quarter of 2017.



Slovenia  
EU

**66%**  
**50%**

Source: Report on the development of the electronic communications market for the third quarter of 2017, AKOS; Eurobarometer 438, European Union, 2016.

## 2.5.4. 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, Science and Sport of the Republic of Slovenia issued a public call in May 2016 for a declaration of market interest in the construction of broadband networks. Based on that call, Telekom Slovenije signed an agreement with the aforementioned ministry in 2017, and began building connections in areas where market interest was expressed.

#### NATIONAL LEGISLATION AND EU REGULATIONS

The Act amending the Electronic Communications Act [ZEKom-1C] entered into force in August, transposing into Slovenian law the EU directive on measures to reduce the cost of deploying high-speed electronic communications networks. Amendments to that law covered the following areas: financing of the AKOS, spatial planning, easements on property owned by the Republic of Slovenia, the radio frequency spectrum, user rights, call-backs and mass notification, the processing of personal data and universal services.

European law-making bodies are discussing the draft of a new directive aimed at establishing a European electronic communications code [EECC], and drafts of regulations regarding

the competences and functioning of the joint body of European Regulators for Electronic Communications [BEREC] and regarding the expansion of wireless networks in public areas and local communities. The European Commission's aim is thus to update the European regulatory framework for electronic communications from 2009. Changes are expected to be adopted by the European Parliament and Council during the first half of 2018, with implementation by EU Member States planned for 2019.

#### RELEVANT MARKETS

The AKOS conducted various inspections in 2017 with respect to Telekom Slovenije in connection with imposed obligations on regulated relevant markets. It halted three proceedings, and identified certain instances of non-compliance in one proceeding and ordered the rectification thereof. Four proceedings were still in progress at the end of the year. The AKOS also conducted misdemeanour proceedings against Telekom Slovenije, which ended in the issue of a decision and the imposition of a fine. Telekom Slovenije filed a request for judicial protection against the aforementioned decision.

In December the AKOS issued the decisions described below on relevant markets 3a and 3b, and carried out public consultations with respect to the market of high-quality products:

Relevant market	Change
Market 3a: "Wholesale local access at a fixed location"	The AKOS ordered Telekom Slovenije to formulate an offer of virtual unbundled local access (VULA), and shortened the deadlines for connection and the elimination of faults. It raised the price of the unbundled copper local loop and prescribed the application of economic replicability for next generation (NGA) products.
Market 3b: "Wholesale central access at a fixed location for mass-market products"	The AKOS ordered Telekom Slovenije to shorten the deadlines for connection and the elimination of faults. It abolished the retail price-x cost methodology. It ordered the calculation of cost prices and prescribed the application of economic replicability for next generation (NGA) products. It abolished price regulation for 159 settlements.
Planned regulation of market 4: "Wholesale high-quality access at a fixed location".	Telekom Slovenije submitted comments to the AKOS in December 2017 regarding the published analysis of the aforementioned relevant market.

## ROAMING

In June Telekom Slovenije implemented the provisions of the EU regulation that defines measures concerning open internet access and a reduction in mobile roaming prices. The Company thus offered its users roaming under the same conditions valid at home, according to the 'roam like at home' (RLAH) principle. To that end, we notified the competent agency about our fair use policy.

## FREQUENCIES

AKOS began preparations in 2017 in connection with the tender for 5G frequencies. Telekom Slovenije formed a working group for the purpose of participation in the public tender and auction, which are expected in 2018. Together with Ericsson, Iskratel, the Ministry of the Interior (Police), the Slovenian army and the Faculty of Electrical Engineering, we joined the 5G PPDR (Public Protection and Disaster Relief) initiative. The constitutive meeting was held in March, while various activities were carried out during the year.

## RESOLUTION OF DISPUTES BEFORE THE AGENCY FOR COMMUNICATION NETWORKS AND SERVICES (AKOS)

Telekom Slovenije informs its users regularly and correctly about special conditions, sales offers, prices and changes, which reduces the number of complaints received. We have also improved the resolution of complaints at the first instance. In the event of unjustified reclamations, we try to find the most affordable business solutions for subscribers, resulting in fewer complaints at the second instance before the AKOS. Telekom Slovenije is thus the Slovenian operator (according to data from the AKOS) with the lowest proportion of complaints before the aforementioned agency. Findings from the resolution of complaints are

always implemented in the process to improve our services and operations.

## REGULATORY DEVELOPMENTS IN SOUTH-EASTERN EUROPE

### KOSOVO

Preparations continued in 2017 for the introduction of the three-digit calling code assigned to Kosovo by the ITU. Final implementation is planned for June 2018, which will facilitate number portability. The regulatory agency RAEPC has therefore issued several decisions in connection with numbering and number portability. The RAEPC continued to analyse markets with regard to local loop and broadband access. Public consultations regarding universal services have also begun, but no decision has been issued to date.

With regard to net neutrality, the RAEPC has proposed obligations that are stricter than those applicable in the EU. IPKO is against the introduction of the aforementioned obligations and, with the help of external consultants, is in dialogue with the competent authorities in an attempt to ease those obligations.

The regulator in Kosovo issued a decision regarding the use of the 1900 MHz and 2100 MHz frequency spectrum for the purpose of UMTS/IMT-200 and IMT advanced. IPKO has informed the agency that it will not compete for the frequencies in the 2100 MHz band, and requested a reduction in fees for the use of frequencies.

Kosovo's Independent Media Commission (IMC) began the process of adopting a law on the digitalisation of terrestrial TV, which will facilitate the transition from analogue to digital broadcasting.

## BOSNIA AND HERZEGOVINA

A new electronic communications strategy for the period 2017 to 2021 entered into force in 2017. That strategy facilitates, inter alia, the introduction of LTE networks and the transition to digital broadcasting, and provides for measures aimed at improving the development of broadband fibre optic connections.

Markets 3 and 7 (call termination in the fixed and mobile networks) remain regulated. Blicnet is deemed an operator with significant market power on market 3. In May the regulatory body in Bosnia and Herzegovina (RAK) confirmed Blicnet's reference interconnect offer (RIO), which entered into force in June 2017. In accordance with its reference offer, Blicnet and Mtel reached an agreement on network interconnection during the final quarter of the year.

Public debate regarding the proposed analyses of market 4 (wholesale access to the network

infrastructure, including shared or fully unbundled access at a fixed location – wholesale) and market 5 (broadband access market – wholesale) was completed back in February 2015. Final measures have not been adopted to date, but are expected soon. Adopted measures from the analyses of markets 4 and 5 are the basic precondition for the implementation of local loop unbundling and bit stream services, which are expected to improve competitiveness on the telecommunications market in Bosnia and Herzegovina.

## NEW SERVICES

The majority of new services through which Telekom Slovenije is expanding its core activity are likewise subject to regulation. In connection with electricity services, Telekom Slovenije must provide data regarding wholesale agreements and sales quantities to the Energy Agency, while the consent of the Insurance Supervision Agency was required for the provision of insurance services.

## 2.5.5. COMPETITION PROTECTION AND PROCEEDINGS BEFORE THE COURTS AND OTHER BODIES<sup>34</sup>

In 2017 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 in 2017:

- Telekom Slovenije received two decisions from the Ljubljana District Court rejecting the claims of Telemach for the payment of EUR 1,392,153.00 with appertaining amounts and the payment of EUR 86,000,000.00 with appertaining amounts. On 27 February 2017 the two aforementioned companies signed an agreement on the arrangement of mutual relations, leading the court to reject Telemach's claims in accordance with that agreement.
- The Supreme Court ruled in favour of T-2's request for review filed against the decision of the Ljubljana Higher Court, which rejected the proposal for retrial in the economic dispute with Telekom Slovenije for the payment of damages

in the amount of EUR 129,556,756.00 with appertaining amounts. The Supreme Court reversed the decisions of the courts of the first and second instance, and sent the matter back to the court of first instance for retrial. The court withheld the decision on the costs of review proceedings against the contested ruling and decision until a final decision is issued.

- The company Mtel filed a lawsuit against Blicnet claiming the payment of damages in the amount of BAM 98,300,000.00 due to alleged unfair competition and misleading advertising, and the alleged unauthorised use of cable ducts.

Provisions for obligations arising from legal actions are disclosed in [section 28 of the financial report](#).

## EXTERNAL SUPERVISION PROCEEDINGS

The Telekom Slovenije Group has 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

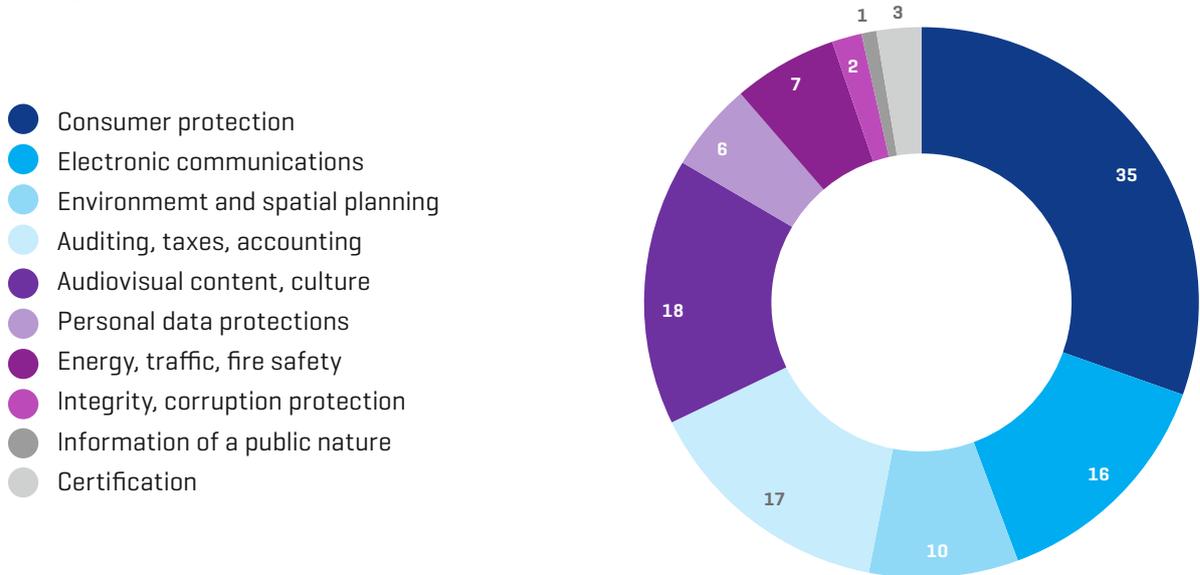
34 GRIGS 103-1, 103-2, 103-3, 206-1, 307-1

compliance with legal or contractual provisions or standards in the performance of its activities.

There were a total 115 external supervision proceedings within the Telekom Slovenije

Group last year: 64 at Telekom Slovenije and 51 at subsidiaries. By the end of the year, 58 proceedings had been completed (24 at Telekom Slovenije and 34 at subsidiaries).<sup>35</sup>

The number of and areas covered by external supervision proceedings are shown in the graph below::



Of the 24 supervision proceedings completed at Telekom Slovenije, two cases involved decisions ordering the rectification of breaches. A misdemeanour warning was issued in one case and reprimands issued in three others, while no irregularities or breaches were identified in the other 18 cases. Inspection authorities did not impose any fines on the Company or its responsible person.

A total of 34 supervision proceedings were completed at subsidiaries. No irregularities or breaches were identified in 25 of those proceedings.

- **Antenna TV SL:** in one case, fines were imposed on the company in the amount of EUR 6,000 and on its responsible person in the amount of EUR 600 (in the area of audio-visual content). In another case, a fine was imposed on the company in the amount of EUR 3,500 and a reprimand issued to its responsible person (in the area of audio-visual content). In a third case, the company and its responsible person were issued reprimands (in the area of audio-visual content).

- **GVO:** in one case, fines were imposed on the company in the amount of EUR 1,200 and on its responsible person in the amount of EUR 240 (in the area of traffic).
- **Soline:** in one case, a fine was imposed on the company in the amount of EUR 1,000 (in the area of sanitary compliance), while measures were imposed in another case to rectify deficiencies (auditing).
- **TSmedia:** in one case, a measure was imposed on the company to rectify irregularities (information of a public nature).
- **IPKO:** in one case, a fine was imposed on the company in the amount of EUR 200 (labour relations), while the rectification of breaches (environment and spatial planning) was ordered.

35 GRI GS 419-1



MARKETING AND SALES

# FOCUSED

WE ARE TRUSTED BY MORE THAN ONE MILLION SLOVENIAN CITIZENS. THIS IS OUR WORLD. A WORLD IN WHICH WE FOCUS ON AN EXCELLENT USER EXPERIENCE FOR EVERY LAST PERSON AND STRIVE FOR THEIR SATISFACTION EVERY DAY.



## DIGITALISING A WORLD OF OPPORTUNITIES

Advanced technology provides us never ending possibilities. It also allows us to adapt to the specific needs and expectations of our users.

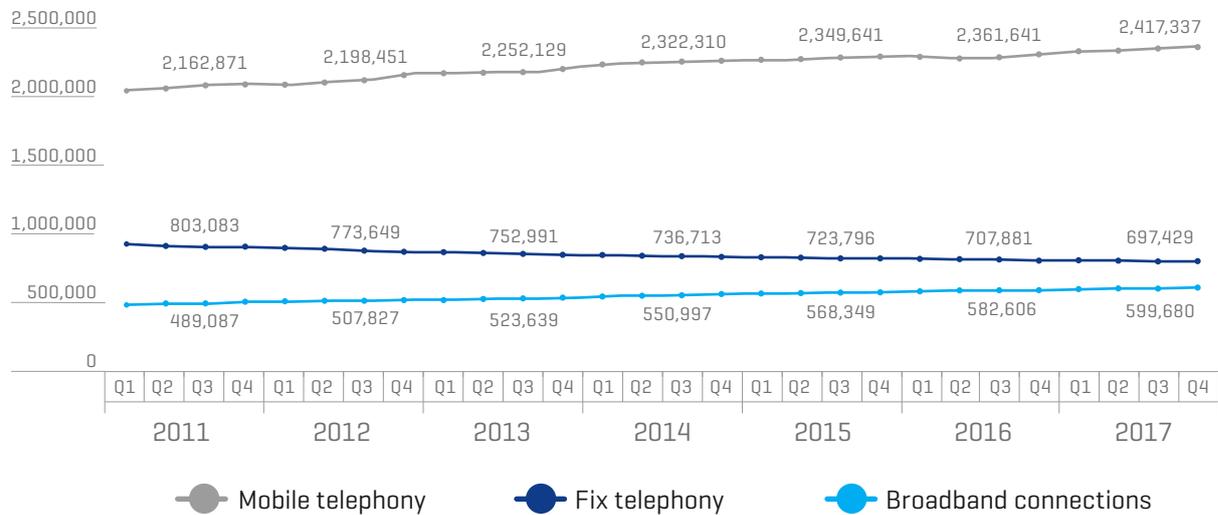
## 2.6. SALES AND MARKETING

### 2.6.1. MARKET AND MARKET SHARES IN KEY SERVICE SEGMENTS<sup>36</sup>

#### SLOVENIA

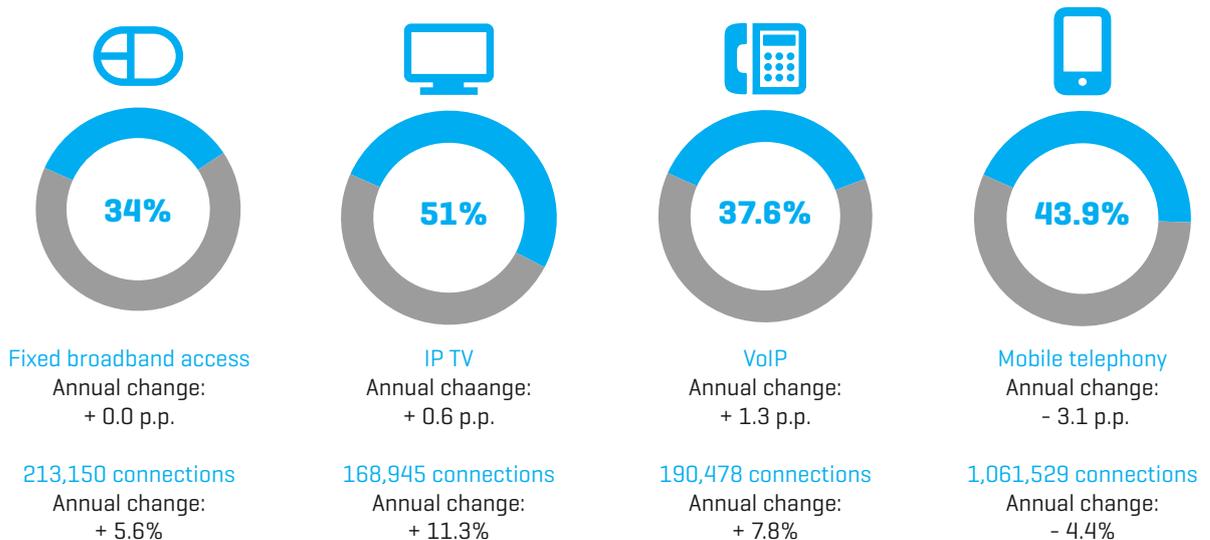
Telekom Slovenije maintains the highest market share in all segments of its operations. Maintaining and increasing our market shares is achieved by investing in the expansion and upgrading of the fibre optic access network, through a portfolio of convergent packages, by expanding the portfolio outside the basic telecommunications activity (to electricity, insurance, financial and smart home services), through a comprehensive portfolio of ICT services and through the best user experience.<sup>37</sup>

#### Changes in the number of connections in Slovenia



Source: Statistical Office of the Republic of Slovenia, third quarter of 2017

#### Overview of market shares in the third quarter of 2017 in key market segments



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

36 GRIGS 102-6

37 SDG 8.10

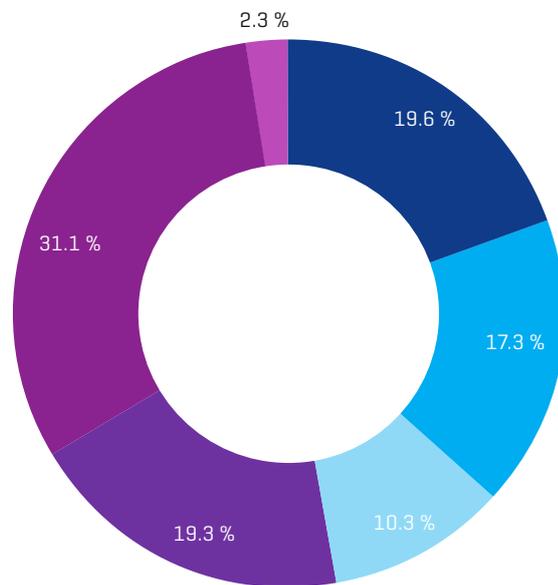
## FIXED BROADBAND ACCESS

The household fixed broadband access penetration rate stood at 78.6% in Slovenia in the third quarter of 2017.<sup>38</sup> There were a total of 599,680 broadband connections (compared with 582,606 in 2016), 86.2% of which were accounted for by private broadband connections.<sup>39</sup> Telekom Slovenije maintains the highest market share, followed by Telemach and T-2.

The increasing proportion of fibre optic connections and the range 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 2017, the number of active fibre optic connections in Slovenia already exceeded 186,000, accounting for 31.2% of all connections. The number of fibre optic connections rose by 20% in one year.

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

Telekom Slovenije had more than 70,000 users with FTTH connections at the end of the third quarter of 2017.



Source: Report on the development of the electronic communications market for the third quarter of 2017, AKOS

## PAY TV MARKET

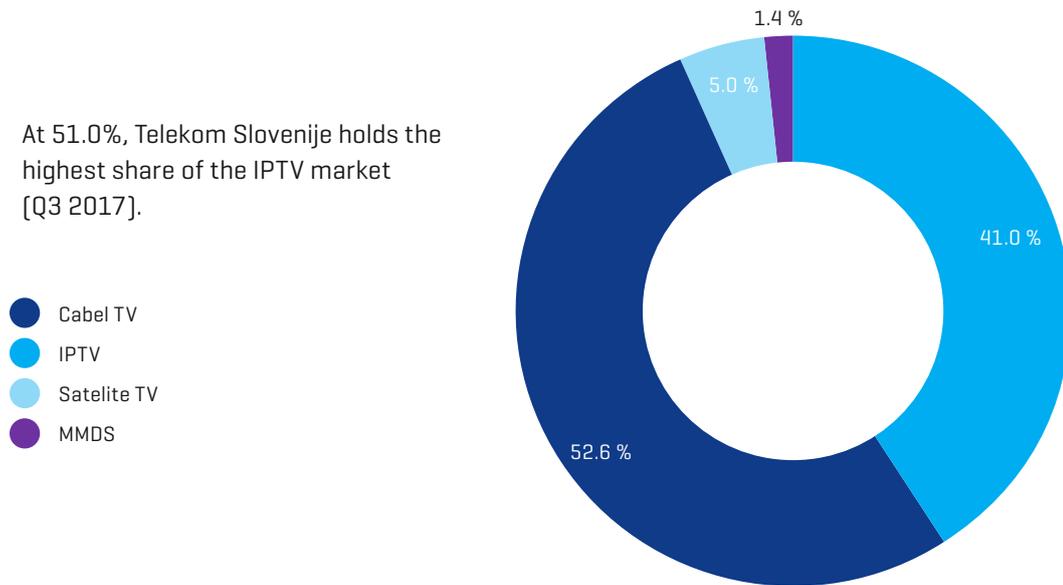
IPTV accounts for 52.6% of all TV connections in Slovenia (Q3 2017). IPTV is followed by cable TV, primarily on account of the number of digital

connections. The latter, however, is in constant decline. According to figures from the AKOS, 76.8% of Slovenian households have pay TV (Q3 2017).

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, Q3 2017; SORS, Q3 2017

## Market shares of TV connections by technology

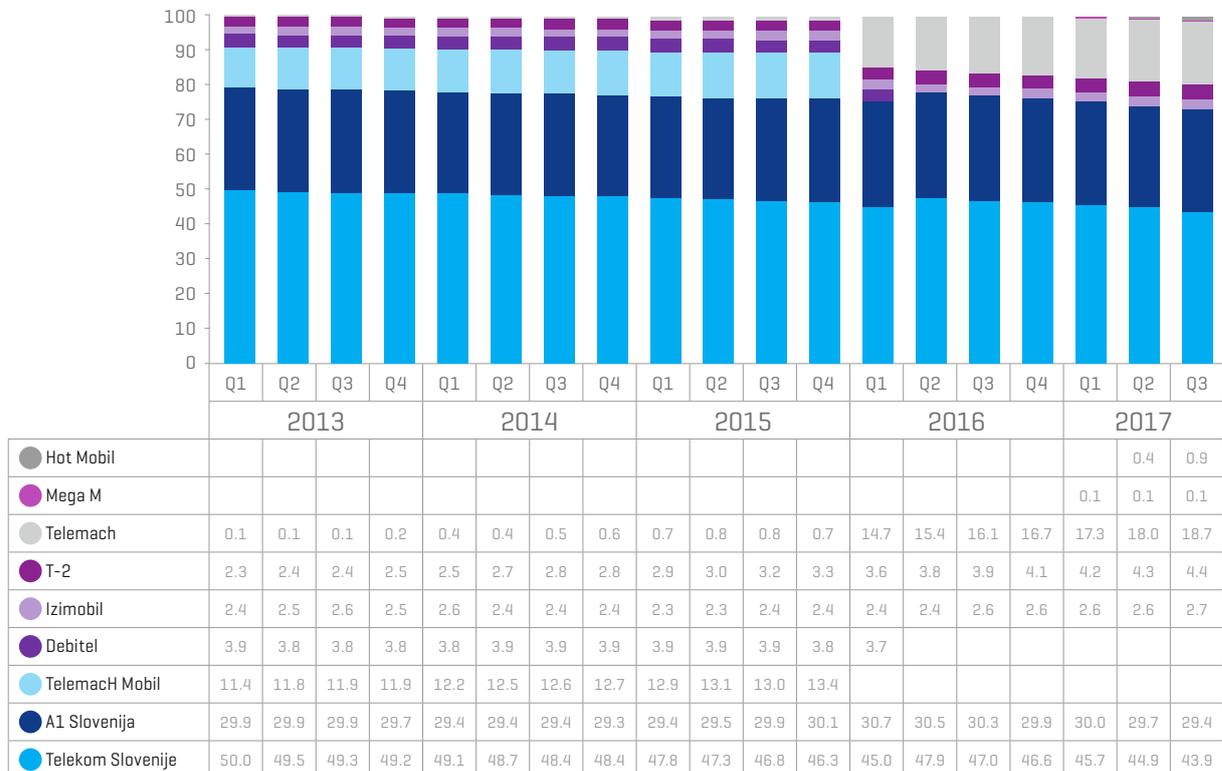


Source: Report on the development of the electronic communications market for the third quarter of 2017, AKOS

## MOBILE TELEPHONY

The number of active mobile telephony users was up by 56,000 in Slovenia during the third quarter of 2017, an increase of 0.6% relative to the same period in 2016. The mobile telephony penetration rate was also up, and stood at 117.0%. At 43.9%, Telekom Slovenije held the leading share of the mobile telephony market in the third quarter of 2017.

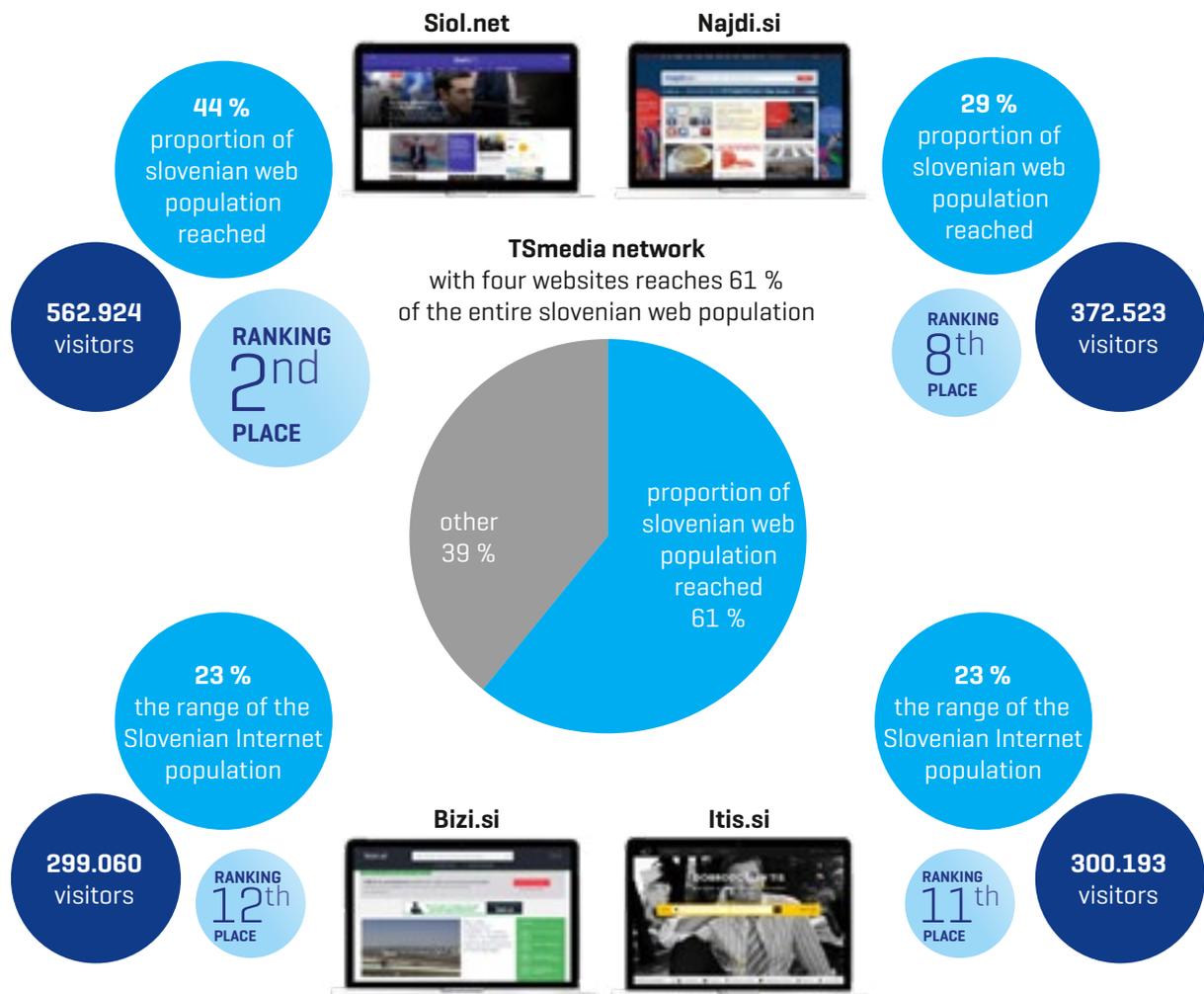
## Shares of the mobile telephony market in Slovenia



Source: Report on the development of the electronic communications market for the third quarter of 2017, AKOS

## ADVERTISING MARKET

With its online media in the form of [Siol.net](#), its access point to the Slovenian web ([najdi.si](#)) and the [bizi.si](#) business directory, TSmedia serves as the primary Slovenian information centre.



Source: MOSS, November 2017

## MARKETS OF SOUTH-EASTERN EUROPE

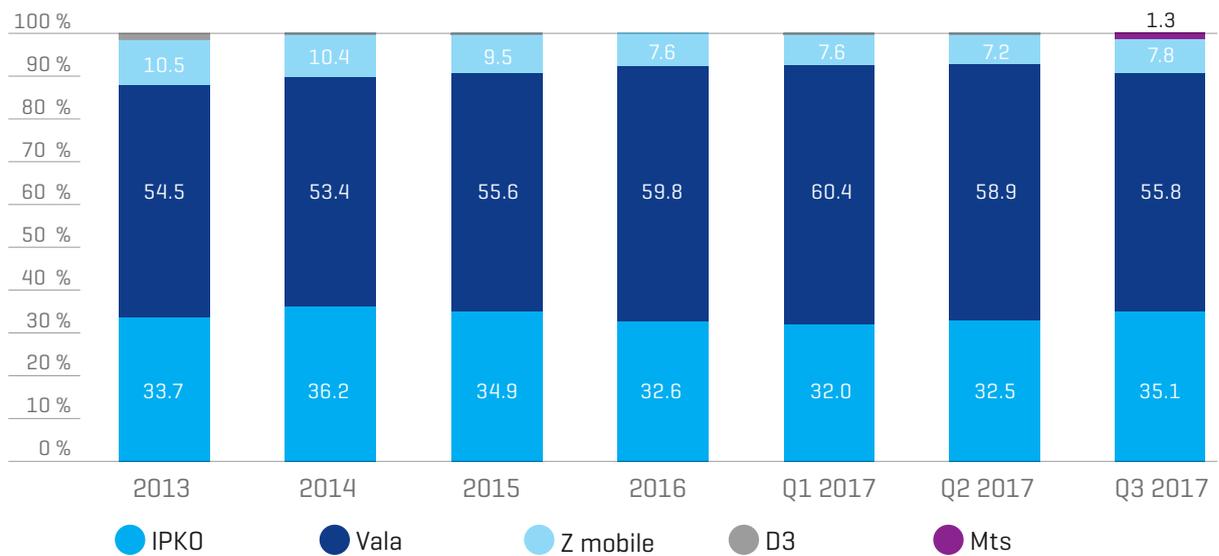
Mobile and fixed service penetration rates increased in **Kosovo** to reach a level of saturation, while the use of free OTT applications for telephony and messaging is on the rise and replacing traditional forms of communication. Revenues from mobile services continue to decline. IPKO remains the leading provider of fixed services (DTV and internet), despite growing competition from fixed operators, which include a rising number illegal IPTV operators. The company is also becoming a major player on the mobile services market. It is demonstrating a growth trend and enjoys a 38% share of revenues from the mobile market.

According to the figures of the ARKEP,<sup>40</sup> there were 274,000 fixed broadband connections in Kosovo at the end of the third quarter of 2017, with IPKO achieving a market share of 47.02%.

There were nearly 2.2 million mobile telephony users, translating to a population penetration rate of 121.6%. IPKO's market share was 35.1%.

40 Source: Kosovo regulatory authority (ARKEP), Q3 2017 report

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



Source: Kosovo regulatory authority [ARKEP], Q3 2017 report.

IPKO is the leader in the pay TV and broadband access segments. Its competitor, Kujtesa, focused on enhancing its digital programme scheme with sport content, in the form of new football content. The market is expanding, primarily in rural areas covered by the fixed network.

The number of broadband connections in Bosnia and Herzegovina is recording continuous growth. According to the regulatory authority [RAK], there were 671,068 connections in the aforementioned country in the second quarter of 2017, an increase of 5.3% on the same period 2016. The penetration rate for internet access via the fixed network was 83.5%.

There was a notable increase in the number of mobile telephony users, a rise of 2.2% relative to 2016, with the number of users reaching 3.3 million [Q2 2017]. The associated penetration rate was 94.0%. Blicnet's share of the mobile telephony market reached 0.07% at the end of the second quarter of 2017, a decrease of 0.01 percentage points relative to the same period in 2016. There is no functioning LTE network in the aforementioned country, while incumbent operators are subject to falling revenues and margins in the mobile segment due to the increased use of OTT applications.

The fixed telephony market continues to decline sharply. A total of 677,737 users have active telephone lines provided by incumbent operators [Q2 2017], a decrease of 49,000 connections relative to the same period in 2016.

## 2.6.2. MANAGEMENT OF THE PORTFOLIO OF BRANDS<sup>41</sup>

Telekom Slovenije's portfolio of brands serves as the basis for the comprehensive presentation of the services it offers its customers.

Using its single umbrella brand, which on the Slovenian market catches the attention of users through a smart yet simple, safe yet innovative, and diligent yet inspiring user experience, Telekom Slovenije is positioning itself in certain new business areas, as well. The architecture of brands on the Slovenian market is not strictly monolithic, as we are developing independent brands in response to specifically selected user segments with the aim of supporting strategic and other business areas.

As a partner brand, we also work with selected partnerships or enter into them.

The Telekom Slovenije Group's brand portfolio is formulated and developed in such a way that it facilitates a coordinated approach in a specific segment or market, and ensures the transfer of knowledge and solutions within the Group.

### CORPORATE BRAND IDENTITY

The key elements of the identity of the umbrella brand are trust and good relations, a comprehensive portfolio and the best network, Telekom Slovenije as the provider that offers users the most for their money, innovation and social engagement. We have also begun to introduce new identifiable elements, in which we wish to establish the position of the brand, such as 'simple' and 'inspiring'. We are building those elements gradually through market communication activities at all contact points with users.

The Telekom Slovenije brand remains the strongest brand in the category of comprehensive communications provider, as it achieves the highest overall spontaneous recall. It is considered

the strongest brand in the segments of mobile, fixed and comprehensive communication services, both in terms of transactions with business users (B2B) and transactions with end users (B2C). [Brand Track, autumn 2017]

Telekom Slovenije has 216 registered brands,<sup>42</sup> broken down as follows:  
151 national brands in Slovenia,  
25 European brands,  
31 international brands,  
8 national brands in Macedonia, and  
1 national brand in Kosovo.

The complete list can be found at <http://www2.uil-sipo.si/>.

The Mobitel, SiOL, Mobi, Itak and TViN brands are also registered.

The Telekom Slovenije Group comprises subsidiaries that operate on the market independently, and that 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 sub-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.

41 GRI GS 102-2

42 GRI GS 102-7

## PORTFOLIO OF TELEKOM SLOVENIJE GROUP BRANDS

Brand	Description
 <b>Telekom Slovenije</b>	<p>Telekom Slovenije is the umbrella brand and covers the entire portfolio of the Company's services for both the B2C and B2B markets. It is used for communication with all stakeholder groups (users, investors, business partners, suppliers, employees and the media). The Company also manages two partner brands. Moneta covers cashless payment services with mobile phones, while WiFreeLjubljana covers free WiFi network services.</p>
	<p>TSmedia is the corporate brand of the company that manages the following brands: Siol.net – leading Slovenian digital media; Najdi.si – access point to the Slovenian web; TIS – the universal telephone directory of Slovenia; 1188 – value-added call centre services; and ADSolution – production services that cover the B2C and B2B markets.</p> <p>Bizi.si – business directory for the B2B market; Dajmedol – VOD brand on the B2C market.</p>
<p>Antenna TV SL</p> 	<p>Antenna TV SL has its own brands, as follows:</p> <p>Planet – general commercial TV station; Planet 2 – TV with primarily sports content; and Planet PLUS – classic movie channel. The brands cover both the B2C and B2B markets.</p>
	<p>Avtenta is a corporate brand that covers the B2B market in the segment of medium-sized and large corporations, and public institutions in Slovenia and the wider region. To that end, it combines advanced and verified business solutions for the optimisation and improvement of the efficiency of companies, organisations and public administration.</p>
	<p>GVO is an umbrella brand that covers the B2B market and combines comprehensive services in the area of designing, constructing and maintaining telecommunication and electricity networks</p>
	<p>Piranske soline is an umbrella brand that covers both the B2C and B2B markets. The company manages the following brands: Solnce – food line; Lepa Vida – cosmetics line and the Thalasso Lepa Vida Spa; Sečovlje Salina Nature Park [SSNP] – logo for the park and related eco-tourism, used on park souvenirs.</p>
	<p>TSinpo is an umbrella brand for a service and disabled workers' company, and covers both the B2C and B2B markets.</p>
 <b>Blicnet</b>	<p>Blicnet is the umbrella brand in Bosnia and Herzegovina that covers the following services: 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. The brand covers both the B2C and B2B markets.</p>
	<p>Ipko is the corporate brand in Kosovo that covers the following services: mobile telephony [GSM, mobile data transfer, 3G and 4G], internet, fixed telephony [VoIP], bandwidth leasing, network interconnection, digital cable TV, convergent services (service packages), web portal (news and entertainment), email solutions. The brand covers both the B2C and B2B markets. Hej! is an independent brand for young people that covers traditional services and an entertainment platform.</p>

## 2.6.3. SALES AND MARKETING ACTIVITIES<sup>43</sup>

The Telekom Slovenije Group achieves good results in the sale of **broadband connections** on all markets. The number of broadband connections was up by 5% in Slovenia in 2017 as the result of the accelerated construction of the fibre optic access network, the widespread presence of the field sales team and successful sales of the *Modri* package. IPKO increased its number of connections in Kosovo by 7%, while Blicnet recorded an increase of 5%.

The total number of **mobile telephony** users was up by 4% in Kosovo in 2017, and by 3% in Bosnia and Herzegovina. The number of users was up by 1% in Slovenia.

We increased the total number of **VoIP connections** (in Slovenia and South-Eastern Europe) by 6%. The decline in the number of traditional fixed voice telephony connections continued in 2017, with Slovenia recording a decline of 4%. That decline represents a general trend in the developed world.

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

#### BROADBAND CONNECTIONS

Number of retail broadband connections as at	31 December 2017	31 December 2016	Index 17/16
Slovenia	214,799	204,741	105
SE Europe:	150,486	141,497	106
Kosovo	123,428	115,723	107
Bosnia and Herzegovina	27,058	25,774	105
<b>Telekom Slovenije Group</b>	<b>365,285</b>	<b>346,238</b>	<b>106</b>

#### FIXED AND MOBILE TELEPHONY CONNECTIONS

Number of retail connections as at	31 December 2017	31 December 2016	Index 17/16
Slovenia, mobile telephony	1,124,605	1,111,631	101
Slovenia, fixed voice telephony	343,084	357,674	96
SE Europe, mobile telephony:	685,203	657,754	104
Kosovo	682,570	655,193	104
Bosnia and Herzegovina	2,633	2,561	103
SE Europe, fixed voice telephony	1,204	1,204	100
<b>Telekom Slovenije Group</b>	<b>2,154,096</b>	<b>2,128,263</b>	<b>101</b>
VoIP connections			
Slovenia	192,563	180,159	107
SE Europe	19,414	19,196	101
<b>Telekom Slovenije Group</b>	<b>211,977</b>	<b>199,355</b>	<b>106</b>

43 GRI PA4, GRI GS 102-2, 102-6, 102-7

## NUMBER OF MOBILE AND FIXED TELEPHONY CONNECTIONS / SERVICES

Number of retail connections as at	31 December 2017	31 December 2016	Index 17/16
Total mobile telephony	1,809,808	1,769,385	102
Total fixed voice telephony services*	556,265	558,233	100
<b>Telekom Slovenije Group</b>	<b>2,366,073</b>	<b>2,327,618</b>	<b>102</b>

\* Sum of fixed voice telephony connections and VoIP services.

## NET SALES REVENUE OF THE TELEKOM SLOVENIJE GROUP

The Telekom Slovenije Group generated net sales revenue of EUR 716.2 million in 2017, an increase of 2% or EUR 14.4 million relative to 2016.

## BREAKDOWN OF NET SALES REVENUE BY COMPANY<sup>44</sup>

in EUR thousand	2017	2016	Index 17/16
Telekom Slovenije	645,190	639,471	101
Other companies in Slovenia	90,049	57,676	156
IPKO – Kosovo	71,199	69,462	103
Other companies abroad	20,559	21,291	97
<b>Total unconsolidated</b>	<b>826,997</b>	<b>787,900</b>	<b>105</b>
Eliminations and adjustments	-110,823	-86,152	129
<b>Telekom Slovenije Group</b>	<b>716,174</b>	<b>701,748</b>	<b>102</b>

## TELEKOM SLOVENIJE

Telekom Slovenije's net sales revenue was up by EUR 5.7 million or 1% in 2017 relative to 2016, to stand at EUR 645.2 million, primarily due to higher revenues on the wholesale market, and higher revenues from broadband and IT services, despite the optimisation of 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.

### B2C

In the **mobile services** segment, we simplified the portfolio of mobile subscriber packages with three lines of packages that each address a specific target group. The *Enostavni* [Simplified] packages are intended for users who wish to pre-purchase a certain number of units and use them as they see fit. The second line comprises the *Dostopni* [Accessible] packages, which are available to private and business users. Those packages facilitate unlimited communications and a larger quantity of data transfer both at home and in countries covered by the EU tariff. The third line comprises mobile packages for young users marketed under the name *Neodvisni* [Independent], in the form of *Neodvisni A* and *Neodvisni B*.

In accordance with the amended regulation governing mobile data transfer, we ensured that subscribers can communicate worry-free at home and in countries covered by the EU tariff. We launched new mobile internet subscriber packages to address the ever increasing use of mobile data transfer.

In the area of **convergent services**, we enhanced the user experience on all screens with 360-degree services, seven-day back viewing and the *Daljinec* [Remote Control] service.

44 GRI GS 102-7, GS 201-1

In Telekom Slovenije's **Online Shop**, we offer users quick, secure and simple ordering 24 hours a day. Users have at their disposal a wide range of mobile phones, tablet computers, PCs, televisions and additional telephony equipment, while other products are also being introduced in the portfolio. We introduced the ordering of mobile phones with the conclusion of a mobile subscriber agreement and the placement of orders from the Loyalty Programme with the sending of a text message via a single click. The subscribers of fixed services may also place orders via Telekom Slovenije TV with a single click.

In the area of **advanced payment services**, we made it possible for users to purchase digital content in the form of mobile applications via the Google Play Store, with purchases billed via Telekom Slovenije invoices. Users thus make nearly 10,000 such purchases a month.

**Insurance** represents one of the new services we offer outside our core activity. Insurance for mobile devices is a product that employees in Telekom centres marketed very successfully in 2017. Several new features will be introduced in this area in 2018.

We made it possible for users to purchase **electricity** at the end of 2016, and marketed those services intensively in 2017. As expected, electricity customers primarily comprise existing subscribers to our communication services. The response of users in the more than one year since we began offering this service has been positive, and we expect a positive trend to continue in the future.

We developed the new *Enostavni* [Simplified] business package for **small and medium-sized business users** and the Office 365 turnkey service, which ensures secure operations and improved recognition on the web [webpage design]. We upgraded internet speeds for business packages that include FTTH technology.

We offered **associations and similar organisations** the new *Članstvo* [Membership] service, which facilitates the simplified management of data regarding members and the simplified billing of membership fees and services using Moneta.

### **Points of sale and sales network**

We renovated the last Telekom centre in 2017 (the Postojna Telekom centre), and thus completed the project to standardise the appearance of all sales centres.

We are actively enhancing the marketing of additional services, electricity and insurance for mobile phones via all sales channels. We began marketing the eCare service during the second half of the year.

In response to changing purchasing habits, we transformed field sales and formed a permanent team that provides advice and markets Telekom Slovenije's services in the field. The field team is bringing the Company even closer to our users. We therefore introduced a new information solution that resulted in the structured flow of sales and thus the creation of new opportunities.

### **B2B**

In terms of managed services for **large business systems**, we updated the portfolio of data services and developed new mobile data packages. We migrated the services of subscribers and provided them new functionalities with the aim further improving the user experience and the quality of services, and maintaining existing subscribers and attracting new subscribers. We entered into partnerships in the provision of new innovative services in the area known as 'omnichannel', and ensured further growth on the market, from application to human, with the help of SMS.

The most important new feature in the portfolio of business users in 2017 was the introduction of **vertical business sales**. Our regional approach is being enhanced through the identification of verticals and their specifics. We are thus adding value to our solutions in the eyes of users and increasing profitability. Our approach is tailored to the needs of specific industries, with an emphasis on the security of solutions and adaptations to the specific needs of a company, which is afforded the opportunity to optimise its processes for the long-term success of its operations. To that end, we are developing a comprehensive and systematic solution to the digitalisation of operations.



### LOCAL ADMINISTRATION

We are transforming local services through the use of the most advanced technologies and creating platforms for the local communities of the future.



### PUBLIC ADMINISTRATION

By upgrading the existing infrastructure, we are creating new, citizen-friendly and safe e-services, adapted to lean e-government.



### FINANCE

We are improving links with financial markets, opening opportunities for on-demand services and transforming traditional banking models, with an emphasis on an excellent user experience and security.



### RETAIL AND TOURISM

Using various communication channels, we are linking suppliers and service providers, and bringing the digital user experience closer to even the most demanding customers.



### PRODUCTION AND INFRASTRUCTURE

We are facilitating increased productivity, automation and cost management through the use of the internet of things.



### SERVICES AND LOGISTICS

We are transforming information and communication technologies for the needs of the user-oriented service industry in the digital age.

## ICT services

The most significant growth achieved in 2017 was in managed ICT services, where using various business models we offer a broad portfolio of services together with equipment. During the age of digitalisation, companies are increasingly focused on their core activity and the search for competitive advantages. They are also looking for solutions for the effective provision of new and existing ICT services outside of previously established boxes.

Telekom Slovenije is a Microsoft Premier Support Partner with the status of Microsoft LSP [Licensing Solution Provider] for the provision of consultancy services and the management of Microsoft licence agreements with major customers. We have also earned the status of Microsoft CSP [Cloud Solution Provider] for the sale of Microsoft Office 365, Azure and Express Route services.

We likewise hold the Cisco CMPS [Cloud and Managed Services Program] certificate for MPLS VPN [virtual private network] services and IaaS

[infrastructure as a service]. We enjoy the HP Gold status for the sale of HP equipment and are certified as a Silver Networking Partner. We have passed the required certification process in connection with VMware AirWatch, which makes it possible for us to sell leading mobile device management solutions, i.e. Enterprise Mobility Management [EMM].

We have become a member of the Oracle PartnerNetwork [OPN], signed a CSA [Cloud Service Agreement] and submitted an application to become an Oracle Cloud MSP [Managed Service Provider] partner. We will thus market IaaS and PaaS on the Oracle cloud platform, through which we will be able to offer large users the migration of their entire server infrastructure to the cloud. These statuses have allowed us to secure transactions and conclude agreements with some of the largest users of ICT services.

We have also entered the AaaS [applications as a service] market. We thus actively marketed such services in 2017, including SAP as a service, document systems as a service and a mobile

service platform [MSP]. We also work actively with the developers of specific-purpose application solutions. We have expanded our portfolio with new services, such as IoT, big data, information security services, etc.

## INTER-OPERATOR SEGMENT [WHOLESALE]

### DOMESTIC WHOLESALE SERVICES

Revenues from the domestic wholesale market in 2017 were up by 2% relative to 2016. That increase was driven primarily by revenues from broadband operator services on the FTTH and GPON networks, the leasing of premises at base stations, the leasing of dark fibres and national tracking services.

### INTERNATIONAL WHOLESALE SERVICES

Revenues from international wholesale services were also up in all segments of operations [voice and data services, and roaming services] in 2017. Special attention was given to cost control in the area of roaming services, as the traffic of Telekom Slovenije's subscribers in countries covered by the EU tariff is rising sharply as the result of roaming services on the single market ['roam like at home'].

Telekom Slovenije's key strategic advantage is its regional fibre optic network, which links major cities and areas in the region. We thus ensure the highest quality of services, while we sell free capacities on the regional network to our international partners and large end-users on the wholesale and retail markets.

## Telekom Slovenije's regional optical network



Coverage and stability of the mobile network

## TSMEDIA<sup>45</sup>

TSmedia's net sales revenue in 2017 in the amount of EUR 6.4 million was down 7% relative to the previous year, primarily due to a decline in revenues from maturing products (e.g. the telephone directory and 1188 services).

TSmedia operates on the market as the leading provider of digital media content and advanced advertising solutions in Slovenia. The company co-creates the 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](#)), the [bizi.si](#) business assistant, the only official telephone directory in Slovenia ([itis.si](#)), and outdoor digital screens with important information and dynamic advertisements. In 2017 TSmedia expanded its network of digital jumbo billboards to regional centres and a network of screens throughout Slovenia.

The content of the Siol.net online media was upgraded and enhanced with the new section [#sampovem](#). The latter involves so-called user generated content (UGC) that users generate themselves by posting photos based on topics recommended by the editorial staff. The platform presents a new opportunity for the sale of sponsorships.

Under the **ADsolution** brand, TSmedia offered its subscribers a comprehensive package of content solutions for the execution of advertising campaigns tailored to the needs of subscribers.

## ANTENNA TV SL

Antenna TV SL generated net sales revenue of EUR 9.8 million in 2017. The company is the broadcaster of the Planet TV programme, which offers viewers high-quality content of local and foreign production.

It has established itself on the market in several segments:

- through a portfolio of high-quality content of own production (news, entertainment shows, quizzes and series) and foreign production (movies and series);
- through a portfolio of advanced media and digital advertising solutions, and a range of specialised media content for niche target groups, with the

possibility of broadcasting using all advertising and content platforms (TV and other forms of media within the Group, such as Siol.net); and

- through its cable TV channels.

## 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 8.3 million in 2017, an increase of 8% on 2016. 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.

Avtenta enhanced its competences in the area of SAP solutions and paperless operations, and strengthened its strategic development in the SME segment via Telekom Slovenije's sales channel. In the next strategic period, Avtenta and Telekom Slovenije will join forces to continue the aggressive marketing of package solutions, including SAP and BusinessConnect cloud solutions.

## 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 construction and maintenance of infrastructure facilities.

The company's net sales revenue was up by 58% in 2017 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 for freight vehicles. The company also recorded higher revenues from the management and maintenance of open broadband networks managed by GVO, where it achieves continuous growth in the number of active connections.

45 GRI TA2

## SOLINE

Soline generated net sales revenue of EUR 4.1 million, a decrease of 1% relative to 2016. Under the Lepa Vida brand, it has expanded its portfolio of products and retail outlet network, both at home and abroad, which resulted in an 8% increase in revenues from the sale of goods in traditional and online shops.

## IPKO

IPKO generated net sales revenue of EUR 71.2 million, an increase of 3% relative to 2016. IPKO offset declining revenues from international calls due to the increased use of free OTT applications with higher revenues on the end market, as the result of the migration of prepaid users to subscribers, and the associated higher average revenue per user. Revenues were up in the fixed segment due to an increase in the number of broadband and TV users, and an increase in revenues in the wholesale segment as the result of increased transit traffic.

IPKO celebrated ten years of operations in 2017. Despite an aggressive competitive environment, IPKO became the most stable telecommunications operator in Kosovo, with more than 750,000 mobile telephony users. It offered its users revised data packages, and data roaming packages within the region, in countries covered by the EU tariff, and in Switzerland and the US. It offered its digital TV and internet subscribers the special IPKO Super Duo Plus package, and relaunched the PIKA loyalty programme, in which users may exchange points for discounts and/or vouchers via a web portal.

## BLICNET

Blicnet generated net revenues of EUR 18.1 million in 2017, a decrease of 4% relative to 2016. That decrease was primarily the result of a decrease in revenues from transit traffic on the wholesale market.

Blicnet offers its users in Bosnia and Herzegovina analogue and digital TV, internet, and fixed and mobile telephony. Blicnet replaced analogue TV services with digital TV services in 2017, and included Kopernikus programmes in its TV programme scheme.

## 2.6.4. RESPONSIBILITY TO USERS<sup>46</sup>

### SIGNIFICANT ACTIVITIES IN 2017

During 2017 we dedicated a great deal of attention to harmonising our operations with new EU laws and regulations. Taking into account EU regulations, we updated general terms and conditions on the use of our services, as they relate to open internet access, universal services, users' rights and roaming on public mobile communications networks within the EU. To that end, we also adapted the manner in which we notify subscribers and the users of prepaid mobile telephony services.

As a socially responsible company, Telekom Slovenije dedicates special attention to energy and environmental management, and promotes the use of electronic operations. With the aim of digitalising processes and introducing digital signatures, we introduced electronic signatures via SMS for the signing of orders of mobile and convergent services. In particular, we also recommend electronic invoices for all of our users. We thus facilitate e-invoices via electronic banking systems and email. Last year more than 10,000 users migrated to e-invoices, bringing the proportion of total invoices accounted for by e-invoices to 17.8%.



0.42%  
PROPORTION  
OF COMPLAINTS



9.8 million  
NO. OF ISSUED  
INVOICES

<sup>46</sup> GRI GS 103-1, 103-2, 103-3, GS 102-43

We also demonstrate our responsibility to users via the Telekom Slovenije Loyalty Programme, which was joined by 36,500 new members in 2017. Members exchange accumulated points for numerous benefits, more than half of them independently online or via SMS. Members also manage services independently via the **Moj Telekom** portal, which is gradually contributing to a reduction in the burden on support contact centres and Telekom Slovenije's points of sale. Access to numerous settings, the activation of services, basic information and even an overview of usage is possible on PCs and tablet computers, and using a mobile application and the TV communicator. We also made it possible for users to file invoice-related complaints and thus took another step towards a better user experience. We are planning several additional functionalities that will contribute to the increased use of the portal. In 2017 we recorded an increase of more than 25,000 in the number of subscribers who registered a unique personal Telekom ID, which facilitates the safer and simplified management of relations, access to data, the monitoring of costs, the ordering of services, etc. There was a nearly 20% increase in such subscribers on last year.

## COMMUNICATION WITH USERS AND TECHNICAL HELP DESK SERVICES<sup>47</sup>

Contact centre teams were reorganised with the aim of increased efficiency, targeted training and the efficient delegation of tasks. As the basis for enhancing the user experience, we introduced the monitoring of user satisfaction during calls through use of the NPS indicator, in accordance with recommendations.

Our contact centres received 1,112,805 calls in 2017 from users requiring general and sales-related information. We made 57,565 successful promotional calls and responded to 123,338 user messages via [info@telekom.si](mailto:info@telekom.si). We also assisted users via Twitter and Facebook, which represent an additional channel for communication with users.

## Online communication in contact centers



2.018

Twitter



8.880

Facebook

## TECHNICAL HELP FOR USERS

We answered more than 823 thousand incoming calls in 2017, a decrease of 11% relative to 2016, while the response success rate was 75.8%. We also made 185,000 outgoing calls and 71,000 other outgoing contacts (via email and SMS). We handled 243,500 contracts via other communication channels (the ISP portal, SMS, reporting of errors via email, webchat and web portal), an increase of 25% relative to the previous year, which indicates a shift in the form of communication with users from voice to other channels. As a result, the response time to incoming calls averaged 4 minutes and 26 seconds, a slight increase relative to 2016. The increasing complexity and range of services lead to an increase in call durations, which averaged 4 minutes and 48 seconds on an annual basis. We handled a total of more than 308,000 service-related cases, an increase of 5% relative to the previous year.

## TRANSPARENCY IN THE CHARGING OF SERVICES<sup>48</sup>

In accordance with the directive of the Bank Association of Slovenia, we introduced a new universal payment order with a QR code, while were also included in the migration of new transactions accounts for the users of e-invoices due to the merger of Slovenian banks. We upgraded our e-invoice so that subscribers can also file potential complaints regarding invoices via electronic banking systems. We continued introducing changes with the aim of improving the understanding of invoices and thus the user experience.

Telekom Slovenije issued nearly 10 million invoices for services. The overall complaint rate relative to the number of invoices issued was 0.42% compared with 0.35% in 2016.

47 GRI GS 102-43, 102-44

48 GRI PA10

## CONCERN FOR THE SECURITY OF CHILDREN AND ADOLESCENTS<sup>49</sup>

Strong ties with users and their satisfaction are crucial to the success of our operations. User satisfaction is therefore the guiding principle of our operations. To reinforce that satisfaction, we continuously focus our activities on ensuring a high-quality user experience that is also simple and safe.

Special attention is also given to the safe use of communication services by children and adolescents. Telekom Slovenije and the Logout organisation thus developed the *Moja prva pogodba* [My First Contract] project, aimed at raising awareness about the healthy, responsible, balanced and safe use of mobile devices, and at providing information and assistance to parents regarding the upbringing of children in a digital world. The project includes guidelines for parents with recommendations on when and how to introduce a child to the use of a mobile phone, and the first contract which parents or guardians sign with a child or adolescent and lays down rules on the use of a mobile phone.

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.

In the scope of Telekom Slovenije's TV services, access to *Dajmedol* adult content 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. The entry of a password is also a prerequisite for the purchase of other TV content, while modems also facilitate the setting of so-called parental control. This means that parents can enter the addresses of websites that they want to prevent their children from accessing. More advanced modems also have

a 'timer' that allows a user to set the time periods in which services [e.g. internet and VoLTE] are available. We also facilitate a setting to limit the use of mobile data transfer to avoid the excessive or uncontrolled use thereof.

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.

Users can protect their devices by installing the [Kaspersky security package](#). 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 continuously adapt the portfolio to vulnerable user groups. We thus provide **disable persons** the appropriate services, terminal equipment and a list of public telephones and terminals accessible by wheelchair. The portfolio includes the *Gluhi A* mobile package for the deaf and hearing impaired, which facilitates worry-free communication. **Volunteer protection and rescue organisations** are offered mobile service packages with no subscription fee.

We offer **pensioners and seniors** over the age of 60 the *Penzion* package, which brings them an additional discount on selected fixed and mobile packages, as well as special promotional offers. We organised an exhibition area at the Third Age Festival, where we presented the current portfolio for pensioners. We presented the innovative eCare service, which facilitates active and safe living at home for anyone requiring assistance for independent living in the home environment. We joined pensioners at numerous events organised by regional associations of pensioner societies in Slovenia, where we advised older users about the use of smart phones and communication services.

49 GRI G4-DMA, G4-M4, PA2

We also offer parents and young families services in the area of telecare, i.e. remote medical assistance. **SOS Zdravnik** (SOS Doctor) is a 24-hour medical hotline that provides users remote medical assistance, even when travelling abroad. The **SOS Mobilni** (SOS Mobile) and **SOS Doma** (SOS Home) services are always available and easy to use, as they function with a single call or by pressing an SOS button on a mobile or fixed telephone device. Those services are being replaced gradually by the more innovative **eCare** service. More information is available on the Company's website at <http://www.telekom.si/zasebni-uporabniki/telefonija/teleoskrba#sos-zdravnik>.<sup>50</sup>

Our portfolio of services also includes **iHealth** devices that facilitate the simplified monitoring of the health of users at home or while travelling. 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 SERVICES<sup>51</sup>

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 in recent years in the construction of the fourth generation LTE/4G mobile network, while investments in 2017 were also made in the more advanced 4G+/LTE-A technology. We thus covered more than 98% of the population with the LTE/4G network and more than 35% of the population with 4G+ technology at the end of 2017. In areas where setting up a fixed connection is not possible, but the LTE/4G mobile signal is available, we provide users our own technological solution for the use of the internet, fixed telephony and TV services on the mobile LTE/4G network.<sup>52</sup>



Our companies in South-Eastern Europe also contribute to the provision of the most advanced technological solutions and thus the overcoming of the digital divide in their own environments. **IPKO** ensures a high level of coverage of Kosovo with its mobile signal: at the end of the year, the 3G signal covered 91% of the population, while the LTE/4G signal covered 87.4%. **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 Banja Luka region were also provided access to services in the FTTH network in 2017.

50 SDG 3.8

51 GRI PA1, PA2, SDG 9.1

52 GRI PA4, SDG 1.4

## 2.6.5. CUSTOMER SATISFACTION<sup>53</sup>

### CUSTOMER SATISFACTION WITH TELEKOM SLOVENIJE'S SERVICES

Telekom Slovenije regularly measures customer satisfaction. Those results represent an important guide to us in the development and upgrading of services tailored to users. Users emphasise the following as the most important advantages of our fixed services over other operators: the extensiveness of the network, advanced services, visibility on the market, qualified experts, the inclusion of HD programmes, the breadth of the TV programme scheme, the quality of devices on offer, discounts on the monthly subscription fee, the possibility of instalment purchases of devices with no commitment and exclusive content. The highest level of satisfaction (and one of Telekom Slovenije's competitive advantages) is expressed with regard to the TV back-viewing function, picture quality and time delay.

Customer satisfaction with Telekom Slovenije's mobile services is the result of the high-quality functioning of voice services, reliability, coverage, the stability of the network, the wide selection of and payment methods for mobile phones and devices, the qualifications and commitment of sales staff, and our social responsibility.

### Main competitive advantages of Telekom Slovenije



Coverage and stability of the mobile network



Extensiveness of the fixed network



TV back-viewing, time delay and picture quality



High-quality functioning of voice services



Visibility on the market and reliability of the operator



Advanced services

### SATISFACTION WITH TELEKOM SLOVENIJE'S POINTS OF SALE

We also measure the satisfaction of visitors to points of sale, and satisfaction with contact centres and responsiveness to questions sent via email to [info@telekom.si](mailto:info@telekom.si). Satisfaction is measured twice a year through mystery shopping research. All channels receive high satisfaction ratings, which are on the rise.

53 GRIGS 103-1, 103-2, 103-3, GS 102-43, 102-44

Visitors to Telekom Slovenije's points of sale express the highest level of satisfaction<sup>54</sup> with the following factors:

	Orderliness of surroundings and the interior of branches
	Atmosphere at Telekom centres and the orderliness of staff
	Greeting and approach of staff, eye contact, and engagement and commitment
	Proactivity, understandable advice and in-depth knowledge of services/goods.

### NET PROMOTER SCORE (NPS)

We established the measurement of customer satisfaction [Net Promoter Score<sup>55</sup>] in 2017 at contact points that are vital to Telekom Slovenije. After visiting a contact point, we ask users a simple question: Would they recommend Telekom Slovenije to a friend or acquaintance based on their most recent contact?

Different activities and events on the market, including the activities of the competition, affect the value of the NPS. Telekom Slovenije ranks in the top third compared with the NPS of telecommunication operators from other markets. Telekom Slovenije is likewise well-positioned and comparable with other sectors.

### 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 with the help of focus groups and through the monitoring of users' opinions. It is not currently possible to show these data due to differences in the product portfolio and methodologies. TSmedia performs analyses and research both for itself and Antenna TV SL.

**Avtenta** measures customer satisfaction in the form of research in which it also measures the NPS. Users state the stability of operations, solutions that meet the needs of users and the understanding of their needs as the main advantages of Avtenta. The satisfaction index is stable. The number of users who would recommend Avtenta rose last year.

**GVO** regularly measures customer satisfaction after the completion of construction works using a questionnaire, and once a year by performing an analysis in accordance with the ISO 90001 standard. Assessments of 'excellent' and 'very good' were predominant in 2017 [89% from Telekom Slovenije and 75% from external ordering parties], meaning that the work that GVO performs is of the requisite quality, timely and professional.

**Ipko** regularly monitors user responses in Kosovo via social networks, and measures customer satisfaction through a telephone questionnaire and quarterly quantitative studies. Customer satisfaction with mobile services has risen in recent years. Customer satisfaction with IPKO's fixed services has also improved in all segments. Satisfaction with both internet and digital TV services was higher.

**Blicnet** monitors customer satisfaction on a monthly basis via the number of complaints received and interventions. It also measured NPS for the first time at the end of the year.

54 Mystery Shopping Research [second half of 2017]

55 Metric for monitoring the user experience, which in one point combines the indicator of a user's willingness to recommend a company/product/service, user satisfaction, perception of user experience excellence and an expression of the user's loyalty to a provider.

## 2.6.6. MARKET COMMUNICATION<sup>56</sup>

The trends of stiff competition and a dynamic environment continued on the telecommunications market in 2017. Our market communication activities therefore focused on various segments, to which we presented new solutions and an enhanced portfolio of services. Our numerous activities also included two campaigns that were used on social networks, as well.

The aim of the first, referred to as a **'Citylight campaign'**, was to highlight the contemporary communication technologies that help us discover and achieve more. To that end, we brought the stories of individuals from the streets of Ljubljana to the digital world, where we could tell those stories in full, expand their scope and involve a large number of people. We are proud of the short videos recorded at all locations in Ljubljana, which we published on Telekom Slovenije's profiles on social networks and in that way shared those stories with all of Slovenia.

The second campaign under the name **'Za naše'** is a long-term platform of Telekom Slovenije that links all areas of sponsorship. As part of the campaign, we created a unique cheerleading dance with the aim of sending positive energy to athletes so that they might achieve the best possible results throughout the season. Athletes who participated in the campaign included Ilka Štuhec, Štefan Hadalin, Ana Bucik, Jakov Fak, Filip Flisar and Domen Prevc. Numerous other athletes and stars supported by Telekom Slovenije also participated. We developed the website [www.zanase.si](http://www.zanase.si) and the hashtag #zanaše for social networks.

We launched a new, blue creative platform on the market where we combined communication about the Loyalty Programme, and mobile and *Modri packages*. The key elements of the revamp were the use of the colour blue and a new way of using visual motifs.

**PRIVOŠČITE SI MODRO**

PAKETI MODRI

📱 + 📺 + 📺 + 📞

PRIHRANITE DO **324€\*** PRVO LETO

www.telekom.si TelekomSlovenije

TelekomSlovenije

**ODLOČITA SE MODRO**

MOBILNI PAKETI DOSTOPNI CENEJE ZA DVA

PRVO LETO VSAK ZE OD **899€\*** /MESEC

www.telekom.si



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

We developed a new platform for annual communication with the slogan **‘Vi podpirate Slovenijo, mi skrbimo za vas’** [You support Slovenia, we take care of you] for the SME segment. We used the platform to inform users that our business portfolio allows them to operate safely, effectively and without worry.



We developed more than 60 pieces of print material and eight catalogues to achieve our established communication objectives and sales targets. We introduced the following new feature: We upgraded the business catalogue for the first time with interactive content, i.e. with the **VizionAR** application, which facilitates augmented reality. Using simple icons, that application takes the viewer through basic and supplemental portfolios of business packages, and presents the breadth and comprehensiveness of the business portfolio. The application also facilitates the 3D-viewing of certain mobile phones.

We also organised numerous **events and promotions**, through which we created opportunities for continued direct communication with our existing users and potential new users. To that end, we organised 24 events, 19 promotions at events and two fair presentations in 2017. For the Telekom Slovenije Group’s key business users, we organised two business events, four regional meetings and two vertical events, where we presented specialised topics from the areas of finance, manufacturing and the infrastructure.

We have noted an increased number of visitors to the main [www.telekom.si](http://www.telekom.si) website, where we recorded 28.8 million visitors in 2017 (2016: 21 million), which resulted in more than 84 million views (2016: 67 million). Already 15.5% of interactions and 6.3% of all transactions by residential users are carried out via digital channels. On all social networks where Telekom Slovenije is present (Facebook, Twitter, Instagram, YouTube and LinkedIn), we have one of the largest bases of followers among companies in Slovenia who transact directly with users. Requests for information and user technical support via social networks continue to rise.

### Presence on all social networks [Followers]



195.150



12.400



3.680



1.850



3.530

We dedicated special attention to direct communication with users, to whom we presented our services through more than 350 segmented direct marketing campaigns. We informed users about the current portfolio and promoted sales via direct email, through which we also sent them general notifications. We sent 200 emails to 7.5 million email addresses in 2017.

In their marketing communication activities, Telekom Slovenije and TSmedia comply with regulations deriving from the Media Act, while both companies 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/](http://www.soz.si/projekti_soz/dobra_praksa/)]. IPKO also respects general professional advertising codes.<sup>57</sup>

No Telekom Slovenije Group companies were deemed to have breached codes or voluntary standards in the area of marketing communication in 2017.<sup>58</sup>

57 GRIGS 103-1, 103-2, 103-3

58 GRIGS 417-3



NETWORK AND TECHNOLOGY

# SUPERIOR

WE BELIEVE THAT THE DIGITAL WORLD BRINGS NUMEROUS OPPORTUNITIES. WITH OUR PARTNERS, WE ARE DEVELOPING SOLUTIONS THAT, WITH THE HELP OF THE MOST STATE-OF-THE-ART TECHNOLOGIES, SIMPLIFY THE LIVES AND PROTECT THE WORLD OF OUR USERS.



## SIMPLIFYING LIVES

Through 4G+ technology, we facilitate even higher data transfer speeds, and even faster and more reliable access to the mobile internet.

## 2.7. NETWORK, TECHNOLOGIES AND IT

### 2.7.1. RESEARCH AND DEVELOPMENT SERVICES<sup>59</sup>

Telekom Slovenije participates in numerous international research and development projects that 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,
- critical public services, such as emergency call services, and
- data mining and big data services.

Presented below are the major research and development projects in which Telekom Slovenije participated in 2017.

In 2017 we successfully completed the European **SUNSEED** project [<http://sunseed-fp7.eu/>], which was coordinated by Telekom Slovenije in the scope of the EU FP7 programme. Nine partners from six countries participated in the project, whose total value was EUR 4.7 million. The aim of the project was to establish a pilot smart grid in Slovenia, in which the transfer of data flows through various access technologies (the mobile network, fixed connections and satellite access). The project also included the development of a technical and economic model and analyses for the most efficient use of the telecommunications infrastructure for the functioning of the smart electricity grids of the future. Handover of the project included visits to several locations by representatives of the European Commission, two assessors and representatives of project participants.<sup>60</sup>



*SUNSEED equipment (WAMS PMC) at one of Telekom Slovenije's locations*

Telekom Slovenije is also a member of the consortium of 12 European companies working on the **CHARISMA** project [<http://www.charisma5g.eu/>]. The total value of the project, which is part of the Horizon 2020 programme, is EUR 5.9 million. The project focuses on fifth generation (5G) networks. Telekom Slovenije's key role is the preparation of the environment, and the drafting of scenarios and examples of use for field testing and the validation of CHARISMA concepts, such as low latency, open access and the detection and prevention of security threats at the source.

The **ICIRRUS** consortium project [<http://www.icirrus-5gnet.eu/>] comprises a consortium of 11 international partners from the United Kingdom, France, Spain, Germany, Cyprus and Slovenia. The total value of the project is EUR 3.8 million. The aim of the project is the research and development of technologies in the access segment of the fifth generation (5G) mobile network, once prototypes from various segments are integrated in a single network. The final demonstration test will be the set-up of a pilot 5G network in Telekom Slovenije's laboratory.

The objective of the pan-European **I\_HeERO** project [<http://iheero.eu/>] is to establish a single entry point for the receipt and processing of emergency calls sent from vehicles in EU Member

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

60 SDG 7.1

States. In the scope of research and development work, we established an additional geo-redundant node [eCallNode], as part of the automated emergency call [eCall], for the receipt, decoding and storage of relevant data about an accident at the Maribor location. In addition to the basic functionality for cars, in 2017 we facilitated the transfer of additional information from a device in a vehicle involved in an accident to the 112 call centre for the purpose of accessing the waybill of that vehicle. The latter relates to the eCall for freight vehicles. This provides rescue teams key information for effective and safe measures. The event was organised by Slovenian partners in the project [Administration for Civil Protection and Disaster Relief, Iskratel and Telekom Slovenije].

Telekom Slovenije is involved in the **NEXES** [<http://nexes.eu/>] project, the aim of which is to implement next generation telecommunication systems in the 112 information centres. The project is valued at EUR 4 million. Telekom Slovenije facilitates roaming by the server element of the application, and offers assistance in the integration of the system with the mobile positioning system. In cooperation with the Telecommunications Laboratory at the University of Ljubljana's Faculty of Electrical Engineering and the partner Deveryware, we demonstrated the functioning of the first pan-European emergency call to the 112 number, which links a roaming mobile user abroad to the nearest 112 call centre.

We are also part of a consortium of 25 partners in the development of the **EkoSmart** research programme [<http://www.ekosmart.net/sl/ekosmart/>]. The objective of the programme is to develop a smart city ecosystem with all of the support mechanisms required for the efficient, optimised and gradual integration of individual areas into a unified and coherent system of value chains. The aim of providing high-quality services to the population and business sector is to improve the quality of life and stimulate growth in general prosperity.

## 2.7.2. CORE NETWORK<sup>61</sup>

Within the core network, we ensure the basic functionalities of the fixed and mobile network [mobility, broadband access, services, security and billing source], as well as system integration for ICT systems and services for residential and business users. To that end, we ensure control over functional quality, technical help desk services and fault clearance. In 2017 we followed the Company's strategy for the management of a reliable, modern, secure, high-quality and optimally functioning core ICT infrastructure and services. The latter are available to users, regardless of the access technology, in all segments of the market, on local or foreign networks. We make this possible based on modern control and support systems, thorough verification of technologies, effective centralised control and the continuous clearance of system- and service-related faults. Elements of the core network 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,
- data centres with managed services in the public cloud,
- platforms for value-added services, and
- continuous control [24 hours a day, every day of the year] of the entire network and services, technical support, security, the development of control and support system technology, and quality control.

We carried out extensive upgrades and increased the capacities of various segments of this technology in 2017. We thus completed the upgrade of the aggregation network, while we upgraded the MPLS core to 100G technology due ever increasing traffic flows. Both make it possible for us to manage a modern network that is easier and more cost-effective to upgrade in order to ensure the necessary capacities in the future. We also upgraded the mobile core [MSS]. As part of that upgrade, we 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 project. We also offered support to ensure compliance with the ISO 27001 and ISO 22301 systems. We supported the connection of international telephony traffic to the new system for detecting and preventing fraud. We were also active in more than 100 ICT implementation

61 GRI PA6

and support projects, and in the development of the fifth generation (5G) mobile network, the internet of things (IoT) and NFV/SDN technologies. We participated in various working groups in the areas of development and regulations (the new ZEKOM, frequencies, 3a and 3b, VULA, GDPR, etc.). During the year we provided users the VoLTE (Voice-Over-LTE) service, made all necessary preparations for the testing of the VoWiFi (Voice-Over-WiFi) service with leading manufacturers of terminal equipment, and upgraded the entire aggregation and core network to facilitate the LTE-Advanced/4G+ technology. To that end, Telekom Slovenije was the first Slovenian operator to receive the MEF CE 2.0 certificate, which demonstrates the reliability and technological sophistication of the network in accordance with the highest international standards.

For IPKO, we established roaming on the UDC system and made all necessary preparations for the roaming of the SMSC platform. We also established a test support system for Kosovo's migration to its own international calling code. Many of our activities focused on the project to deploy an electronic toll collection system (data centre infrastructure, linking of portals, control and call centre, etc.).

We continued with the development and management of international roaming, and by the end of year had established operations with a number of international networks, as follows:

- 436 GSM relationships (in 208 countries),
- 203 UMTS relationships (in 103 countries),
- 306 GPRS relationships (in 139 countries),
- 159 CAMEL relationships (in 84 countries), and
- 45 LTE relationships (in 35 countries).

## FUNCTIONING OF THE SERVICE-OPERATIONAL CENTRE (SOC)

In 2017 we began the development of a modern Service-Operational Centre (SOC), which will be responsible for the operational functioning of Telekom Slovenije's infrastructure and cover activities in the area of information security (Security Operational Centre).

We continued to optimise processes and support functions with the aim of simplifying work processes, achieving transparency and ensuring an even better user experience. Two

major projects were implemented in the scope of those activities: the establishment of a process from the identification of a sales opportunity to implementation and the assumption of management, and the standardisation of the entry of sales of services and SLAs in back-office systems, together with the possibility of using that data in the actual provision of services. We created a working group in this area that is responsible for ensuring the quality of services in the business solution segment.

## DEVELOPMENT OF TECHNOLOGIES

With regard to the internet of things, Telekom Slovenije successfully tested the standardised NarrowBand IoT technology, a low power network technology that uses the existing network infrastructure. It is intended for the effective communication of a wide range of devices (up to 50,000 on one network cell), both across a broad geographical region and within a city infrastructure, while it is also intended for data flows between those devices. It is appropriate for devices that generate a low amount of data traffic, such as sensors. Those devices rely on batteries and typically have a long life cycle. We also carried out numerous activities in the area of fraud prevention (e.g. the CAFS project) and with regard to new SIM card technology (eSIM), and launched the *Modri bot* project to digitalise technical support. A great deal of attention was given to the development of systems to support contemporary services, such as telemedicine, smart homes, the expansion of digital and internet services, and virtualisation. A WITBE OTT system was established to control the quality of TVIN and Trio LTE services. OSSs (Network Engineer, CNEEKS, SLAM, HDM and UNOS Remedy) were upgraded and consolidated, and adapted as required due to the transformation of the BSS. We also implemented a WFM system for the needs of the access network, and tested and installed new network equipment. In the area of technology, we received or renewed the VMware Airwatch, ITIL Foundation and PRINCE 2 certificates.

## SUPPORT FOR THE DEVELOPMENT OF ICT SERVICES

In the scope of support for the development of ICT services, we carried out the geo-redundant set-up and virtualisation of hardware for the needs of IP telephony for business users, and established a single CAFS security system for fixed and mobile users. The aforementioned system facilitates the verification of calls for the purpose of preventing fraud. We upgraded the MPS system, which supports the functionality of locating LTE users in connection with the processing of big data. We shut down EWSD exchanges and the ENVOX system with the migration to the IP network. We also migrated users from the CIRPACK system to the IMS platform, together with OSS/BSS support for service billing needs. We revamped support for Microsoft technologies, and made preparations for the second phase of the upgrading and expansion of the advanced system for the virtualisation of data storage disk systems. Using internal knowledge, we developed a graphical user interface of the control panel for the billing of services rendered in EU countries and elsewhere around the world. We also developed an application for managing coloured numbers and an application for controlling signal connections and notifying maintenance staff. We supported the development of a technology for financial services (e-wallet) and healthcare services.

## DEVELOPMENT OF THE ICT INFRASTRUCTURE

In 2017 we completed the upgrade of the aggregate segment of Telekom Slovenije's IP/MPLS network. We also completed the introduction of a new EPG redundant system in Maribor, and disconnected old radio controllers and ATM and DXX devices from the network. We actively participated in pre-sale and implementing activities for the needs of the commercial market, with regard to the provision of the services of public administration and large business systems. Significant activities relating to the development of the ICT infrastructure primarily comprise the project to upgrade the Exadata platform in Ljubljana and Maribor, the consolidation of network environments and the migration of systems from the Mobicore network to the SDP network, which has been largely completed, and the consolidation of the ExSiol infrastructure. We carried out a number of activities in the scope

of the electronic toll collection project, such as the upgrading of firewalls, protection against DDoS cyber-attacks and the establishment of a control system. In 2017 our experts received the two most prestigious certificates from the manufacturer Cisco: Cisco Certified Internetwork Expert [CCIE].

## TELEKOM SLOVENIJE BOASTS ONE OF THE MOST ADVANCED DATA CENTRES

The entire IT infrastructure for Telekom Slovenije's needs is located at two data centres in Ljubljana. The data centre at the Cigaletova location is one of the most advanced in Slovenia, and is thus leased by the largest business systems looking for superior services. In addition to leasing capacities to business users, we also offer the comprehensive management of solutions, databases, virtualised environments, security, applications and network elements. We can link solutions with all of a business user's locations via the IP/MPLS network. Through such a comprehensive approach, we are able to offer business users very competitive solutions. The security of the infrastructure is ensured through precisely defined internal processes and protocols, with the help of advanced equipment that is continuously upgraded, by constantly enhancing the knowledge of employees and through other risk management solutions.



The photo is of Telekom Slovenije's data centre.

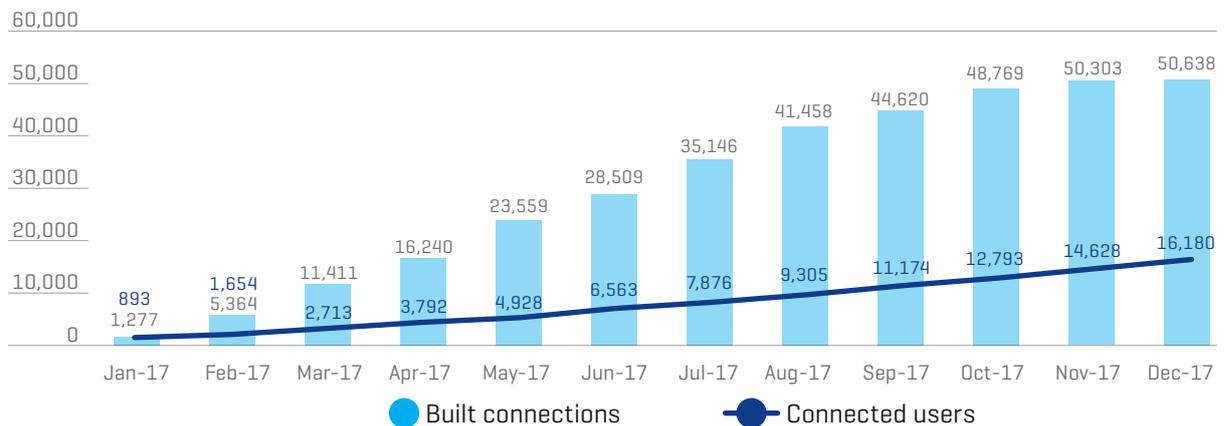
### 2.7.3. ACCESS NETWORK

Telekom Slovenije continues to actively develop and upgrade the fixed and radio access network with new technologies that will facilitate the development of new services and an even better user experience. We achieved or improved all key target indicators for the management and maintenance of the telecommunications cable network, access devices for fixed services, transmission systems, the radio network, electricity systems and the provision of services to users.

#### ACCESS DEVICES

We strive to build a powerful and sustainable fibre optic broadband access network that will provide users with high-speed internet access, the most advanced broadband content and a superior user experience in terms of broadband content. We thus continued the accelerated construction of the fibre optic access infrastructure in 'point-to-point' topology [GPON technology] in 2017 and ensured the possibility of connecting more than 50,000 Slovenian households [HHp] to that infrastructure. In parallel with that construction, we also connected users to the newly constructed fibre optic network, with that number totalling more than 16,000 [HHc] by the end of the year.

#### Number of built connections and number of connected users in 2017



We will continue to invest in the expansion and upgrading of the fibre optic broadband network in the future, while 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 are working successfully with local communities during the construction of the fibre optic access network, wherever we have coordinated mutual interests and the conditions of implementation.

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. We exceeded planned targets in 2017, as 23,500 subscribers were migrated to the IP platform.

IPKO continued to expand the hybrid fibre optic-coaxial [HFC] network in Kosovo in 2017.

#### TRANSMISSION SYSTEMS

We upgraded network elements with ROADM functionalities, and thus significantly increased the flexibility of the network. By including an additional 100G connections in the DWDM network, we improved the availability of that network, which was required due to continuous growth in traffic. We also upgraded the network with tributary interfaces, and thus enabled use of the ethernet and encrypted connections for business users. At the end of the year, we successfully completed the extensive project to modernise the SDH [synchronous digital hierarchy] network, with which we now support both TDM and MPLS-TP transmission. We also significantly reduced maintenance costs on the SDH network and reduced annual electricity consumption by two thirds.

## TELECOMMUNICATIONS CABLE NETWORK

A great deal of effort was invested in 2017 in the construction of connections and the inclusion of services on existing copper access networks, as the result of the termination of the broadcasting of POP TV and Kanala A via the DVB-T platform [digital video broadcasting – terrestrial]. Due to increasing needs for the band widths and speeds that we offer today on the copper network, the latter will not satisfy users' requirements over the long term. The fibre optic network is therefore the basic building block, with which Telekom Slovenije will be able to provide its entire portfolio of services to both business and residential users over the long term.

More than 400 FTTP connections have been built on the fibre optic network for business users. We connected 43 of Telekom Slovenije's base station locations and began implementing 50 base stations of the operator A1. As part of the electronic toll collection project, we also implemented six redundant connections.

December's severe weather caused disruptions to the power supply and cable connections due to fallen trees, landslides and flooding, resulting in disruptions in the functioning of Telekom Slovenije's services. The most severely affected areas were the broader region of Bohinj, Posočje, Koroška and Jezersko, the broader region of Cerknica and Loška dolina, Kočevsko and the Savinjska region. All of Telekom Slovenije's available field teams ensured that the smooth functioning of telecommunication services was restored to the inhabitants of affected areas in the shortest time possible, as far as weather and safety conditions permitted. The rough estimate of damage to the cable network was EUR 1.5 million. Repairs of that damage are expected to last until the middle of 2018 due to the significant scope of damage and terrain that is difficult to access in the winter.<sup>62</sup>

## RADIO NETWORK

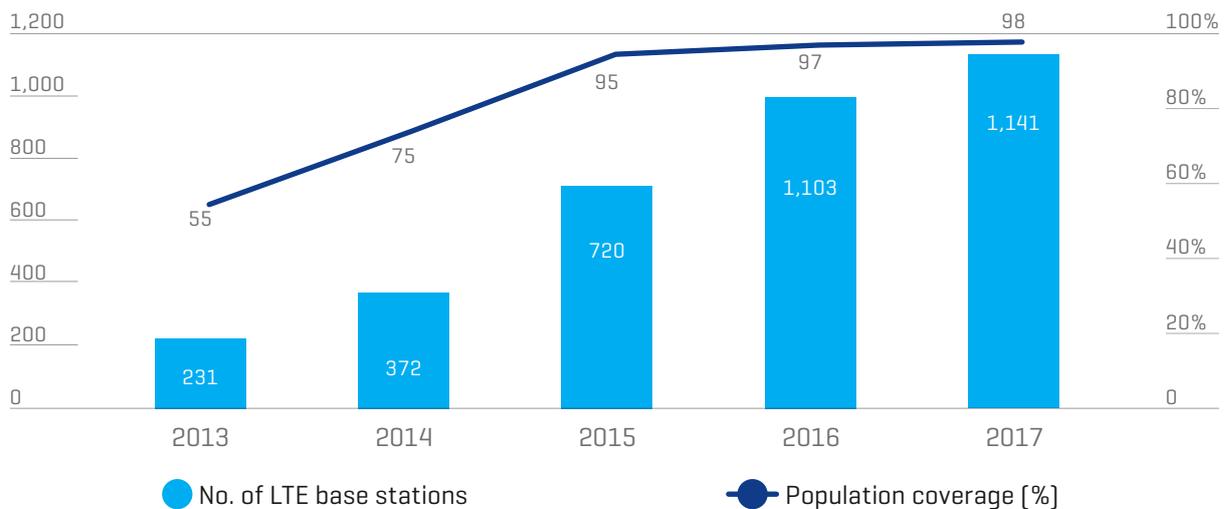
We upgraded LTE/4G base stations at existing locations, replaced obsolete 2G and 3G equipment, upgraded software and increased capacities at base stations where required due to growth in mobile data traffic.

There were 1,116 GSM base stations, 909 UMTS base stations and 1,141 LTE/4G base stations [of which 140 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 2017. The LTE/4G network already covers more than 952 cities and towns and 98% of the population, which exceeds the AKOS's requirement of 95% coverage of the population by 2019. Telekom Slovenije has set itself the objective of ensuring coverage by the LTE/4G signal that will be comparable with GSM coverage. We are installing repeater installations to improve the provision of a mobile signal in the interiors of buildings. There were 1,469 functioning repeater installations at the end of the year, with 65 new locations connected during the last year.



Repair of damage to cable connections.

## Development of Telekom Slovenije's LTE/4G network



We were the first Slovenian operator to offer users the VoLTE [Voice-Over-LTE] service, which enables the simultaneous and uninterrupted use of voice and data transfer services via the LTE/4G network. VoLTE ensures the quicker establishment of calls, high-quality sound through the default use of HD voice and reduced battery usage.



We also upgraded our mobile network with LTE-Advanced/4G+ technology, which provides users

significantly higher data transfer speeds. Upload speeds in the LTE/4G network reach as high as 150 Mbit/s, while download speeds reach up to 50 Mbit/s. With the help of 4G+ technology, users achieve upload speeds as high as 450 Mbit/s and download speeds of up to 50 Mbit/s. We already cover more than 35% of the population with 4G+ technology, while that proportion will rise even further in the future.

We successfully set-up an environment for testing internet of things solutions on the basis of NarrowBand IoT technology. It is intended for the effective communication of a wide range of devices (up to 50,000 on one network cell), both across a broad geographical region and within a city infrastructure, while it is also intended for data flows between those devices. This will be followed soon by the establishment of a test environment, in which interested companies, individual developers and educational institutions will be able to test the functioning of their own internet of things [IoT] solutions.

IPKO expanded coverage of the mobile network with new base station locations, while

simultaneously upgrading 36 existing base stations with 3G and LTE/4G technologies. Coverage of the population with 3G technology thus rose from 90% to 91% [total of 288 base stations], while coverage with LTE/4G technology rose from 85% to 87.4% [total of 215 base stations].

## ELECTRICITY AND AIR-CONDITIONING SYSTEMS

We have accelerated the upgrading of electricity and air conditioning systems to Tier 3 at key functional locations. The consumption of electricity in the fixed and commercial real estate segments is being reduced on account of the modernisation of the network, but is rising in the mobile segment due to upgrades to the radio network and new mobile telephony base stations. We expect electricity consumption to continue rising in the radio network segment in the coming years, as well. Despite a long summer with above-average temperatures, total electricity consumption was 1% lower than last year.

We replaced old air conditioning units in more than 400 buildings with more technologically advanced and energy efficient units, and upgraded direct and alternating current systems in 127 buildings in the fixed and mobile network with the aim of ensuring a continuous back-up power supply.

## PROVISION OF SERVICES TO USERS

The satisfaction of the users of our services is crucial for ensuring the Company's competitive advantage. We use a workforce management system (WFM) to allocate tasks to technicians in the field and coordinate installation times with users. We have introduced numerous improvements in work processes. Two key new features are the sending of modems by post when a fault is reported and a return SMS when a user is not present at the agreed time of a visit, both of which are reflected in a significant reduction of the number of unnecessary visits to users by our technicians.

## 2.7.4. DEVELOPMENT OF INFORMATION TECHNOLOGIES

We pursue the long-term objectives and development strategy of the Company's IT architecture. We are building the architecture of a comprehensive system that will facilitate the effective and optimal introduction of new technologies, as well as efficient and competitive operations. By optimising internal processes, we are establishing an environment that will allow us to adapt rapidly to changes in operations.

### KEY PROJECTS AND INITIATIVES TO CONSOLIDATE THE IT ARCHITECTURE:

- 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. By establishing a new BSS architecture, we completed the first phase of the development programme and established the conditions for the gradual migration of all subscribers to target systems that present the future platform for supporting operational business processes.
- **Omni-channel project:** in parallel with the upgrading of the BSS, we are establishing a tool for the development and management of communications with users on the SAP Hybris platform. We have carried out integration activities in Telekom Slovenije's information environment and established processes for the development and management of solutions for the functioning of the Online Store. We have thus established the basis for the development of a uniform shopping experience for all sales channels.
- **Development of a pay TV platform:** we successfully completed the establishment of a TV communicator (STB) on the Android platform in the functioning video service ecosystem and networks. We have thus

facilitated the establishment of a single platform for linking residential entertainment services on TVs, mobile devices and the internet, which will enable a dynamic response on the competitive market and the development of services (smart homes, eHealth, the Online Store, etc.) to generate new revenue sources. Activities on the existing pay TV platform include the establishment of an electricity ordering process via the TV interface, the development of the interactive Eurosport 360 application and the establishment of an adaptive streaming platform for mobile and internet users. We will establish a test platform for smart home services by the end of 2018.

### SUPPORT FOR OPERATIONS (CHANGES/IMPROVEMENTS/OPERATIONS)

- Adaptation of processes and systems for the optimisation of support business processes and operations in accordance with legal requirements.
- Support for regulatory and open broadband network requirements: adaptation and optimisation of IT support for order fulfilment processes, and the provision and billing of services.
- Support for the introduction of new services and marketing campaigns.
- Optimisation and consolidation of business processes in connection with the management of IT services through introduction on a single platform.
- Updating of versions of programming environments to ensure the smooth functioning of IT solutions and the sustainable development of the information system.



RESPONSIBILITY TO THE SOCIAL ENVIRONMENT

# CARING

IN ALL THAT WE DO, WE ARE GUIDED BY OUR CONCERN FOR THE INDIVIDUAL, COMMUNITY AND SOCIETY AS A WHOLE. TO THAT END, WE HAVE BEEN SUPPORTING THE WORLD OF SPORT, CULTURE, EDUCATION AND HUMANITARIAN CAUSES FOR SEVERAL YEARS NOW.



## TOGETHER FOR OURS

Passion connects. We therefore strive to connect Slovenian athletes and their fans. With our hearts, for you and together for our own.

## 2.8. SUSTAINABLE DEVELOPMENT AND SOCIAL RESPONSIBILITY

### 2.8.1. SOCIAL RESPONSIBILITY<sup>63</sup>

Social responsibility represents one of Telekom Slovenije's key strategic policies. Its aim as the leading Slovenian operators and a company that is closely connected to the environment in which it operates through its services, is to give back to society in this way. Telekom Slovenije wishes to reach the widest group possible through its donations, and to contribute to the development of the social and economic environment in which it operates with its expertise, and financial and other resources. We have supported humanitarian, cultural, environmental, educational and scientific projects, as well as Slovenian athletes and sporting organisations for many years as a sponsor or donor. Special emphasis is placed on sports, where we provide assistance to individuals and teams, sporting associations and sporting events.

Through sponsorships and donations, Telekom Slovenije maintained its role as an important sponsor and donor at the national levels, where we also paid particular attention to geographical diversity. We earmarked a total of EUR 2.5 million or 0.3% of the Telekom Slovenije Group's operating revenues for sponsorships and donations in 2017.

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

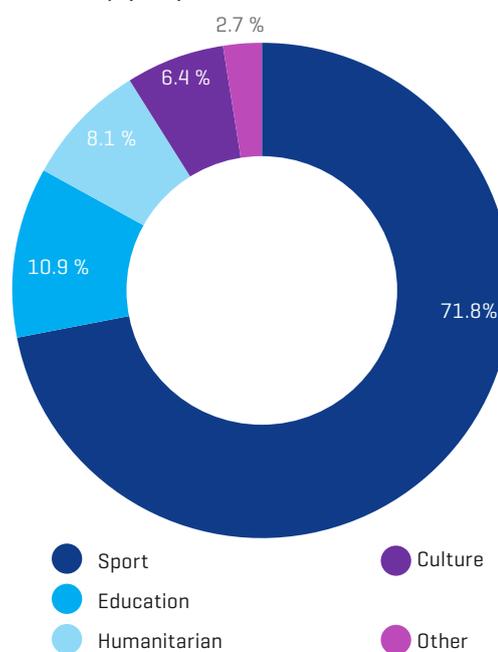
#### MAJOR SPONSORSHIPS AND DONATIONS IN 2017

##### Humanitarian projects

Telekom Slovenije was included in numerous campaigns in 2017 with the aim of overcoming social differences. In addition to others, we assisted the following organisation:

- the Slovenian Red Cross's Debeli rtič youth spa and resort for the renovation of the Rakovica Home;

Allocation of sponsorship and donation funds by purpose



- the Ljubljana Moste-Polje chapter of the Friends of Youth Association for the Slovenia-wide Botrstvo child sponsorship project for New Year's greeting cards. A portion of funds were earmarked for scholarships for children and adolescents, equipment for Vila Šumica in Kranjska Gora and the Common Point multigenerational centre project. At the beginning of the school year, Telekom Slovenije employees took the initiative and collected school supplies for children and adolescents, and thus brightened the beginning of the new school year for many children;
- the Friends of Youth Association for the TOM telephone intended for children and adolescents in distress;
- telephone counselling provided by the Association of Counsellors to help those in distress (the anonymous Samaritan line);
- Fire Fighters Association of Slovenia; and
- the Ultrasound Association of Ljubljana for the Slojenčki project.

##### Education and science

We understand the term education as a wide range of activities that include all age groups, and a rich

pallet of knowledge and skills. We support numerous educational and scientific projects, conferences and events, and serve as an important sponsor of projects and organisations, including:

- the Happy School project,
- the Reading Badge project,
- the graduation parade,
- the House of Experiments,
- the Microsoft NT conference,
- 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

As in many previous years, we once again served as partner and supporter of the Eco-Quiz project in 2017. That project is aimed at educating primary school students about the environment.

#### 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 Lent Festival,
- the Ljubljana Puppet Theatre,
- the National Opera and Ballet in Maribor, and
- Carnival in Ptuj.

#### Sports

We supported numerous local events intended primarily for children and adolescents. Our sponsorship activities in 2017 included support for the following:

- **sporting associations:** the Slovenian Olympic Committee, the Slovenian Football Association [the national team and Telekom First Football League], the Ski Association of Slovenia, the Ice Hockey Federation of Slovenia, the Slovenian Volleyball Association, the Slovenian Judo Federation, the Slovenian Athletics Association, the Slovenian Kayaking Association, the Slovenian Handball Association, the Alpine Association of Slovenia and the Slovenian Cycling Federation.
- **sporting clubs:** the Maribor and Olimpija football clubs, the Olimpija, Krka Novo Mesto and Domžale basketball clubs, the Gorenje Velenje handball club and others;
- **sporting events:** the 2017 World Cup ski flying competition in Planica, the 2017 World Cup women's ski jumping competition in Ljubno, the Golden Fox World Cup ski event, the Tour of Slovenia cycle race, the Franja Marathon, the swim meet in Radovljica, the Ljubljana Marathon, the international 3-on-3 basketball tournament and others;
- **individuals:** Peter Kauzer, Robert Renner and Ilka Štuhec.

## #zanaše – [For Ours]:

The connecting of and support for all athletes whose hearts belong to Slovenia

Because we believe in the valour and commitment of both athletes and their fans, we launched the #zanaše communication platform, where positive energy and cheerleading are the key elements that link athletes and their fans, and thus contribute to the achievement of even better results. In the scope of the #zanase campaign, we worked together with a reputable dance school to create a special cheerleading dance. The first to participate were Ilka Štuhec, Ana Bucik and Štefan Hadalin, who were later joined by numerous other athletes. Via social networks, athletes call on their fans to join them and show that they cheer for Slovenia with all of their hearts.



## 2.8.2. RESPONSIBILITY TO EMPLOYEES

We strive to provide our employees a stimulating and pleasant work environment, open to innovation and cooperation.

### CODE OF ETHICS<sup>64</sup>

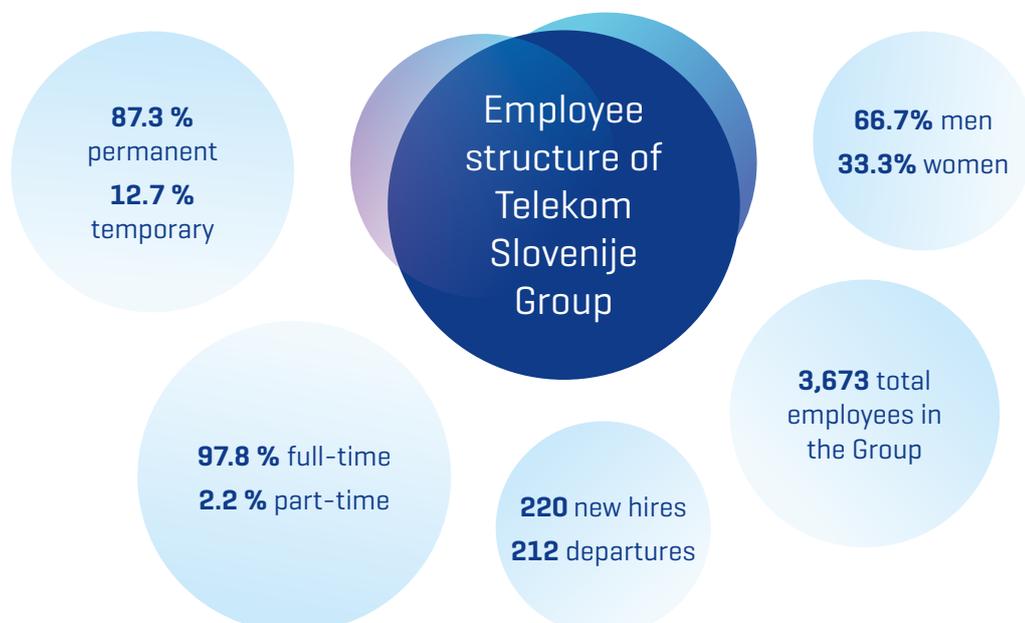
The Code of Ethics of the Telekom Slovenije Group provides employees clear information and briefs them on basic ethics and legal guidelines governing the performance of work. The aforementioned code sets out the guiding principles of our operations and the Telekom Slovenije Group's responsibilities in 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. In our work, we strive for tolerance, mutual respect and the respect of basic human rights. We promote fair and ethical treatment, and operations that comply with valid legislation.

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. 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 the trade union. Blicnet's employees may file complaints with the company's managing director or the labour inspector.

Telekom Slovenije Group companies did not receive any complaints due to discrimination in 2017.<sup>65</sup>

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.<sup>66</sup>



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

65 GRI GS 406-1

66 GRI GS 408-1, GS 409-1

## STRUCTURE OF EMPLOYEES<sup>67</sup>

The Telekom Slovenije Group had 3,673 employees at the end of the year, with Slovenian companies accounting for 3,040 of that number. The total number of employees was up by 0.22% relative to 2016, primarily on account of Antenna TV SL. The number of employees was down in Slovenia, primarily due to the termination of employment for business reasons and retirements at Telekom Slovenije. At 5.66%, employee turnover within the Telekom Slovenije Group was down slightly relative to the previous year [7.3% in 2016], while the turnover rate was 5.65% at companies in Slovenia compared with 8.16% in 2016.

## Structure of employees at Telekom Slovenije Group companies<sup>68</sup>

Situation as at 31 December	2017	2016	2015	Change in 2017	Ind. 17/16
<b>SLOVENIA</b>	<b>3,040</b>	<b>3,027</b>	<b>3,167</b>	<b>13</b>	<b>100</b>
Telekom Slovenije	2,338	2,403	2,543	-65	97
Other companies in Slovenia	702	624	624	78	112
TSmedia	55	58	81	-3	95
TSinpo	23	-	-	23	-
Antenna TV SL	48	-	-	48	-
Avtenta	41	40	38	1	103
GVO	448	437	373	11	103
Soline	87	89	88	-2	98
Debitel	0	0*	44	0	-
<b>SOUTH-EASTERN EUROPE</b>	<b>633</b>	<b>638</b>	<b>636</b>	<b>-5</b>	<b>99</b>
IPKO – Kosovo	528	532	524	-4	99
Blicnet – Bosnia and Herzegovina	105	106	112	-1	99
<b>TELEKOM SLOVENIJE GROUP</b>	<b>3,673</b>	<b>3,665</b>	<b>3,803</b>	<b>8</b>	<b>100</b>

\* Merger of Debitel with the parent company Telekom Slovenije.

67 GRI GS 401-1, GS 102-7

68 GRI GS 102-8

## Number of new employees and departures in 2017 by age group<sup>69</sup>

as at 31 December	Telekom Slovenije Group		Other companies in Slovenia		Other companies in Slovenia		Companies in South-Eastern Europe	
	New hires	Departures	New hires	Departures	New hires	Departures	New hires	Departures
Age group								
00-30	96	27	36	7	41	10	19	10
31-40	77	60	18	25	46	10	13	25
41-50	32	33	9	29	22	1	1	3
51-60	14	74	2	54	12	20	0	0
61-65	1	18	0	15	1	3	0	0
<b>Total</b>	<b>220</b>	<b>212</b>	<b>65</b>	<b>130</b>	<b>122</b>	<b>44</b>	<b>33</b>	<b>38</b>

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 98.3% of employees. The remaining 1.7% of employees hold contracts outside the collective bargaining system. These are primarily employees in management positions.

## Proportion of employees by contract type<sup>70</sup>

as at 31 December 2017	Telekom Slovenije Group	Telekom Slovenije	Other companies in Slovenia	Other companies in South-Eastern Europe
Employees covered by collective agreement	98.3%	97.5%	99.3%	100.0%
Employees outside the collective agreement system	1.7%	2.5%	0.7%	0.0%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

## Employees by type of employment and gender<sup>71</sup>

A total of 87.3% of employees in the Telekom Slovenije Group are employed permanently (2016: 84.4%; 2015: 85.5%), while 12.7% of employees are employed for a fixed period of time (2016: 15.6%; 2015: 14.5%). 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 2,338 employees at Telekom Slovenije in 2017, 12 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 type<sup>72</sup>

Proportion in % as at 31 December 2017	Telekom Slovenije Group	Telekom Slovenije	Other companies in Slovenia	Other companies in South-Eastern Europe
Permanent employment	87.3	99.5	81.9	48.3
Temporary employment	12.7	0.5	18.1	51.7
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

69 GRI GS 401-1

70 GRI GS 102-41

71 GRI GS 102-8

72 GRI GS 102-8

Men accounted for 66.7% [67.2% in 2016] and women for 33.3% [32.8% in 2016] 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 [around 60%].<sup>73</sup>

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%].<sup>74</sup>

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.<sup>75</sup>

## EDUCATIONAL STRUCTURE OF EMPLOYEES

The largest decline within the Telekom Slovenije Group in 2017 was recorded in the number of employees with an educational level of V. Those persons account for slightly less than one third of employees. The proportions of those with educational levels of VII and VIII were up to stand at 30.3% and 4.2% respectively. Those proportions are higher at Telekom Slovenije, where 35.3% of employees have an educational level of VII and 5.6% have a master's or doctorate degree.

### Telekom Slovenije Group employees by actual educational level

Employees by actual educational level	2017	2016	2015	Proportion in %	Change during the year	Ind. 17/16
Levels I to IV Education comprises less than four years of schooling, i.e. less than technical or other secondary education	387	400	408	10.5	-13	97
Level V Four-year secondary school	1,149	1,154	1,267	31.3	-5	100
Level VI Higher or college education, faculty comprises less than four years of schooling	867	866	871	23.6	1	100
Level VII Faculty – university level, Bologna master's programme	1,115	1,093	1,111	30.3	22	102
Level VIII Master's and doctorate degrees	155	152	146	4.2	3	102
<b>Total</b>	<b>3,673</b>	<b>3,665</b>	<b>3,803</b>	<b>100.0</b>	<b>8</b>	<b>100</b>

## EMPLOYMENT OF DISABLED PERSONS

There were 94 employees of various disability levels working in the Telekom Slovenije Group at the end of the year. Of those persons, 46.8% are full-time workers, while the remainder work a reduced number of hours. Telekom Slovenije and GVO regularly exceed the legally prescribed quota of disabled employees, which is the result of our efforts to facilitate the continuing employment of disabled persons. The quota for the information and communications sector is 2%, while the quota for the construction sector is 3%. 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. In order to further ensure specially adapted workplaces

73 GRI GS 102-8, GS 405-1

74 GRI GS 102-8

75 GRI GS 201-3

to perform appropriate work immediately following the receipt of the status of disabled person, and to provide the same opportunities to other difficult-to-employ individuals from the Telekom Slovenije Group, we purchased the disabled worker's company Jordan at the end of 2017 and renamed it TSinpo.

## TRAINING AND HR DEVELOPMENT<sup>76</sup>

The sector in which we operate is dynamic. It changes and develops rapidly, similar to competition on the market. We follow changes and create them ourselves using innovative approaches, and through the acquisition of new knowledge and the strengthening of competences, which we share with co-workers and apply in our everyday work. We are aware that we are stronger together. We will therefore work as a team, with superior knowledge and common values and objectives, to create business opportunities, products and services in the future.

### Key figures regarding employee training within the Telekom Slovenije Group and at Telekom Slovenije<sup>77</sup>

	Telekom Slovenije Group				Telekom Slovenije			
	2017	2016	2015	Ind. 17/16	2017	2016	2015	Ind. 17/16
Number of participants in training	3,356	3,315	3,318	101	2,585	2,479	2,610	104
Number of training hours	92,346	95,701	90,006	96	79,589	74,727	74,842	107
Proportion of employees included in training	91.4%	90.5%	101%*	101	110.6%*	103.2%*	102.6%*	107
Number of training hours per employee	25.1	26.1	23.7	96	34.0	31.1	29.4	109

\* 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 Group as at 31 December.

The proportion of employees included in education and training was up by 1% in 2017 at the Telekom Slovenije Group relative to 2016. That proportion was down at subsidiaries, but up sharply at Telekom Slovenije, by 7 percentage points relative to the previous year. The average number of training hours per employee at Telekom Slovenije was up by 3 hours relative to 2016 to stand at 34 hours.

### Number of hours and proportion of employees included in training by gender<sup>78</sup>

	Telekom Slovenije Group				Telekom Slovenije			
	2017	2016	2015	Ind. 17/16	2017	2016	2015	Ind. 17/16
Male	64,989 [70.4%]	65,651 [68.6%]	60,816 [67.7%]	99	54,540 [68.5%]	49,699 [66.5%]	51,735 [69.1%]	110
Women	27,360 [29.6%]	30,050 [31.4%]	29,014 [32.3%]	91	25,049 [31.5%]	25,028 [33.5%]	23,107 [30.9%]	100
<b>Total</b>	<b>92,346</b>	<b>95,701</b>	<b>89,830</b>	<b>96</b>	<b>79,589</b>	<b>74,727</b>	<b>74,842</b>	<b>107</b>

Training at Telekom Slovenije accounts for 86% of all training at the Group level. Men accounted for 68.5% and women 31.5% 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.

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

77 GRI GS 404-1

78 GRI GS 404-1

## Number of training hours per year by employee category<sup>79</sup>

	Telekom Slovenije Group				Telekom Slovenije			
	2017	2016	2015	Ind. 17/16	2017	2016	2015	Ind. 17/16
Technicians and sales staff	60,198	63,447	68,894	95	53,205	50,484	57,954	105
Administration	7,755	7,412	7,273	105	7,208	6,575	6,690	110
Department heads	10,810	12,534	7,918	86	9,779	8,513	7,173	115
Middle management	8,533	4,435	3,639	192	6,156	2,700	3,025	228
Other	5,022	7,874	2,106	64	3,241	6,455	0	50
<b>Total</b>	<b>92,346</b>	<b>95,701</b>	<b>89,830</b>	<b>96</b>	<b>79,589</b>	<b>74,727</b>	<b>74,842</b>	<b>107</b>

## STRUCTURE OF TRAINING BY AREA IN 2017<sup>80</sup>

The majority of training was organised in the areas of sales and information and communication technologies. To that end, Telekom Slovenije took advantage of the benefits of e-training, as 10% of all training was organised on the internal e-portal. The content of all training was prepared by internal experts, and was tailored to specific target groups for which that training was mandatory.

There was an increase in the proportion of training organised in the area of occupational health and safety. In the area of security, all Telekom Slovenije employees must attend e-courses on information security and business continuity, i.e. employee conduct in an emergency. Via the e-portal, all Telekom Slovenije employees must also familiarise themselves with the new Code of Ethics of the Telekom Slovenije Group, which was adopted in 2017. A total of 32% of all training was conducted by internal lecturers who are experts in their respective fields.

Due to the nature of the work at Telekom Slovenije, we handle various personal data that we are obliged to protect diligently. That data may not be viewed without authorisation, disseminated to third parties or used in any other way. In 2017 a total of 122 training hours were completed at Telekom Slovenije in the aforementioned area,

representing 0.15% of all training hours. The majority of that training was organised via the e-learning portal, with the purpose of presenting employees the basics of personal data protection and the lawful processing thereof, improving knowledge of rules governing the protection and processing of personal data, and increasing employee awareness.<sup>81</sup>



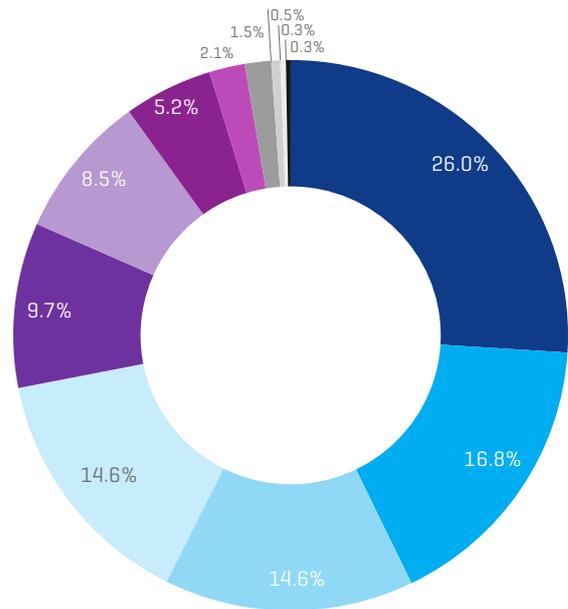
79 GRI GS 404-1

80 GRI GS 404-1

81 GRI GS 103-1, 103-2, GS 205-2, GS 412-2

## Structure of training by area within the Telekom Slovenije Group in 2017

- Security and health at work
- Other trainings
- ICT - telecommunication technologies
- Sales
- Business communication and skills
- Management
- Information science
- Legislation
- Foreign languages
- Economics
- Energy and mechanical engineering
- Communication skills



## INVESTMENTS IN EMPLOYEE KNOWLEDGE

Investments in employee knowledge and training are seen in the improved performance of the organisation and higher added value. We give such investments a great deal of attention, which is also evidenced by Telekom Slovenije's ranking as one of the top ten masters of knowledge in Slovenia.

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 2017, a total of 32 employees had contracts with the Telekom Slovenije Group to obtain a higher level of education, 28 at the parent company, three at GVO and one at Blicnet. The number of new contracts up by 100% relative to 2016.



## KEY AND PERSPECTIVE PERSONNEL<sup>82</sup>

Telekom Slovenije has in place a system for identifying and managing perspective and key personnel. These are experts and management staff who 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 all Telekom Slovenije employees were recognised as key personnel, according to the Company's adopted methodology.

We provide targeted training for managers and persons just starting in such positions every year, and ensure their professional and personal development. We established the 'Managing Inspires' centre in 2017 for managers. A total of 72 managers and eight successors were included

in the basic programme [Leadership Base], which is intended for new managers and comprises six development modules that are organised over a 12-month period.

In 2017 we updated and adapted the methodology and criteria for identifying key and perspective personnel, as well as the strategy for managing those employees. We will identify key and perspective staff again next year in accordance with the revised strategy.

### RECRUITING NEW EMPLOYEES, PROFESSIONAL TRAINING OF SECONDARY SCHOOL AND UNIVERSITY STUDENTS, AND THE AWARDING OF SCHOLARSHIPS

Telekom Slovenije facilitates the practical training of secondary school students and the practical education of university students. Due to limited opportunities, those students are primarily those studying technical professions. Our aim is to attract the best candidates who prove themselves during practical training and education, and who could be potential candidates for employment in the future. For this reason, they are also entered in our database of potential candidates for employment.

In 2017 secondary school and university students completed a total of 963 days or 7,706 hours of

practical work training and practical education. 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 deviate significantly from the average in achieving established objectives. Bonuses are paid in accordance with the company-level collective agreement and other internal acts.

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 [96% of employees], GVO [88% of employees], TSmedia [96% of employees] and Avtenta [82% of employees]. The amount paid is 4.6752% of the defined base for Telekom Slovenije, and 5.844% of the defined basis for GVO and TSmedia. Avtenta has a fixed premium of EUR 26.86.



We have been planning the retirement of employees at Telekom Slovenije for the last six 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 of 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.<sup>83</sup>

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 156].<sup>84</sup>

## 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

We are aware of the need for new specialised technical knowledge, and have therefore cooperated with universities, faculties and secondary schools for a number of years, and thus facilitate 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. IPKO also cooperates with universities and research institutions.

## ORGANISATIONAL VITALITY<sup>85</sup>

In 2017 the Telekom Slovenije Group measured organisational vitality, which includes the organisational climate, and employee satisfaction and commitment. That research included a broader set of questions in connection with commitment, burnout, criticality, team work and so-called ambassadorship.

The results of the research indicated that our strengths are a high level of commitment, affiliation and the positive nature of employees, relationships between managers and their employees, clear strategic policies and objectives of organisational units, and a well-received system of advancement and remuneration. Certain challenges were also highlighted, such as cooperation and communication between different organisational units, the effectiveness of the organisation, criteria and the effectiveness of advancement and remuneration that are not sufficiently clear to all and a certain degree of employee burnout.

The ORVI index improved most this year at GVO [3.75], while TSmedia [3.35], IPKO [3.78] and Blicnet [3.49] recorded a deterioration. The research was also carried out for the first this year at Antenna TV SL, where the ORVI was 2.86.

The directors of organisational units and team leaders presented the results of the research to their employees. They discussed those results and prepared action plans in areas where the results deviated from the average. Employees were also notified of the research results at individual companies via the intranet.

The organisational climate was not measured in 2017, as we opted to perform such measurements every two years.

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

84 GRI GS 405-2, 202-1

85 GRI GS 102-44

## Changes in the organisational climate and vitality in the period 2013 to 2017

Company	2017	2015	2014	2013	change 2015/2017
Telekom Slovenije	3.83	3.79	3.67	3.71	0.04
GVO	3.75	3.31	3.29	3.31	0.44
Avtenta	4.07	3.97	3.23	3.6	0.10
TSmedia	3.35	3.54	3.38	3.5	-0.19
Antenna TV SL	2.86	/	/	/	/
IPKO	3.78	4.00	3.23	3.23	-0.22
Blicnet	3.49	3.65	3.45	3.44	-0.16

### EMPLOYEE SATISFACTION

The average assessment of employee satisfaction in the Telekom Slovenije Group was down slightly relative to 2015, from 3.67 to 3.57. The best satisfaction assessments were recorded by Avtenta (4.11) and Telekom Slovenije (3.86), followed by GVO (3.75), Blicnet (3.53), IPKO (3.52), TSmedia (3.39) and Antenna TV SL (2.86).

### ANNUAL APPRAISAL-DEVELOPMENT INTERVIEWS<sup>86</sup>

The work performance management system at Telekom Slovenije was upgraded in 2017. Appraisal interviews are now conducted twice a year for employees covered by the collective agreement and for employees under individual contracts who are not level B1 and B2 directors. Interviews are conducted once a year at the majority of subsidiaries. The overall assessment of work performance comprises an assessment of the achievement of objectives and an assessment of competences.

Annual appraisal interviews were conducted with all employees at companies in Slovenia, except those employees on lengthy sick leave or parental leave, new employees and reassigned employees, and employees in the process of employment termination.

### MANAGING INNOVATION

Telekom Slovenije encourages employees to submit proposals and develop innovations, as in this way we can create new or better services for users, and improve processes and generate

savings and/or increase revenues. Proposals are submitted via a portal where employees find the established procedure and a comprehensive overview of their proposals, from submission to implementation. Employees who submit useful proposals receive a practical reward, while proposals that offer high added value are financially rewarded.

Following the example of the hackathon organised in 2016, we organised an internal hackathon in September 2017 under the name 'Brihtatlon', where we addresses two internal and two external challenges. The event was attended by 58 employees, who came up with 11 solutions with the support of mentors.



In 2017 we became part owner of the ABC Accelerator, and as a blue-chip partner participated in the Podim conference attended by more than 100 start-up companies from the

86 GRIGS 404-3

region. In connection with the Podim conference and the Start:up Slovenija initiative, we are actively involved in the community and work throughout the entire year.

The employees of Avtenta, TSmedia, Antenna TV SL 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. Employees at Blicnet can submit useful proposals during the work process, and may be rewarded appropriately.

## COOPERATION WITH EMPLOYEE REPRESENTATIVES<sup>87</sup>

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 14 regular meetings and seven correspondence sessions in 2017. 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 reported accordingly. Employee representatives were briefed on the human resource strategy and plan. 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 are carried out differently by individual companies, in accordance with their policies:

- sporting and social events were organised for employees;
- to mark Children's Week, we organised a lecture by Marko Juhant and agreed on a 10% discount at Mladinska knjiga for the purchase of books for children and adolescents;
- we gave gifts to employees' newborns and those children entering first grade;
- at the end of the year gifts were given to the children of employees, and to the minors and 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 both current and 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.
- we introduced the *Modri telefon* (Wise Telephone), which provides employees in distress the help of a psychotherapist; and
- we introduced 15-minute massages during working hours at locations in Ljubljana, Celje and Maribor.

## OCCUPATIONAL HEALTH AND SAFETY<sup>88</sup>

Telekom Slovenije implemented all measures relating to occupational health and safety, and fire protection in 2017. 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 Telekom Slovenije centres are also equipped with semi-automatic defibrillators, to provide aid in the event of heart failure.

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

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

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.<sup>89</sup>

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 subsidiaries in Slovenia in accordance with the law, while we organised vaccinations against tick-borne meningoencephalitis [TBE] for employees working in forests.<sup>90</sup> Flu vaccinations were offered to all employees in Slovenia, although interest has diminished. The systematic organisation of these types of vaccinations has not yet been introduced at companies abroad.

### Healthcare and workplace injuries in the Telekom Slovenije Group<sup>91</sup>

Occupational safety and healthcare	2017	2016	2015	Ind. 17/16
Number of injuries	45	44	45	102
Number of working days lost	779	1,315	1,291	59
Number of working hours lost	6,234	10,199	9,684	61
Number of medical examinations	1,059	820	976	129
- Preliminary examinations	125	108	46	116
- Periodic examinations	1,088	746	930	146
Number of deaths	0	0	0	-

The Telekom Slovenije Group has no employees at high risk to occupational diseases.<sup>92</sup>

## FIRE SAFETY

Telekom Slovenije Group companies did not record any fires in 2017. We continued to draft fire rules and revise evacuation and fire plans in 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.

## FAMILY-FRIENDLY COMPANY CERTIFICATE

Our social responsibility includes activities in the scope of the Family-Friendly Company certificate, which were confirmed this year with the receipt of a new certificate. We received our second full Family-Friendly Company certificate for the next three-year period, as well as special recognition for spreading the culture of the company as family-friendly and socially responsible. To that end, we have selected 21 measures that represent an element of the values of the Company's corporate policy and organisational culture. The activities associated with those selected measures cover various areas of operations, including working

89 GRI GS 403-1, 403-4

90 GRI I03

91 GRI GS 403-2

92 GRI GS 403-3

hours, health protection measures, manager training, communication with employees and external stakeholders, activities for children, etc. The selected measures make it easier for employees to find the right work-life balance, while they strengthen employee loyalty and create a positive work environment.

## PARENTAL LEAVE<sup>93</sup>

We are aware that the employee satisfaction is the basis for finding the right work-life balance, which can also be seen in the opportunity to make use of parental care leave. Employees with the right to parental leave exercise that right in full. These are mothers in most cases, while fathers also opt to take parental leave.

In most cases, employees in Slovenia return to their jobs following the end of parental leave. They may take advantage of opportunities that make it easier for young parents to find the right work-life balance. A total of 52.5% of employees at companies in South-Eastern Europe return to work following the end of parental leave.

	Telekom Slovenije Group			Telekom Slovenije		
	2017	2016	2015	2017	2016	2015
Number of employees on parental leave	112	128	111	50	70	70
of which: women	109	121	109	49	67	69
men	3	7	2	1	3	1
Number [proportion in %] of employees who returned to work following parental leave	89 79.5%	101 78.9%	87 78.4%	48 96.0%	68 97.1%	68 97.1%
of which: women	87 79.8%	94 77.7%	85 78.0%	48 97.9%	65 97.0%	67 97.1%
men	2 66.6%	7 100%	2 100%	0 0%	3 100%	1 100%

## COMMUNICATION WITH EMPLOYEES<sup>94</sup>

The Telekom Slovenije Group communicates with employees via various communication channels. Employees and retired workers may access the Oglasi.se intranet 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 main tool for communicating with Telekom Slovenije employees is the intranet portal, as it facilitates the up-to-date sharing 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.



93 GRI GS 401-3

94 GRI GS 102-43, 102-44

### 2.8.3. RESPONSIBILITY FOR QUALITY

Responsibility for quality encompasses the entire lifecycle of our services: design and development, procurement and logistics associated with the required resources, and ensuring and maintaining the high-quality functioning of services. Quality is addressed comprehensively through:

- measurements of key performance indicators;
- measurements of user and stakeholder satisfaction;
- initiatives for improving satisfaction (e.g. CEX – excellence of the customer experience),<sup>95</sup> and
- the introduction of tools for quality management.

#### QUALITY MANAGEMENT SYSTEMS AT THE TELEKOM SLOVENIJE GROUP

In addition to internal audits and management reviews, external audits are a key mechanism for the independent verification of the functioning of and continuous improvements to quality management systems. The parent company and subsidiaries passed all re-certifications and regular audits of compliance with the requirements of SIST EN ISO/IEC standards in 2017.

Re-certification of the energy management system [compliance with the requirements of the SIST EN ISO 50001 standard] indicated that the vast majority of objectives for 2017 were achieved, 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 project to deploy an electronic toll collection system, we carried out internal audits according to all required standards, including the first audits according to the ICT service development standard, SIST ISO/IEC 20000.

#### Compliance certificates (ISO certificates) and the validity thereof at Telekom Slovenije and subsidiaries

Company – certificate:	Validity of certificate (as stated therein):
<b>Telekom Slovenije</b>	
SIST EN ISO 50001 [issued: 2011] valid until: 31 January 2020	Development, planning, construction and management of the telecommunication network and services.
SIST ISO 22301 [issued: 2012] valid until: 11 April 2019	Services and processes of Telekom Slovenije, d. d.
SIST ISO/IEC 27001 [issued: 2013] valid until: 28 April 2020	Design, systems integration, managing and outsourcing ICT cloud services for business users.
SIST EN ISO 14001 [issued: 2004] valid until: 15 September 2018	Development, planning, construction and management of the telecommunication network and services.
<b>GVO</b>	
SIST EN ISO 9001 [issued: 2015] valid until: 31 December 2020	Design, construction and maintenance of telecommunication and electro energetic networks.
SIST EN ISO 14001 [issued: 2015] valid until: 31 December 2020	Design, construction and maintenance of telecommunication and electro energetic networks.
<b>Avtenta</b>	
SIST EN ISO 9001 [issued: 2008] valid until: 15 September 2018	Development and integration of business solutions, service delivery and consulting, system integration project management and sales.

<sup>95</sup> For additional details, see [section 1.8.4 Strategic projects](#).

Telekom Slovenije also maintained its certificates pertaining to security services (compliance primarily with ISO 50518). An overview of all maintained quality management systems at Telekom Slovenije as at 31 December 2017 is presented in the figure below.

Quality management systems at Telekom Slovenije – situation as at 31 December 2017



## 2.8.4. RESPONSIBILITY TO THE NATURAL ENVIRONMENT<sup>96</sup>

The rational use of energy and responsible environmental management are elements of our corporate responsibility, which is built into the Telekom Slovenije Group's strategy. Progress in this area is monitored using measurable energy and environmental indicators, separately for each Group company, as the data of individual companies is not mutually comparable.

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 associated 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 monitoring of and compliance with the requirements of valid Slovenian and European legislation; and
- compliance with regulatory and ethical energy and environmental commitments.

### TELEKOM SLOVENIJE

#### ENERGY REPORT

We carry out a number of activities in the scope of the efficient energy management system [SURE] that are dictated by both environmental commitments and the Energy Act [EZ-1]. The aforementioned act governs energy performance certificates and energy review. With more than 110 energy reviews finished, we are among the leaders in Slovenia. As a new activity in 2017, we performed an energy reviews of the car fleet, which is required by an implementing act issued on the basis of the Energy Act. In cooperation with an external contractor, we introduced electric vehicle sharing in the car fleet.

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 energy-environmental training as part of it. The exception are those who have completed e-training that no longer includes energy and environmental content.

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

#### ELECTRICITY<sup>97</sup>

Prior to the establishment of the ISO 50001 project, the annual energy costs of the Telekom Slovenije Group and Telekom Slovenije totalled more than EUR 18 million and EUR 11.5 million respectively. Those costs were nearly EUR 2.9 million lower at the parent company in 2017 relative to 2009. Four fifths of the aforementioned costs are accounted for by the cost of electricity.

Two types of data are presented in the table below: total consumption [total amount paid for kWh] and the consumption of Telekom Slovenije, excluding consumption by the devices of other users. Electricity costs were down by 5% relative to 2016 and by slightly more than 1% expressed in kWh, despite the fact that consumption at base stations [due to the addition of next generation devices] and consumption by the devices of other users in our premises are rising. Production by own solar power plants accounted for more than a quarter of a percent of total electricity consumption [203.1 MWh].

The computer-supported energy management system, which facilitates effective control over energy consumption, will be further upgraded in the future. That system already includes nearly 2,250 measuring points, 80 locations with heating devices and nearly 10,000 data entities.

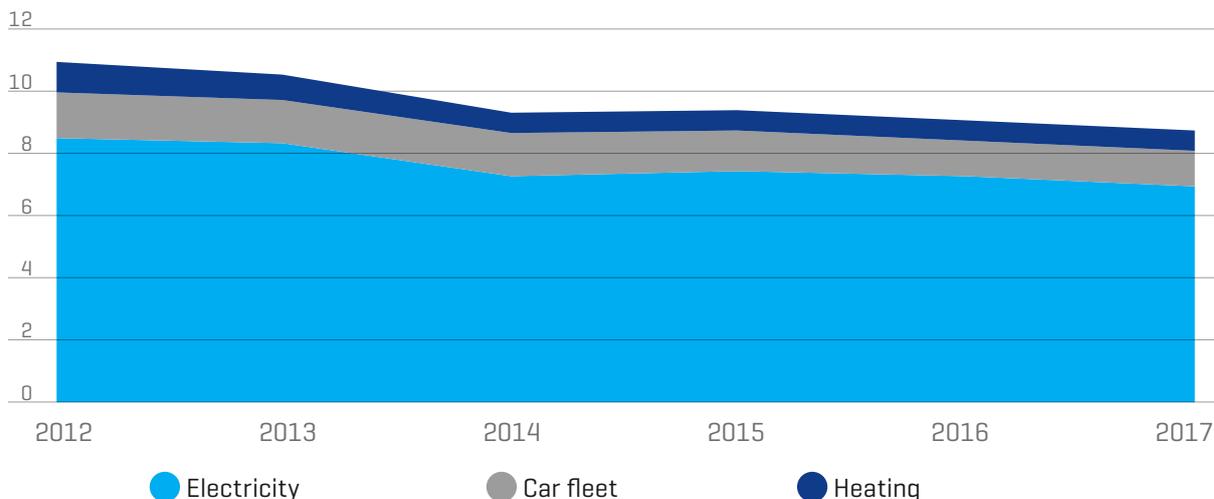


96 GRI GS 103-1, 103-2, 103-3, SDG 12.2

97 GRI GS 302-1, 302-4

## Energy costs of Telekom Slovenije

in EUR million



## Costs and consumption of energy products at Telekom Slovenije

Telekom Slovenije	2017	2016	2015	Ind. 17/16
Electricity costs [in EUR]	6,773,766	7,131,975	7,294,588	95
Total paid electricity [in MWh]*	76,539	77,340	77,882	99
of which, consumption for own needs [MWh]	63,087	64,015	72,020	98
Total electricity consumption [in TJ]*	276	278	280	99
Fuel for car fleet [in TJ]	35	36	34	98
Cost of fuel for car fleet [in EUR]	1,135,132	1,049,563	1,216,307	108
Cost of fuel for heating [in EUR]	646,076	638,519	679,231	101

Source: SAP; except for electricity consumption – energy management system.

\* Includes the consumption of electricity by Telekom Slovenije, subsidiaries of the Telekom Slovenije Group in our business premises and other lessees [colocations, etc.].

## ELECTROMAGNETIC RADIATION<sup>98</sup>

Telekom Slovenije carried out 268 additional comprehensive measurements of environmental impacts in 2017 [252 in 2016] 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 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 points of sale. In the scope of the e-card EMS project, Forum EMS also 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](http://www.inis.si/index.php?id=348&no_cache=1#.WIHhbVzNQvU)

98 GRI PA8, GRI GS 102-11

## Overview of the achievement of Telekom Slovenije's energy objectives for 2017 and guidelines for 2018 objectives

<b>COMMITMENT: TO REDUCE ENERGY CONSUMPTION AND EMISSIONS INTO THE ENVIRONMENT</b>		
Framework objective: To reduce electricity consumption by 7% by 31 December 2017 [in kWh; base year 2009]; by an additional 0.5% in 2018.		
<b>OPERATIONAL OBJECTIVE</b>	<b>ASSESSMENT AND COMMENT</b>	<b>Guidelines for 2018 objectives:</b>
Use of the energy management system in ordinary work – at least 95% of energy consumption included [except the car fleet in SAP].	<b>Objective exceeded.</b>	Regular work task – 98% of energy consumption will be included by the end of 2018. Priority task: at least 90% of energy consumption by other users at our locations captured through analysers and energy management.
Installation of analysers at the time of the processing of electrical connections; 2017 objective. 20 locations [additional consumption by air conditioning units].	<b>Objective exceeded.</b> 229 additional meters in 2017.	Up to 150 additional analysers at locations where economically justified.
Installation of air conditioning units with simple ventilation at locations less exposed to heat: objective for 2017 – 10 locations.	<b>Objective exceeded.</b> 37 locations in 2017, primarily at base stations.	Reduced scope of implementation: up to 30 locations.
Replacement of defective air conditioning units with energy efficient systems.	<b>Objective achieved.</b>	Replacement of air conditioning units at 90 locations. 2020 objective: no small air conditioning units older than 10 years at base stations.
Continuation of server virtualisation.	<b>Objective achieved.</b>	Very small increase planned in 2018.
Framework objective: To improve the efficiency of fuel consumption in the car fleet by 5% by 31 December 2017 [in litres/100 km; base year 2009].		
<b>OPERATIONAL OBJECTIVE</b>	<b>ASSESSMENT AND COMMENT</b>	<b>Guidelines for 2018 objectives:</b>
To reduce the number of company vehicles by 1% relative to the situation in 2016.	<b>Objective achieved.</b> The number of cars, and freight and work vehicles was reduced by 15 or 2.1% in 2017 relative to 2016. The number of vehicles was down by 11% relative to 2013.	To reduce the number of company vehicles by 1% relative to 2017.
To achieve an average emission value of 140 g CO <sub>2</sub> eq/km in newly purchased vehicles.	<b>Objective achieved.</b>	To achieve an average emission value of 140 g CO <sub>2</sub> eq/km in newly purchased vehicles.
Reduction in printed travel orders. Systematic transfer of data regarding km to SAP/FM. Systematic archive established as a result.	<b>Objective achieved.</b> Implementation of the digital closure of travel orders for field technicians.	Completed.
Improvement in the age structure of the vehicle fleet.	<b>Objective achieved.</b>	Permanent task. Additional: purchase of several electric or hybrid vehicles in 2018 and the set-up of a charging station.
Framework objective: To ensure full security for the handling of hazardous substances [reducing risks of spills, etc.]		
<b>OPERATIONAL OBJECTIVE</b>	<b>ASSESSMENT AND COMMENT</b>	<b>Guidelines for 2018 objectives:</b>
To replace 90% of air conditioning units that use Freon 22 with a more environmentally friendly refrigerant [regulatory requirement].	<b>Objective achieved.</b> There are no air conditioning units that use Freon 22 at any location.	Objective achieved as at 31 December 2017.

Framework objective: To reduce noise and emissions into the atmosphere by modernising technological devices.

OPERATIONAL OBJECTIVE	ASSESSMENT AND COMMENT	Guidelines for 2018 objectives:
Energy review. 2017 objective: Two buildings – recording of situation and analysis; enhanced monitoring of the implementation of measures.	<b>Objective exceeded.</b> Reviews were carried out in all three types of energy audits.	Implementation in accordance with plan – implementation at locations where the four-year validity of the last energy review will expire (minimum of four locations).
To draw up the required energy performance certificates for Telekom Slovenije facilities.	<b>Objective achieved.</b>	Implementation in accordance with plan – to be adjusted as required in the event of a change to the law, which is currently in the legislative process.
To record the situation with regard to external lighting – phase III – verification and implementation, as required.	<b>Objective achieved.</b>	Controls in conjunction with energy audits – gradual replacement of lights that are legally compliant but not energy efficient.
Other operational objectives relating to the energy efficiency system	ASSESSMENT AND COMMENT	Guidelines for 2018 objectives:
To communicate sustainable development and the SURE, and enhance internal communication.	<b>Objective achieved.</b>	Continuation of activities in accordance with the Company's communication plan.
To update work instructions [heating, solar power plant, security and auxiliary lighting].	<b>Objective achieved.</b> Completed for generators; others in progress [solar power plant, security and auxiliary lighting].	Completion of preliminary activities and the updating of existing objectives, as required, in accordance with legislative changes.

Legend: ● Objective achieved    ● Objective partially achieved – activities continue

## FUEL FOR CAR FLEET<sup>99</sup>

The number of vehicles in Telekom Slovenije's car fleet was reduced by 2% in 2017. The consumption of fuel, expressed in litres, was likewise reduced by 2%, while fuel costs were up by 8% due to rising prices.

### 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
2017	340	490,813	364	520,284	704	1,011,097
2016	301	459,135	420	572,550	721	1,031,685
2015	285	411,694	490	565,075	775	976,769

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 monitored.

An average of 1.2 million km were driven a month in 2017, about the same as in 2016. An average of 1,670 km were driven per month per vehicle in 2017, compared with 1,637 km in 2016.

## ASSESSMENT OF CARBON FOOTPRINT<sup>100</sup>

The calculation of Telekom Slovenije's carbon footprint in previous years confirms that nearly four fifths of the Company's carbon footprint is accounted for by electricity consumption [so-called Scope 2]. Telekom Slovenije's total carbon footprint over the last three years is estimated at slightly more than 50,000 tonnes

99 GRI GS 302-1

100 GRI GS 103-1, 103-2, GS 305-1, 305-2, 305-3, 305-5

of CO<sub>2</sub><sub>ekv</sub>, of which slightly less than 40,000 tonnes is accounted for by emissions due to electricity [Scope 2]. Direct emissions [Scope 1] account for slightly less than 3,500 tonnes, while other indirect

emissions [Scope 3] account for more than 8,000 tonnes of CO<sub>2</sub><sub>ekv</sub>. The total carbon footprint is declining by close to 400 tonnes a year.<sup>101</sup>

## ENVIRONMENTAL REPORT OF TELEKOM SLOVENIJE

### REAL ESTATE MANAGEMENT

Real estate used for technological purposes is an important element for ensuring a stable and secure network. Because we have concluded easement or lease agreements for the majority of that real estate, special attention is given to ensuring legal aspects are in order.

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 thus sold seven properties valued at EUR 1.3 million in 2017. We are planning to sell an additional three properties in 2018.

### WASTE MANAGEMENT<sup>102</sup>

Telekom Slovenije and other Group companies are not considered major polluters of the environment. Telekom Slovenije thus forwarded 1,500 tonnes of waste in 2017, which is equal to the average of the last four years. No increase in the quantity of waste is expected in 2018.

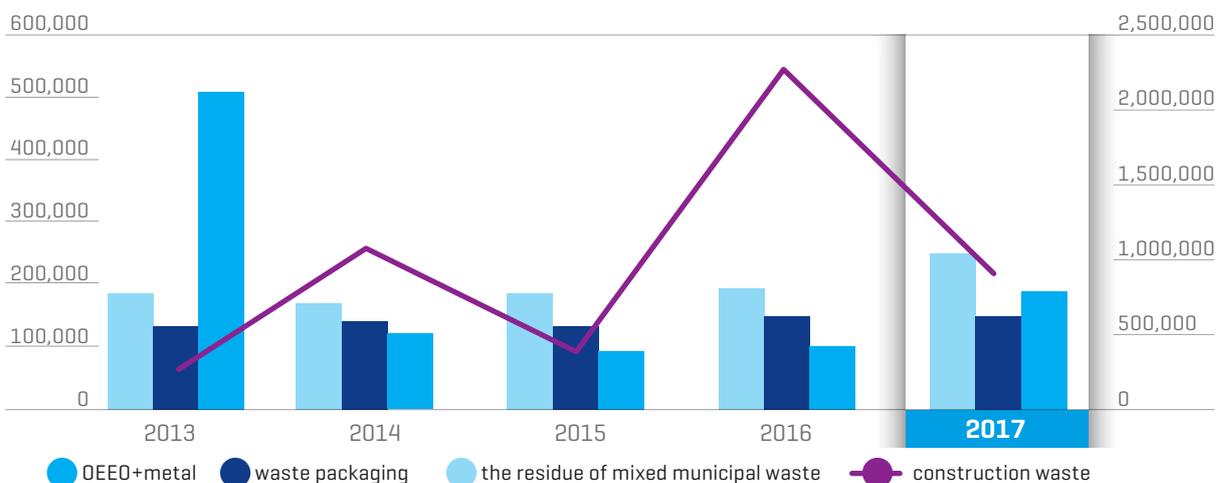
In terms of quantity, the majority of waste generated was construction waste (900 tonnes), in particular

due to works in the construction of the fibre optic network and base stations. At 113.4 tonnes, the quantity of hazardous waste reached its highest level to date. However, 98.5% of that waste is accounted for by lead batteries, which are a highly sought form of waste on the market. The quantity of forwarded waste electrical and electronic equipment was up by one third (or 50 tonnes), while the quantity of forwarded packaging was the same as previous years (150 tonnes). Waste is handed over to an authorised company that ensures recycling or some other form of processing in accordance with environmental regulations.

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.

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 and used electronic devices, such as mobile phones, at points of sale.

### Quantities of separated waste at Telekom Slovenije in kilograms



101 The absolute result [expressed in kg of CO<sub>2</sub><sub>ekv</sub>] is highly dependent on the conversion factor, which is not known for the previous year prior to the third quarter of the following year, while those factors differ significantly from supplier to supplier. The estimate given for Telekom Slovenije is a rough estimate according to the principle of ceteris paribus, based on publicly accessible emission factors.

102 GRI GS 103-1, 103-2, 103-3, GS 306-2

## WATER MANAGEMENT

Telekom Slovenije is not a major consumer of water, as water is not one of the predominant resources the Company requires to perform its core activity. We nevertheless monitor the consumption of drinking water via received invoices and verify potential deviations. Consumed quantities and costs are in line with expectations. We monitor data manually due to the scattering of locations owned by the Company throughout Slovenia [some of which are in water protection areas] and various ordinances on the provision of municipal services and the monitoring of such data. The majority of the locations owned by the Company comprise properties where employees are not always present. Water is thus not consumed at those locations.

## PAPERLESS OPERATIONS

Telekom Slovenije promotes the use of electronic operations, while reducing the printing of documents and consumption of paper in operations within and outside the Company. A total of 36.7% of invoices were received in electronic form in 2017, an increase of 4.4 percentage points relative to 2016. The consumption of office paper was comparable with the previous year.

### Consumption of office paper at Telekom Slovenije in euros

2017	2016	2015	2014	2013	Ind. 17/16
19,262	19,145	22,830	27,248	30,204	100

We also encourage our users to take a responsible approach to the environment. Through e-services, they are able to reduce their carbon footprint, 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 digitalise incoming documents, so that more than 70% of those documents are already digitalised. In 2018 we are also planning to digitalise certain sets of documents linked to the main work processes of individual organisational units.

We encourage users to receive electronic invoices, which is possible via an electronic banking system 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.

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 areas of procurement and logistics in 2017. Those changes also have positive effects on the environment. We signed an agreement with an external contractor on the sharing of electrical vehicles for business and private purposes.

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 emissions. When purchasing new vehicles, we regularly check fuel consumption and emissions, which together with safety and price represent the selection criteria. We have in place the systematic, electronic transfer of data regarding kilometres, which will reduce the printing of paper orders, save time and thus increase productivity.

## Overview of the achievement of Telekom Slovenije's environmental objectives for 2017 and guidelines for 2018 objectives

<b>COMMITMENT: TO REDUCE THE QUANTITY OF GENERAL WASTE AND EMISSIONS</b>		
Framework objective: To reduce the volume of mixed municipal waste by 10% by 31 December 2017 (base year 2009).		
<b>OPERATIONAL OBJECTIVE</b>	<b>ASSESSMENT AND COMMENT</b>	<b>Guidelines for 2018 objectives:</b>
To exclude two locations, where municipal waste is not generated, from the collection system.	<b>Objective exceeded.</b>	Exclusion of two additional locations.
To secure/cross-link one ecological island in 2017.	<b>Carried forward to 2018.</b>	Implementation of activities planned in 2017.
Framework objective: To connect 100% of treated wastewater to public sewerage systems by 31 December 2017, and to control costs and water consumption at major business locations.		
<b>OPERATIONAL OBJECTIVE</b>	<b>ASSESSMENT AND COMMENT</b>	<b>Guidelines for 2018 objectives:</b>
To draft an action plan addressing the public sewerage system and individual treatment facilities.	<b>Plan achieved.</b>	Extended to 2018 – in accordance with the pace of activities of local communities.
To update the records of locations that are not connected to the public sewerage network.	<b>Objective achieved.</b>	Permanent updating of records.
Updating of documentation on oil traps.	<b>Objective partially achieved</b> – additional activities in progress.	Extended to 2018.
Framework objective: To ensure full security for the handling of hazardous substances (reducing risks of spills, etc.)		
<b>OPERATIONAL OBJECTIVE</b>	<b>ASSESSMENT AND COMMENT</b>	<b>Guidelines for 2018 objectives:</b>
To purchase and maintain functioning equipment for measures in the event of a spill of hazardous materials.	<b>Objective achieved.</b>	Continuous replacement of used absorbents.
Updating of documentation regarding tanks.	<b>Objective partially achieved.</b> Deregistration of removed tanks completed and the revised Hazardous Material Handling Plan approved. Inspections of tanks completed – the rectification of faults and defects in progress.	Completion of activities initiated in 2016 and 2017. Continuous control of implementation in the field. The removal of two heating oil tanks is planned due to the replacement of the heating energy source.
Updating of documentation regarding oil traps, hydrants and sewerage systems.	<b>Objective partially achieved.</b> Activities in progress:	Permanent task.
<b>OTHER OPERATIONAL OBJECTIVES RELATING TO THE ENVIRONMENT MANAGEMENT SYSTEM</b>	<b>ASSESSMENT AND COMMENT</b>	<b>Guidelines for 2018 objectives:</b>
Fire Safety Measurements and updating of documentation for (a) lightning conductors and (b) installations.	<b>Objective achieved.</b> (a) Major rehabilitation of lightning conductors completed at the Cigaletova location. (b) Safety lighting repaired at Cigaletova 15 and new installations completed at Vojkova 78a.	(a) Continuation of measurements of lightning conductors at other locations in accordance with legal requirements. (b) Continuation of upgrades of safety lighting at Vojkova 78b.
Communication of sustainable development and the environmental management system (SRO); participation in three socially responsible projects and enhancement of internal communication.	<b>Objective achieved.</b> Major external communication on broader sustainable development topics.	Extension of objective for internal and external publics.

OTHER OPERATIONAL OBJECTIVES RELATING TO THE ENVIRONMENT MANAGEMENT SYSTEM	ASSESSMENT AND COMMENT	Guidelines for 2018 objectives:
Organisation of environmental training – minimum of two internally organised seminars for 400 Group employees in the scope of the “energy-environmental primary school”.	<b>Objective partially achieved.</b>	Permanent task and inclusion in e-training.
Upgrading of records of locations in SAP.	<b>Objective achieved.</b>	Completed.
Fire traps – inspection and records of status by location; organisation of contractual relations; rehabilitation following inspections.	<b>Objective partially achieved – additional activities.</b>	Extension of activities.

Legend: ● Objective achieved    ● Objective partially achieved – activities continue

## 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 in Slovenia, **GVO** is the largest consumer of fuels due to transportation activities and work machinery. The aforementioned 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 number of company vehicles was up (from 276 to 297) due to the expanding scope of operations, leading to an increase in total fuel consumption. It is evident from the table below that electricity consumption was up by 5%, primarily due to the growing number of active connection points.

### Costs and consumption of energy products at GVO

GVO	2017	2016	2015	Ind. 17/16
Fuel costs (in EUR)	546,988	452,001	469,839	121
Fuel (in litres)	547,225	496,648	470,801	110
Electricity costs (in EUR)	34,977	34,607	29,891	101
Total electricity consumption (in kWh)	334,186	317,227	269,754	105

**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 sustainability. Its activities are therefore presented in more detail below.

## Soline

Soline manages the state-protected Sečovlje Salina Nature Park [SSNP] under a concession agreement concluded with the Republic of Slovenia. The area measuring 750 hectares, land and other real estate are owned by the government.<sup>103</sup> 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. The aforementioned concession agreement requires Soline to 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 Sečovlje 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 2017.

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.<sup>104</sup> These objective 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 is 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 crucial. The local community is included in the management of the park through its participation in the Sečovlje Salina Nature Park Committee. This cooperation also takes the form of joint events and presentations organised by the local municipality.

There are no endangered animal or plant species from the IUCN's global list of endangered species present in the SSNP.<sup>105</sup> 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 Directives. 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.

103 GRI GS 304-1

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

105 GRI GS 304-4

The SSNP received 43,837 visitors in 2017. A total of 17,016 visitors were taken on 532 guided tours of Lera. A total of 4,236 visitors were taken on 118 guided tours of the Salt Production Museum.

We completed the CARS-OUT! project in 2017 in the scope of EEA's financial mechanism, making the SSNP the first nature park in Slovenia in which the use of motor vehicles [with the exception of intervention and service vehicles] is no longer permitted. With the exception 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 9.5 tonnes. Employees account for 5.9 tonnes of that amount annually.<sup>106</sup>

Due to the sensitive natural environment in which it operates, Soline strives for continuous improvements in energy efficiency. The consumption of electricity was thus reduced in previous years through changes in the regime for managing cooling and heating devices in visitor buildings. We use web conferencing 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.<sup>107</sup> Natural gas and electricity consumption was higher in 2017 relative to the previous year as the result of a significant increase in the number of visitors [by 10%] and an increase in visits to the Lepa Vida Spa [by 28%]. Fuel consumption was reduced by 11% due to the completion of EU rehabilitation projects and the resulting reduction in the scope of construction works.

### Energy consumption by Soline<sup>108</sup>

Soline	2017	2016	2015	Ind. 17/16
Consumption of natural gas [in m <sup>3</sup> ]	4,969	4,467	3,486	111
Consumption of electricity [in MWh]	394.13	380.54	337.27	104
Consumption of fuel [in litres]	51,013	57,500	47,860	89

The Group used 6,068 m<sup>3</sup> of sanitary water in 2017, as well as 170,014 m<sup>3</sup> of sea water for the production of salt. Only used sanitary water, which is discharged into the public sewerage network, is treated as waste water. Sea water from the production process is not contaminated and is returned to the sea.



106 GRI GS 305-5  
 107 GRI GS 307-1  
 108 GRI GS 302-1

## COMPANIES IN SOUTH-EASTERN EUROPE<sup>109</sup>

With the help of energy and environmental bookkeeping and accounting, we monitor indicators regarding the consumption of electricity and refined petroleum products at companies in South-Eastern Europe.

**IPKO** reduced electricity consumption by 16% and fuel costs by one third in 2017. This was achieved through the improved control and management of generators (savings of 16,000 litres of fuel) and through the shared use of 12 base stations and generators with the operator VALA. Through the two aforementioned projects, the company reduced total emissions into the atmosphere in 2017 by around 108 tonnes CO<sub>2eq</sub>. The total estimated quantity of direct and indirect greenhouse gas emissions (Scope 1 and Scope 2) in 2017 was 3,924 tonnes CO<sub>2eq</sub>.

### Costs of electricity at companies in South-Eastern Europe

[EUR]	2017	2016	2015	Ind. 17/16
IPKO	1,455,004	1,313,332	1,338,180	111
Blicnet	131,004	128,252	119,304	102

### Costs of fuel at companies in South-Eastern Europe

[EUR]	2017	2016	2015	Ind. 17/16
IPKO	205,639	317,238	356,626	65
Blicnet*	45,441	42,769	49,507	106

\* Includes the cost of district heating.

The costs of municipal services at **Blicnet** more than doubled in 2017, an indication of the tightening of environmental standards in other countries of South-Eastern Europe, as well.

## 2.8.5. SUPPLY CHAIN<sup>110</sup>

### PROCUREMENT FUNCTION

The Group has a standardised procurement procedure in place that facilitates the transparent and equal treatment of potential suppliers. A great deal of attention is given to the selection of appropriate suppliers. Based on an assessment of each supplier, we define a development strategy, possibilities for additional cooperation, or measures to mitigate/eliminate risks. Here we assess past cooperation with a supplier and potential risks in the future.

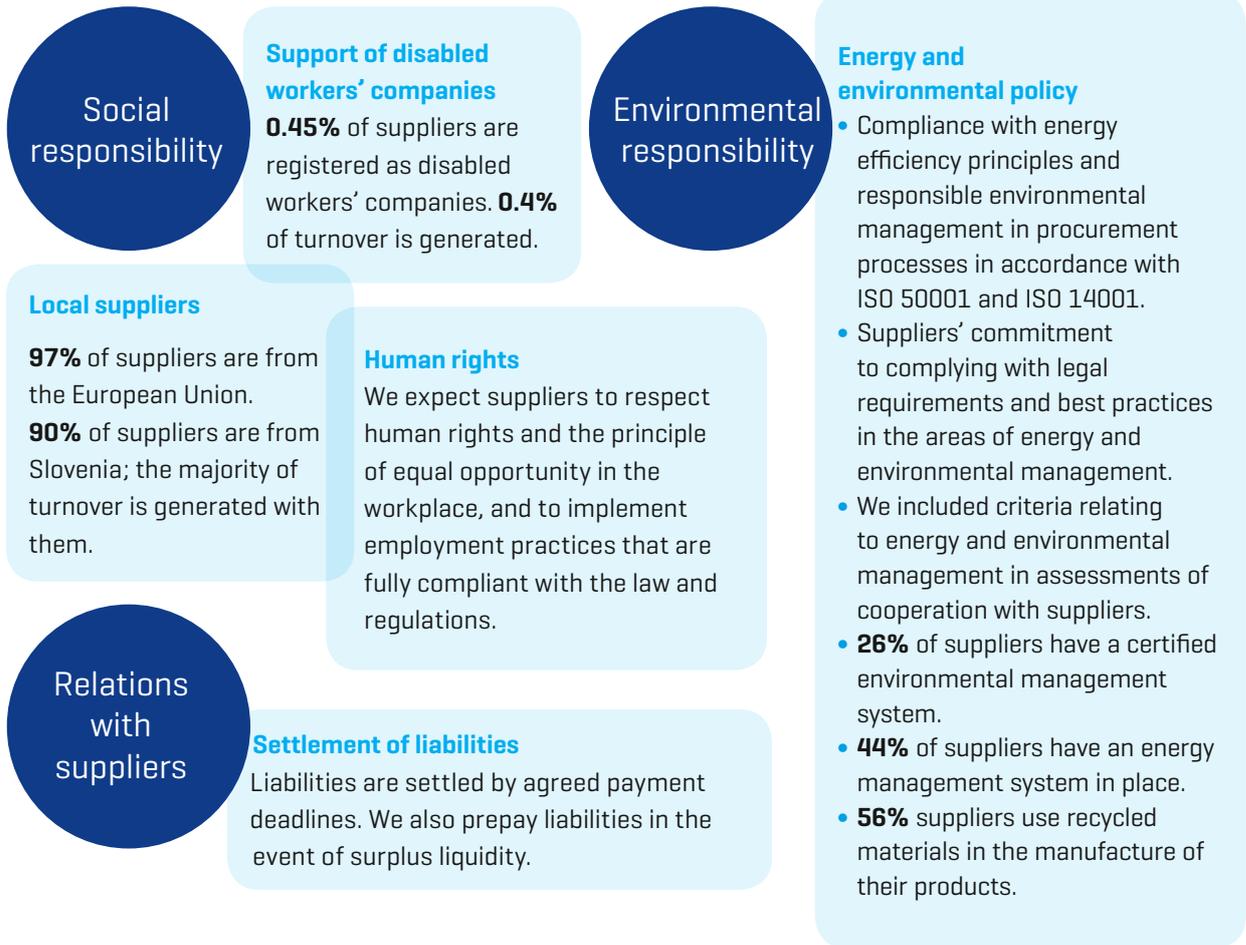
Total purchases by Telekom Slovenije and its Slovenian subsidiaries amounted to more than EUR 700 million, including VAT. Telekom Slovenije cooperates with more than 3,000 suppliers from more than 20 countries. The majority or 98% of those suppliers are from Europe.

There were no major changes in the composition of domestic and foreign suppliers relative to the previous year.

109 GRI GS 302-1, 302-4

110 GRI GS 102-9, 102-10

## PROCUREMENT PRACTICES AT TELEKOM SLOVENIJE



## LOGISTICS

The logistics function represents an important competitive factor in significantly changed market conditions. We therefore strive for constant improvements and the optimisation of processes in this area. Logistics processes are optimised so that the total costs of the logistics chain are as low as possible, inventory quantities are optimised, and delivery to internal and external customers is fast and reliable.

### 2.8.6. RESPONSIBILITY FOR THE SECURITY OF BUILDINGS, SYSTEMS, INFORMATION AND INFORMATION TECHNOLOGIES

Various forms of security risks are managed by the Telekom Slovenije Group through continuous investments in the development of corporate security. The careful implementation of the security policy ensures the safety of employees, business partners and the users of our services, as well as the security of business information and Group companies' assets. A well-developed security function is achieved through the timely detection of security threats and vulnerabilities, the effective identification and prevention of security incidents, by spreading a culture of security, by protecting buildings with effective technical security systems, through the continuous testing of existing security solutions and controls, and the upgrading thereof,

and lastly through the performance of regular controls with the help of the established information security management and business continuity management systems.

The most attention in recent times is given to cyber security, which we ensure is an element of all forms of security. Through continuous employee training, we also ensure that the security culture is at a high level and increase awareness of the importance of security in all areas of operations. We also raise the awareness of the users of our services about security.

## 2.9. CONTENT ACCORDING TO GRI REPORTING STANDARDS<sup>111</sup>

When defining the scope and content of the annual report in 2017, we once again performed materiality and stakeholder analyses. The interests of stakeholders, which are defined in Telekom Slovenije's Corporate Governance Policy, were verified using a questionnaire on the corporate website at [www.telekom.si](http://www.telekom.si). A total of 132 stakeholders completed the questionnaire. The breakdown of that total was as follows: 68 employees of Telekom Slovenije or Group companies, 35 users, 16 shareholders, seven representatives of local communities, two persons from a group of analysts and other financial publics, two business partners and one individual who identified themselves as 'other'. The questionnaire asked stakeholders which items of interest and content in the annual report are most important to them and which content in the annual report would they like to see expanded. We also asked about the quality and comprehensibility of the information provided. We also conducted a separate questionnaire for suppliers with regard to their interests, for which we received 34 responses.

A materiality analysis that included a review of the sustainable impacts of operations was performed on 16 November 2017 by 42 experts involved in the preparation of content for the annual report of the Telekom Slovenije Group and Telekom Slovenije. They were briefed on the results of the stakeholder analysis and divided into five logical groups by the areas they cover (Marketing and Sales, Procurement and the Environment, HR, Networks and Compliance). They then reviewed all possible aspects according to the GRI Standards. Taking into account the results of the stakeholder analysis and the technical areas they cover, they drew up recommendations and set the scope of GRI GS disclosures for the 2017 annual report, which are evident from the content according to the GRI Reporting Standards [we do not report on immaterial topics].

Content according to GRI GS – core option The standard has been in force since 2016.  
 "This report has been prepared in accordance with the GRI Standards: core option."

### GENERAL STANDARD DISCLOSURES

GRI standard and disclosure	Description	Reporting boundaries (within and outside the organisation)	Section/page	Comments/external assurance <sup>112</sup>
GRI 101: Foundation 2016				
GRI 102: General disclosures 2016 Organisational profile 2016				
102-1	Name of the organisation	Telekom Slovenije Group	1.1./p. 8	✓
102-2	Brands, products and services	Telekom Slovenije Group	2.6.2./pp. 93–94, 2.6.3./pp. 95–101	✓ There are no limitations for the services marketed by Telekom Slovenije Group companies.
102-3	Location of headquarters	Telekom Slovenije Group	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. 52–56	✓
102-6	Markets served (geographical and sectoral breakdown and types of customers)	Telekom Slovenije Group	1.6./p. 18, 2.6.1./pp. 88–92, 2.6.3./pp. 95–101	✓
102-7	Size of organisation	Telekom Slovenije Group	<ul style="list-style-type: none"> <li>number of employees: 2.82./p. 125,</li> <li>sales revenue, debt-to-equity: 1.2./p. 9, 2.1./p. 60,</li> <li>products and services: 2.6.2./pp. 93–94, 2.6.3./pp. 95–101</li> </ul>	✓ We do not report on the number of business units.

111 GRI GS 102-54, 102-55

112 GRI GS 102-47

102-8	Employees by type of employment, type of contract, region and gender	Telekom Slovenije Group	2.8.2./p. 127	✓ 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 are collected via a questionnaire completed by all Group companies.
102-9	Description of the organisation's supply chain	Telekom Slovenije	2.8.5./p. 149-150	✓ We do not report on supplier types.
102-10	Significant changes regarding the organisation's size, structure, ownership and supply chain	Telekom Slovenije Group, Telekom Slovenije,	<ul style="list-style-type: none"> <li>• size and structure of the organisation: 1.6./p. 18,</li> <li>• ownership: 1.14./pp. 52-56,</li> <li>• supply chain: 2.8.5./p. 149-150</li> </ul>	✓
102-11	Clarification whether and how the organisation takes into account the precautionary principle	Telekom Slovenije, local and wider environment	2.8.4./p. 140	
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. 20, 21	✓
102-13	Membership in organisations	Telekom Slovenije Group	1.7./p. 20, 21	✓
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	1.3./pp. 13-14	✓ The Group's sustainable development objectives are defined in the strategy and plan of the Telekom Slovenije Group for 2018 with projections for the period 2019 to 2022, which was adopted by Telekom Slovenije's Management Board. Strategic policies are accessible on the Company's website at <a href="http://www.telekom.si/o-podjetju/predstavitev/strateske-usmeritve">http://www.telekom.si/o-podjetju/predstavitev/strateske-usmeritve</a>
Ethics and integrity				
102-16	Values, principles and standards of behaviour, such as codes of conduct and ethics	Telekom Slovenije Group, suppliers, local and wider community	1.8.1./p. 23, 1.9./p. 32, 1.13.1./p. 50, 2.8.2./p. 124	✓
Governance				
102-18	Governance structure of the organisation, including committees of the highest governance body	Telekom Slovenije Group	1.6./p. 19, 1.12.5./pp. 42-43, 44-45, 46-47	✓

Stakeholder engagement				
102-40	List of stakeholder groups engaged by the organisation	Telekom Slovenije Group	1.9./pp. 31-33	✓
102-41	Percentage of employees covered by collective agreements	Telekom Slovenije Group	2.8.2./p. 126	✓
102-42	Basis for identification and selection of stakeholder groups with whom to engage	Telekom Slovenije Group	1.9./pp. 31-33	✓
102-43	Approaches to stakeholder engagement and frequency of engagement by stakeholder group	Telekom Slovenije Group	1.9./pp. 31-34, 1.14./p. 56, 2.6.4./p. 101, 102, 2.6.5./p. 105, 2.8.2./p. 134, 136	✓
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./p. 31-34, 2.6.4./p. 102, 2.6.5./p. 105, 2.8.2./p. 132, 133, 136	✓ We do not communicate with suppliers and local communities about responses.
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 and joint venture]/pp. 196-200	✓
102-46	Process of defining report content and aspect boundaries	Telekom Slovenije Group	1.10./p. 34	✓
102-47	List of material topics	Telekom Slovenije Group	2.9./ pp. 151-161	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. 34	✓
102-49	Significant changes from previous reporting periods in the scope of reporting and aspect boundaries	Telekom Slovenije Group	1.10./p. 34	✓ There has been no significant change in the scope of reporting relative to previous reports.
102-50	Reporting period	Telekom Slovenije Group	1.10./p. 34	✓
102-51	Date of most recent previous report	Telekom Slovenije Group	1.10./p. 34	✓
102-52	Reporting cycle	Telekom Slovenije Group	1.10./p.34	✓
102-53	Contact point for questions regarding the report	Telekom Slovenije Group	1.1./p. 8	✓
102-54	Claims of reporting in accordance with GRI Standards		1.10./p. 34, 2.9./p. 151	✓
102-55	GRI content index		2.9./pp. 151-161	
102-56	External assurance of reporting	Telekom Slovenije Group	1.10./p. 35, 2.10./p. 162	✓ 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
<b>ECONOMIC IMPACTS</b>					
GRI 201: Economic performance 2016					
103-1 103-2 103-3	Explanation of the material topic and its boundary		1.3./pp. 13-14 1.8.3./pp. 25-27		✓
201-1	Direct economic value generated and distributed	Telekom Slovenije Group, shareholders, local and wider community	<ul style="list-style-type: none"> <li>revenues, labour costs, payments to shareholders: 1.2./pp. 9-12,</li> <li>revenues: 2.1./p. 60, 2.6.3./p. 96,</li> <li>donations and other investments in the community: 2.8.1./p. 122</li> </ul>	We only report on taxes for the Telekom Slovenije Group as a whole.	✓
201-2	Financial implications and other risks and opportunities for the organisation's activities due to climate change	Telekom Slovenije Group, users	2.7.3/p. 117	Due to the exposure of the Telekom Slovenije Group's telecommunications 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.	✓
201-3	Defined benefit plan obligations and other retirement plans	Telekom Slovenije Group (employees)	2.8.2./pp. 127, 132		✓
GRI 202: Market presence 2016					
103-1 103-2 103-3	Explanation of the material topic and its boundary		1.3./p. 13 1.8.3./pp. 25-27		✓
202-1	Ratios of standard entry level wage by gender compared to local minimum wage	Telekom Slovenije Group	2.8.2./p. 132	We only report on relations for the company IPKO.	✓
GRI 203: Indirect economic impacts 2016					
103-1, 103-2 103-3	Explanation of the material topic and its boundary	Telekom Slovenije Group	<ul style="list-style-type: none"> <li>103-1, 103-2: 2.3./p. 64,</li> <li>103-3: 2.7.1./pp. 112, 113</li> </ul>		✓
203-1	Development and impact of significant infrastructure investments and services supported by the organisation	Telekom Slovenije Group, users, local and wider community	2.3./p. 64, 2.7.1./pp. 112, 113		✓
GRI 205: Anti-corruption 2016					
103-1 103-2 103-3	Explanation of the material topic and its boundary	Telekom Slovenije Group	1.13.1./p. 50	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./pp. 50-51		✓
205-2	Communication and training about anti-corruption policies and procedures	Telekom Slovenije	2.8.2./p. 129	We report on the number of employee training hours with regard to the content of the Code of Ethics of the Telekom Slovenije Group, which includes anti-corruption policies and practices. Training via the e-portal was only conducted at Telekom Slovenije.	✓
<b>GRI 206: Anti-competitive behaviour 2016</b>					
103-1 103-2 103-3	Explanation of the material topic and its boundary	Telekom Slovenije Group	1.13.1/pp. 50-51	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	2.5.5./p. 84		✓
<b>ENVIRONMENTAL IMPACTS</b>					
<b>GRI 302: : Energy 2016</b>					
103-1 103-2 103-3	Explanation of the material topic and its boundary	Telekom Slovenije Group	2.8.4./p. 139	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	2.8.4./pp. 139, 142, 148, 149		✓
302-4	Reduction of energy consumption	Telekom Slovenije, TSmedia, Avtenta, Ipko, Blicnet, Soline	2.8.4./pp. 139, 149		✓

GRI 304: Biodiversity 2016				
103-1 103-2 103-3	Explanation of the material topic and its boundary	Soline	2.8.4. p. 147	✓
304-1	Location and size of land managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	Soline, local and wider community	2.8.4. p. 147	✓
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	2.8.4. p. 147	✓
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		2.8.4./p. 142	✓
305-2	Energy indirect (Scope 2) GHG emissions		2.8.4./p. 142	✓
305-3	Other indirect (Scope 3) GHG emissions		2.8.2./p. 142	✓
305-5	Reduction of greenhouse gas (GHG) emissions	Soline, local and wider community	2.8.4./pp. 142, 148	✓
GRI 306: Effluents and waste 2016				
103-1 103-2 103-3	Explanation of the material topic and its boundary	Telekom Slovenije	2.8.4./p. 143	✓
306-2	Total weight of waste by type and disposal method	Telekom Slovenije	2.8.4./p. 143	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. 84 2.8.4./p. 139	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./pp. 84-85 2.8.2./p. 148		✓
SOCIAL IMPACTS					
GRI 401: Employment 2016					
103-1 103-2 103-3	Explanation of the material topic and its boundary	Telekom Slovenije Group	2.8.2./p. 124	103-3: The Code of Ethics is amended on the basis of periodic reviews performed by the compliance and integrity officer.	✓
401-1	Total number and rate of new employee hires and employee turnover	Telekom Slovenije Group	2.8.2./pp. 125, 126	Data by gender are not disclosed.	✓
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees, with respect to core activities.	Telekom Slovenije, GVO, TSmedia, Avtenta	2.8.2./p. 132		✓
401-3	Return to work and retention rates after parental leave, by gender	Telekom Slovenije Group, Telekom Slovenije,	2.8.2./p. 136	We do not report on the number of persons entitled to parental leave, the number of persons who were employed for an additional 12 months following their return from parental leave or on the retention rate of employees who exercised their right to parental leave.	✓
GRI 402: Labour/management relations 2016					
103-1 103-2 103-3	Explanation of the material topic and its boundary	Telekom Slovenije	2.8.2./p. 134		✓
402-1	Minimum notice period regarding significant operational changes, including whether this is specified in the collective agreement	Telekom Slovenije	2.8.2./p. 134		✓

GRI 403: Occupational health and safety 2016					
103-1 103-2 103-3	Explanation of the material topic and its boundary	Telekom Slovenije Group	2.8.2./p. 134		✓
403-1	Percentage of employees in health and safety committees that help advise on and monitor occupational health and safety programmes	Telekom Slovenije	2.8.2./p. 135		✓
403-2	Occupational injury rate	Telekom Slovenije Group	2.8.2./p. 135	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	2.8.2./p. 135		✓
403-4	Health and safety topics covered in formal agreements with trade unions [collective agreement]	Telekom Slovenije, GVO	2.8.2./p. 135		✓
GRI 404: Training and education 2016					
103-1 103-2 103-3	Explanation of the material topic and its boundary	Telekom Slovenije Group	2.8.2./p. 128	103-3: We use a questionnaire as an evaluation tool after the completion of every training course.	✓
404-1	Average hours of training per year per employee by gender and by employee category	Telekom Slovenije Group, Telekom Slovenije,	2.8.2./pp. 128, 129	We do not disclose data by employee category.	✓
404-2	Programmes for training and lifelong learning	Telekom Slovenije Group	2.8.2./pp. 130, 132	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	2.8.2./ p. 133	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	2.8.2./p. 124		✓
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	2.8.2./p. 127	We do not report data for employees by age.	✓
405-2	Ratio of basic salary and remuneration of women to men, by significant locations of operation	Telekom Slovenije	2.8.2./p. 132		✓

GRI 412: Human rights assessment 2016					
103-1 103-2 103-3		Telekom Slovenije Group	2.8.2./p. 124		✓
412-2	Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained	Telekom Slovenije	2.8.2./p. 129	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	2.8.2./p. 124	103-3: The Code of Ethics is amended on the basis of periodic reviews performed by the compliance and integrity officer.	✓
406-1	Total number of incidents of discrimination and corrective actions taken	Telekom Slovenije Group	2.8.2./p. 124		✓
GRI 408: Child labour 2016					
103-1 103-2 103-3	Explanation of the material topic and its boundary	Telekom Slovenije Group	2.8.2./p. 124	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	2.8.2./p. 124	The majority of the Telekom Slovenije Group's suppliers are from European countries.	✓
GRI 409: Forced or compulsory labour 2016					
103-1 103-2 103-3	Explanation of the material topic and its boundary	Telekom Slovenije Group	2.8.2./p. 124	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	2.8.2./p. 124	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: 1.13.1./ p. 50	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.	✓
415-1	Political contributions	Telekom Slovenije Group	1.13.1./ p. 51		✓
GRI 419: Socioeconomic compliance 2016					
103-1 103-2 103-3	Explanation of the material topic and its boundary	Telekom Slovenije Group	1.13.1./ p. 50	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. 85		✓
GRI 417: Marketing and labelling 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./pp. 107-109		✓
417-3	Total number of incidents of non-compliance with regulations and 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./pp. 109		✓
SPECIFIC SECTOR INDICATORS (MEDIA)					
Accessibility to media content					
G4-DMA		Telekom Slovenije, TSmedia, users, local and wider community	2.6.4./p. 103		✓
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. 103		✓

## 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. 64, 2.7.1./p. 112
I03	Health and safety measures for field personnel	Telekom Slovenije, Ipko, Blicnet	2.8.2./p. 135

### 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. 104
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./pp. 103, 104
PA4	Quantitative level of available telecommunication products and services in operating regions	Telekom Slovenije, Ipko	2.6.3./p. 95, 2.6.4./p. 104
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. 113
PA8	Policies and practices to publicly communicate on EMR-related issues	Telekom Slovenije, Ipko, users, local and wider community	2.8.4./p. 140
PA10	Initiatives to ensure the clarity of charges and tariffs	Telekom Slovenije, users	2.6.4./p. 102

### 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. 100
-----	--	----------------	---------------

## 2.10. STATEMENT OF THE INDEPENDENT AUDITOR



### 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 2017. 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. Stakeholders participated in a materiality analysis through a questionnaire that was accessible on the corporate website, while a separate questionnaire was drawn up for suppliers. Based on the results of those questionnaires, the materiality analysis was performed by 42 experts in the scope of five working groups. Their work is described in sections 1.10 and 2.9. Because the data for the Telekom Slovenije Group were likewise collected using specific-purpose questionnaires, we were unable to verify the direct source of certain data, as the contracting authority did not facilitate this. Because the report was still being drafted at the time of verification, we only verified the accuracy of references to sections of the report in the GRI content index (section 2.9).

#### 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 independent assurance with respect to the Sustainability Report's compliance with the GRI Standards 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 10 were sectoral indicators (Telecommunications and Media). Disclosures on management approaches and the results of performance indicators confirm the sustainability oriented nature 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 2017, 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.

#### 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. In that respect, we highlight recommendations regarding the more active and broader participation of stakeholders in the definition of materiality, the improved accuracy of references and the more transparent presentation of management approaches (GRI 103).





#### 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. In that respect, we highlight recommendations regarding the more active and broader participation of stakeholders in the definition of materiality, the improved accuracy of references and the more transparent presentation of management approaches (GRI 103).

In the name and on behalf of SIQ

Ljubljana, 15 March 2018

Miloš Seražin  
Management Systems Assessment



Igor Bizjak





FINANCIAL REPORT

# RELIABLE

WITH CLEAR GOALS AND DETERMINATION, WE ARE TAKING STEPS FORWARD TOGETHER TO CREATE A WORLD OF OPPORTUNITIES. IN OUR OPERATIONS, WE FOLLOW THE HIGHEST STANDARDS OF CORPORATE GOVERNANCE, WHICH APPLY TO ALL GROUP COMPANIES.



## CONTENTS

<b>3. ACCOUNTING REPORT, TELEKOM SLOVENIJE GROUP AND TELEKOM SLOVENIJE, D. D., FOR THE FINANCIAL YEAR 2017</b>	<b>168</b>
3.1. Introductory Notes	168
3.2. Accounting Report of the Telekom Slovenije Group	169
3.2.1. Financial Statements of the Telekom Slovenije Group	169
3.2.2. Notes to the consolidated financial statements	175
1. Reporting entity	175
2. Basis of measurement	175
3. Summary of significant accounting policies	177
4. Fair value determination	195
5. Composition of the Telekom Slovenije Group	196
6. Segment reporting	200
7. Net sales revenue	204
8. Other operating revenue	205
9. Cost of services	205
10. Labour costs	206
11. Other operating expenses	207
12. Finance revenue and finance expenses	207
13. Income tax, deferred tax assets and liabilities	208
14. Earnings per share	210
15. Intangible assets	210
16. Property, plant and equipment	213
17. Investments in associated companies and joint ventures	216
18. Other investments	216
19. Other non-current assets	217
20. Investment property	218
21. Assets held for sale	220
22. Inventories	220
23. Operating and other receivables	221
24. Short-term deferred costs and accrued revenue	221
25. Cash and cash equivalents	222
26. Equity and reserves	222
27. Long-term deferred revenue	225
28. Provisions	225
29. Non-current operating liabilities	226
30. Borrowings	227
31. Other non-current financial liabilities	228
32. Operating and other liabilities	228
33. Other current financial liabilities	228
34. Short-term deferred revenue	229
35. Accrued costs and expenses	229
36. Carrying amounts and fair values	229
37. Contingent liabilities	231
38. Related party transactions	233
39. Auditor's fee	237
40. Categories of financial instruments	238
41. Financial risk management	238
42. General authorisation and the right to use radio frequency and block numbers	244
43. Events after the reporting date	245
3.2.3. Independent auditor's report for the Telekom Slovenije Group	246

3.3.	Accounting Report of Telekom Slovenije, d. d.	252
3.3.1.	Separate Income Statement of Telekom Slovenije, d. d. for the period ended 31 December 2017	252
3.3.2.	Notes to separate financial statements of Telekom Slovenije, d. d.	258
	1. General information	258
	2. Basis of measurement	258
	3. Summary of significant accounting policies	260
	4. Fair value determination	277
	5. Net sales revenue	278
	6. Other operating revenue	279
	7. Cost of services	279
	8. Labour costs	280
	9. Other operating expenses	281
	10. Finance revenue and finance expenses	281
	11. Income tax expenses, deferred tax assets and deferred tax liabilities	282
	12. Earnings per share	284
	13. Intangible assets	284
	14. Property, plant and equipment	287
	15. Investments in subsidiaries	289
	16. Other investments	292
	17. Other non-current assets	294
	18. Investment property	295
	19. Assets held for sale	296
	20. Inventories	297
	21. Operating and other receivables	297
	22. Short-term deferred costs and accrued revenue	298
	23. Cash and cash equivalents	298
	24. Equity and reserves	299
	25. Long-term deferred revenue	302
	26. Provisions	302
	27. Non-current operating liabilities	303
	28. Borrowings	304
	29. Other non-current financial liabilities	305
	30. Operating and other liabilities	305
	31. Other current financial liabilities	305
	32. Short-term deferred revenue	306
	33. Accrued costs and expenses	306
	34. Carrying amounts and fair values	306
	35. Liabilities and receivables related to operating lease	308
	36. Related party transactions	310
	37. Auditor's fee	316
	38. Categories of financial instruments	317
	39. Financial risk management	317
	40. General authorisation and the right to use radio frequency and block numbers	323
	41. Events after the reporting date	324
3.3.3.	Independent auditor's report for Telekom Slovenije, d. d.	325

# 3. ACCOUNTING REPORT, TELEKOM SLOVENIJE GROUP AND TELEKOM SLOVENIJE, D. D., FOR THE FINANCIAL YEAR 2017

## 3.1. INTRODUCTORY NOTES

In addition to the introductory notes, the accounting report herein comprises two major sections:

- Accounting Report of the Telekom Slovenije Group
- 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 applicable law and with the International Financial Reporting Standards as adopted by the EU [hereinafter IFRS].

The auditing firm Deloitte 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 as at 31 December 2017

in EUR thousand	Note	2017	2016
Net sales revenue	7	716,174	701,748
Other operating income	8	9,867	9,433
Cost of goods sold		-66,074	-62,304
Costs of materials and energy costs		-15,331	-14,706
Costs of services	9	-326,833	-301,402
Labour costs	10	-118,964	-116,053
Amortisation	15, 16, 20	-164,179	-163,142
Other operating expenses	11	-30,099	-17,452
<b>Total operating expenses</b>		<b>-721,480</b>	<b>-675,059</b>
<b>Operating profits</b>		<b>4,561</b>	<b>36,122</b>
Finance income	12	5,461	23,557
Finance expenses	12	-8,262	-19,396
Share in profit or loss of associates and joint ventures	12, 17	5	-6,415
<b>Profit before tax</b>		<b>1,765</b>	<b>33,868</b>
Income tax expense	13	-1,140	-541
Deferred tax	13	8,398	6,613
<b>Profit for the period</b>		<b>9,023</b>	<b>39,940</b>
<b>Attributable to:</b>			
Majority interest		11,203	0
Non-controlling interest		-2,180	0

Notes on pages from 175 to 245 are a constituent part of these consolidated financial statements.

Consolidated Statement of Other Comprehensive Income  
for the period ended 31 December 2017

in EUR thousand	Note	2017	2016
<b>Profit for the period</b>		<b>9,023</b>	<b>39,940</b>
<i>Other comprehensive income that may be reclassified subsequently to profit or loss</i>			
<b>Translation reserve</b>		<b>24</b>	<b>-1</b>
Change in fair value of available-for-sale investments	26	342	1
Deferred tax	13	-65	0
Change in reclassifying the fair value of available-for-sale investments to profit or loss	26	0	-300
Deferred tax on reclassifying the fair value of available-for-sale investments to profit or loss	13	0	51
Change in deferred tax due to recalculation of tax rate	13	0	-17
<b>Change in fair value of available-for-sale investments (net)</b>		<b>277</b>	<b>-265</b>
Change in fair value of hedging financial instruments	26	-583	0
Deferred tax	13	111	0
<b>Change in fair value of hedging financial instruments (net)</b>		<b>-472</b>	<b>0</b>
<i>Other comprehensive income that may not be reclassified subsequently to profit or loss</i>			
<b>Change in the fair value for actuarial deficits and surpluses</b>		<b>-603</b>	<b>-435</b>
<b>Other comprehensive income for the period after tax</b>		<b>-774</b>	<b>-701</b>
<b>Total comprehensive income for the period</b>		<b>8,249</b>	<b>39,239</b>
<b>Total comprehensive income attributable to:</b>			
Majority interest		10,429	0
Non-controlling interest		-2,180	0

Notes on pages from 175 to 245 are a constituent part of these consolidated financial statements.

## Consolidated balance sheet as at 31 December 2017

in EUR thousand	Note	2017	2016
<b>ASSETS</b>			
Intangible assets	15	214,412	209,232
Property, plant and equipment	16	679,239	690,140
Investment in a joint venture	17	129	124
Other investments	18	4,952	3,177
Other non-current assets	19	42,298	32,845
Investment property	20	4,006	4,180
Deferred tax assets	13	44,876	36,141
<b>Total non-current assets</b>		<b>989,912</b>	<b>975,839</b>
Assets held for sale	21	754	1,818
Inventories	22	22,239	23,512
Trade and other receivables	23	159,818	150,823
Short-term deferred costs and accrued revenue	24	72,053	53,057
Income tax receivables		6	145
Current investments	18	77,967	119,670
Cash and cash equivalents	25	29,245	42,554
<b>Total current assets</b>		<b>362,082</b>	<b>391,579</b>
<b>Total assets</b>		<b>1,351,994</b>	<b>1,367,419</b>
<b>EQUITY AND LIABILITIES</b>			
Called-up capital	26	272,721	272,721
Capital surplus	26	181,488	181,488
Revenue reserves	26	106,479	238,773
<i>Legal reserves</i>		51,612	51,612
<i>Treasury share reserve</i>		3,671	3,671
<i>Treasury share and interests</i>		-3,671	-3,671
<i>Statutory reserve</i>		54,854	54,854
<i>Other revenue reserve</i>		13	132,307
Retained earnings	26	125,039	14,788
<i>Retained earnings from previous periods</i>		113,836	-4,922
<i>Profit for the period</i>		11,203	19,710
Fair value reserve	26	-2,102	-1,304
Translation reserve	26	0	-24
<b>Total equity attributed to the owners of the controlling company</b>	<b>26</b>	<b>683,625</b>	<b>706,442</b>
Non-controlling interest	26	-2,760	-580
<b>Equity, total</b>		<b>680,865</b>	<b>705,862</b>
Long-term deferred revenue	27	13,229	10,794
Provisions	28	57,501	38,586
Long-term operating liabilities	29	16,426	11,572
Interest-bearing borrowings	30	168,890	156
Other non-current financial liabilities	31	100,526	99,861
Deferred tax liabilities	13	1,882	1,280
<b>Total non-current liabilities</b>		<b>358,454</b>	<b>162,249</b>
Operating and other liabilities	32	135,211	140,664
Income tax payable		574	341
Current borrowings and loans	30	115,252	304,379
Other current financial liabilities	33	4,329	4,330
Short-term deferred income	34	8,678	9,407
Accrued costs and expenses	35	48,631	40,187
<b>Total current liabilities</b>		<b>312,675</b>	<b>499,308</b>
<b>Total liabilities</b>		<b>671,129</b>	<b>661,557</b>
<b>Total equity and liabilities</b>		<b>1,351,994</b>	<b>1,367,419</b>

Notes on pages from 175 to 245 are a constituent part of these consolidated financial statements.

## Consolidated Statement of Changes in Equity for the period ended 31 December 2017

in EUR thousand	Called-up capital	Capital surplus	Revenue reserves					Retained earnings					Translation reserve	Total	Non-controlling interest	Total
			Legal reserves	Treasury share reserve	Treasury shares	Statutory reserve	Other revenue reserve	Retained earnings from previous periods	Profit for the period	Fair value reserve for financial instruments	Fair value reserve for hedging financial instruments (net)	Reserves for actuarial deficits and surpluses				
Balance at 1.1.2017	272,721	181,488	51,612	3,671	-3,671	54,854	132,307	-4,922	19,710	678	0	-1,982	-24	706,442	-580	705,862
Profit for the period									11,203					11,203	-2,180	9,023
Other comprehensive profit or loss for the period										277	-472	-603	24	-774		-774
<b>Total comprehensive income for the period</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>11,203</b>	<b>277</b>	<b>-472</b>	<b>-603</b>	<b>24</b>	<b>10,429</b>	<b>-2,180</b>	<b>8,249</b>
Dividends paid								-32,514						-32,514		-32,514
Transactions with owners	0	0	0	0	0	0	0	-32,514	0	0	0	0	0	-32,514	0	-32,514
Transfer of profit or loss from previous period to retained earnings or losses								19,710	-19,710					0		0
Release of other reserves							-132,294	132,294						0		0
Other								-732						-732		-732
<b>Balance at 31 December 2017</b>	<b>272,721</b>	<b>181,488</b>	<b>51,612</b>	<b>3,671</b>	<b>-3,671</b>	<b>54,854</b>	<b>13</b>	<b>113,836</b>	<b>11,203</b>	<b>955</b>	<b>-472</b>	<b>-2,585</b>	<b>0</b>	<b>683,625</b>	<b>-2,760</b>	<b>680,865</b>

\* More details in [note 26](#).

## Consolidated Statement of Changes in Equity for the period ended 31 December 2016

in EUR thousand	Called-up capital	Capital surplus	Revenue reserves				Retained earnings						Total	Non-controlling interest	Total	
			Legal reserves	Treasury share reserve	Treasury shares	Statutory reserve	Other revenue reserve	Retained earnings from previous periods	Profit for the period	Fair value reserve for financial instruments	Fair value reserve for hedging financial instruments (net)	Reserves for actuarial deficits and surpluses				Translation reserve
Balance at 1.1. 2016	272,721	181,488	51,612	3,671	-3,671	54,854	112,077	-38,957	68,559	943	0	-1,547	-23	701,727	0	701,727
Profit for the period									39,940					39,940		39,940
Other comprehensive profit or loss for the period										-265		-435	-1	-701		-701
<b>Total comprehensive income for the period</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>39,940</b>	<b>-265</b>	<b>0</b>	<b>-435</b>	<b>-1</b>	<b>39,239</b>	<b>0</b>	<b>39,239</b>
Dividends paid								-32,527						-32,527		-32,527
<b>Transactions with owners</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-32,527</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-32,527</b>	<b>0</b>	<b>-32,527</b>
Transfer of profit or loss from previous period to retained earnings or losses								68,559	-68,559					0		0
Transfer to reserves, pursuant to Management's decision							20,230		-20,230					0		0
Changes in the composition of the Group								-1,997						-1,997	-580	-2,577
<b>Balance at 31 December 2016</b>	<b>272,721</b>	<b>181,488</b>	<b>51,612</b>	<b>3,671</b>	<b>-3,671</b>	<b>54,854</b>	<b>132,307</b>	<b>-4,922</b>	<b>19,710</b>	<b>678</b>	<b>0</b>	<b>-1,982</b>	<b>-24</b>	<b>706,442</b>	<b>-580</b>	<b>705,862</b>

Notes on pages from 175 to 245 are a constituent part of these consolidated financial statements.

## Consolidated Statement of Cash Flows for the period ended 31 December 2017

in EUR thousand	2017	2016
<b>Cash flows from operating activities</b>		
<b>Net profit for the period</b>	<b>9,023</b>	<b>39,940</b>
<b>Adjustments for:</b>		
Amortisation	164,179	163,142
Impairment and write-offs of property, plant and equipment, intangible assets, and investment property	547	2,183
Gain or loss on disposal of property, plant and equipment	-70	669
Finance income	-5,461	-23,557
Finance expenses	8,257	25,811
Tax on profit with deferred taxes	-7,258	-6,072
<b>Cash flows from operating activities prior to changes in net operating current assets and provisions</b>	<b>169,217</b>	<b>202,116</b>
Change in trade and other receivables	-8,995	2,745
Change in deferred costs and accrued revenue	-17,427	-11,509
Change in other non-current assets	-9,453	-1,077
Change in inventories	2,660	3,638
Change in provisions	18,915	-5,436
Change in long-term and short-term deferred income	1,706	-354
Change in accrued costs and expenses	9,891	9,083
Change in operating and other liabilities	1,299	14,942
Income tax paid	-746	-314
<b>Net cash from operating activities</b>	<b>167,067</b>	<b>213,834</b>
<b>Cash flows from investing activities</b>		
<b>Receipts from investing activities</b>	<b>124,646</b>	<b>8,605</b>
Proceeds from sale of property, plant and equipment	4,049	1,061
Dividends received	253	168
Interest received	4	121
Gain on sale of investment property	0	195
Disposal of non-current investments	338	6,689
Disposal of current investments	120,002	371
<b>Disbursements from investing activities</b>	<b>-244,231</b>	<b>-160,122</b>
Acquisition of property, plant and equipment	-92,138	-84,032
Acquisition of intangible non-current assets	-66,796	-63,706
Acquisition of investments	-80,771	-3,620
Investments in associates and joint ventures	-4,525	-1,081
Investments in the form of loans provided	-1	-7,683
<b>Net cash used in investing activities</b>	<b>-119,585</b>	<b>-151,517</b>
<b>Cash flows from financing activities</b>		
<b>Receipts from financing activities</b>	<b>0</b>	<b>420,000</b>
Non-current borrowings	0	300,000
Current borrowings	0	20,000
Issued bonds	0	100,000
<b>Disbursements from financing activities</b>	<b>-60,791</b>	<b>-450,377</b>
Costs for approving borrowings and issue of bonds	-5	-1,313
Repayment of current borrowings	0	-70,500
Repayment of non-current borrowings	-20,833	-30,222
Repayment of issued bonds	0	-300,000
Interest paid	-7,402	-15,890
Dividends paid	-32,551	-32,452
<b>Cash flow used in financing activities</b>	<b>-60,791</b>	<b>-30,377</b>
<b>Net increase/decrease in cash and cash equivalents</b>	<b>-13,309</b>	<b>31,940</b>
<b>Opening balance of cash</b>	<b>42,554</b>	<b>10,614</b>
<b>Closing balance of cash</b>	<b>29,245</b>	<b>42,554</b>

Notes on pages from 175 to 245 are a constituent part of these consolidated financial statements.

## 3.2.2. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. REPORTING ENTITY

Telekom Slovenije, d. d. [hereinafter 'Telekom Slovenije' or 'company'] and its subsidiaries and the joint venture comprise the Telekom Slovenije Group [hereinafter 'Telekom Slovenije Group' or 'Group'].

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 2017, the Republic of Slovenia holds 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 MEASUREMENT

#### 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 20 March 2018.

#### b. BASIS OF MEASUREMENT

The Group's 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 non-listed available-for-sale assets 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 revenue	purchase cost
Current investments	amortised cost
Cash and cash equivalents	purchase cost

Non-current assets	Method of measurement
Long-term contractual obligations	purchase cost
Provisions	
<ul style="list-style-type: none"> <li>• whereof for jubilee benefits and termination benefits</li> </ul>	present value of estimated future payments based on actuary calculation
<ul style="list-style-type: none"> <li>• other provisions</li> </ul>	present value of future settlements
Long-term operating liabilities	amortised cost
Interest-bearing borrowings	amortised cost
Other non-current financial liabilities	amortised cost
Deferred tax liabilities	non-discounted value measured at tax rates

Short-term liabilities	Method of measurement
Operating and other liabilities	amortised cost
Current borrowings and loans	amortised cost
Other current financial liabilities	amortised cost
Short-term deferred income	purchase cost
Accrued costs and expenses	purchase cost

### c. FUNCTIONAL AND PRESENTATION CURRENCY

The consolidated financial statements are presented in Euro, 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 the Group's financial statements include:

- assessment whether a lease is operating or finance lease – [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 3.c](#)
- assessment whether contingent liabilities or provisions are considered in the claims – [Note 3.p](#) and [37](#).

## 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](#);
- estimate of the amount of provisions – [Note 3.p](#) and [28](#).

## 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 2017. 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 Telekom Slovenije 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

An associate is an entity in which a group 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. Cash, 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 equity, or if there were other signs of impairment, the Group assessed the need for impairment. Based on verifying indications of impairment, the Group carried out a valuation of fair values for CGUs: Antenna TV SL, TSmedia and IPKO. A certified business value appraiser carried out a valuation of values for individual CGUs on 30 September 2017 and on 31 December 2017 respectively. According to the report of the certified appraiser, it is established that on 31 December 2017 no indications exist that would require the Group to impair the assets.

The fair value measurement of a cash generating unit was categorised at Level 3.

### 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 generally **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, software 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
• programme 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 42](#)).

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. Write-off is carried out should it be established that a certain project 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 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 and direct labour. Costs of construction of property, plant and equipment that are included in cost are recognised as lower costs within profit or loss.

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. Write-off is carried out should it be established that a certain project 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 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 to 25
• exchange switches	5 to 12.5
• other equipment	1 to 15

In 2017, the Group has not changed the Management's assessment of useful lives, except for the useful lives of terrestrial optical fiber network, Lan and IP equipment of subscribers and aggregates. The combined effect of the change in the period is reduced depreciation of property, plant and equipment in the amount of 2,639 thousand EUR.

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. All costs related to leased assets (including depreciation) are recognised as expenses in the period.

## g. FINANCIAL ASSETS

The Group recognizes a financial asset only when it becomes a party to contractual provisions of the financial instrument. 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, financial assets are classified into following groups:

- a) financial assets measured at fair value through profit or loss,
- b) investments in loans and receivables.
- c) available-for-sale financial assets, and

**a) 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.

Derivative financial instruments are used to hedge a company's exposure to risks arising from financing and investing activities. The method of recognition of gains or losses arising from the change in fair value depends on whether hedge accounting has been applied or not. If hedge accounting has not been applied, derivative financial instruments are recognized at fair value, and changes in fair value are recognized in the income statement. When hedge accounting has been applied, the recognition of gains or losses arising from the change in fair value depends on the type of hedging:

- when a derivative financial instrument is designated as a hedge of the exposure to variability in cash flows attributable to a particular risk associated with a recognized asset or liability of a forecast transaction, the portion of the gain or loss on the hedging instrument that is ascertained as an effective hedge is recognized directly in equity and in the statement of comprehensive income. When the forecast transaction becomes an asset or liability, the associated cumulative gains or losses are removed from equity and entered into the initial measurement of the acquisition cost or other carrying amount of the asset or liability. For other hedges of the exposure to variability in cash flows, the amounts recognized directly in equity are included in net profit or loss in the period during which the hedged forecast transaction affects net profit or loss, and the reclassification is recognized in the statement of comprehensive income;
- the ineffective portion of the hedge is immediately recognized in the income statement.

**b) Investments in loans and receivables** are measured at fair value upon the initial recognition. After the initial recognition, they are measured in accordance with the amortised cost method using the effective interest rate method less impairment losses. The Group recognizes loans and receivables on the date they originated [for more details about the receivables, see [note 3.I, Trade and other receivables](#)].

**c) 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.

## 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 expenses.

**b) Investments in loans and receivables** - 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 a revaluation finance expense.

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.

**c) Available-for-sale financial assets**

When a decline in the value of an available-for-sale financial asset has been recognised the cumulative loss that had been recognised 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.

## 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 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.

## 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. 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 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 impaired 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 fair value. 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 41 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 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 REVENUE

The item of short-term deferrals and accruals includes mostly deferred costs, accrued revenue for services already rendered and goods supplied but not invoiced, accrued revenue and deferred costs in connection with international services, and short-term portion of sales incentives. Short-term deferred costs and accrued revenue 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 REVENUE

Long-term deferred revenue 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 revenue 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 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 of the actions' outcome made by the relevant departments or external staff. 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 jubilee benefits and termination benefits** are formed on the basis of statutory requirements, the collective agreement and the internal rules and regulations, according to which the Group is obliged to pay jubilee benefits and termination benefits. Employee benefit liabilities are calculated by a certified actuary. Liabilities are formed in the amount of estimated future payments of termination benefits and jubilee benefits discounted at the reporting date. A calculation is made per individual employees taking into account the cost of termination benefits and the cost of all expected jubilee benefits 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](#).

**Provisions for costs of removal of base stations** are made for costs of the removal of base stations and the restoration of leased property to its original condition. 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 Group 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, interest rate swap liabilities, 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. OPERATING AND OTHER LIABILITIES

Operating and other liabilities are initially stated at fair value. Subsequent to initial recognition, operating and other liabilities 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.

An entity 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 EXPENSES**

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 an entity's other 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 assets and deferred tax liabilities are offset if there is a legal right to offset deferred tax assets and deferred income tax liabilities and if the deferred tax is related to the same taxable legal entity and the same taxation authority.

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 or other comprehensive income.

## 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 2017 and 31 December 2016, the income statement for the period 31 December 2017, 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.

### INITIAL APPLICATION OF NEW AMENDMENTS TO THE EXISTING STANDARDS EFFECTIVE FOR THE CURRENT REPORTING PERIOD

The following amendments to the existing standards and new interpretation issued by the International Accounting Standards Board (IASB) and adopted by the EU are effective for the current reporting period:

**Amendments to IAS 7 "Statement of Cash Flows"** - Disclosure Initiative - adopted by EU on 6 November 2017 [effective for annual periods beginning on or after 1 January 2017],

**Amendments to IAS 12 "Income Taxes"** - Recognition of Deferred Tax Assets for Unrealised Losses - adopted by EU on 6 November 2017 [effective for annual periods beginning on or after 1 January 2017].

## STANDARDS AND AMENDMENTS TO THE EXISTING STANDARDS ISSUED BY IASB AND ADOPTED BY THE EU BUT NOT YET EFFECTIVE

At the date of authorisation of these financial statements, the following new standards issued by IASB and adopted by the EU are not yet effective:

**IFRS 9 - "Financial Instruments"** - adopted by the EU on 22 November 2016. It is effective for annual periods beginning on or after 1 January 2018. To be applied retroactively 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 to cash flows that are solely payments of principal and interest on the principal outstanding.

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.

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. However, extensive additional disclosures regarding an entity's risk management and hedging activities are required.

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.

The Group anticipates that the IFRS 9 will have no material impact on its financial statements. The classification and measurement of the Group's financial instruments will not materially change while taking into account the provisions of IFRS 9.

The Group will classify financial assets into two categories:

- financial assets measured at amortized cost,
- financial assets measured at fair value through other comprehensive income.

The classification will depend on the Group's business model for managing financial assets and their contractual cash flow characteristics.

In accordance with the new standard, the Group will classify investments in loans and receivables in the category of financial assets measured at amortized cost.

Investments in equity instruments, currently classified as available for sale and stated at cost, will be irrevocably classified into the category of financial assets managed at fair value through other comprehensive income upon initial recognition. The Group will recognize any changes in fair value of these instruments in OCI. When an investment is derecognized, the cumulative amount of changes in fair value remains in other comprehensive income and is not reclassified to the income statement. Investments in

equity instruments currently managed at fair value through other comprehensive income and listed on the stock exchange will continue to be stated. Dividends are recognized in the income statement.

At each reporting date, the Group measures the value adjustment for the loss incurred for each financial instrument as an amount that is equivalent to expected credit losses for the entire duration if the credit risk for the said financial instrument has significantly increased since initial recognition. For trade receivables and contracts with customers that do not include a significant financing component, the Group will use a simplified approach that requires value adjustment for the loss always to be measured as an amount that is equivalent to expected credit losses in the entire duration.

IFRS 9 includes a general orientation that companies must apply this standard retroactively in accordance with IFRS 8 – Accounting policies, changes in accounting estimates and errors. However, this standard sets a number of exemptions concerning impairments. The Group has established that there is no significant increase in credit risk since initial recognition of financial instruments, hence no restatement of prior periods will be made. The Group also does not expect any increases in allowances of receivables due to the new receivables impairment model.

**IFRS 15 – “Revenue from Contracts with Customers”** and amendments to IFRS 15 “Effective date of IFRS 15” – adopted by the EU on 22 September 2016 [effective for annual periods beginning on or after 1 January 2018], and

**Amendments to IFRS 15 “Revenue from Contracts with Customers”** – Clarifications to IFRS 15 Revenue from Contracts with Customers – adopted by the EU on 31 October 2017 [effective for annual periods beginning on or after 1 January 2018].

The new Standard provides a framework that replaces existing revenue recognition guidance in IFRS. The Group 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) the Group transfers control of goods or services to a customer at the amount to which the Group expects to be entitled. Depending on whether certain criteria are met, revenue is recognised:

- over the period or
- at a point in time.

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 will recognize revenue from contracts with customers on the basis of a contract with a customer and when goods and services are passed to the customer in the amount that reflects the compensation to which the Group expects to be entitled in exchange for these goods and services.

Each promised good or service is a separate performance obligation if it is distinct. It is distinct when the customer can benefit from said good or service. Performance obligation is a promise to provide goods or services to the customer.

The Group recognizes revenue primarily by providing mobile and fixed telecommunication services. The Group has identified the following performance obligations:

- service,
- goods,
- installation.

In the case of contracts with customers with a length of 12 or 24 months that include several performance obligations, the Group allocates the price of the whole transaction to individual performance obligations on the basis of relative stand-alone selling prices of the goods or services (stand-alone selling price is a price at which the Group would sell goods or services separately to the customer – not in the

bundle]. The price of the whole transaction is the amount of the compensation which the Group expects in exchange for transferring promised goods or services. The price can be fixed or determinable.

Revenue is recognized when the Group satisfies a performance obligation, i.e. when control of a good or service is transferred to a customer. A customer obtains control of a good or service if it has the ability to direct the use of and to receive the benefit from the good or service, and the ability to prevent others from using and receiving the benefit from the good or service.

In accordance with the new standard, the Group will reveal qualitative and quantitative data on:

- contracts with customers
- significant assessments and assessment changes in the use of this standard for the said contracts and
- all assets recognized on the basis of costs of acquiring or fulfilling a contract with a customer

It is expected that the new standard, when initially applied, will have an 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 delineated the costs of sales incentives even before the new standard came into effect, hence the new standard will have no material impact on the financial statements of the Group, since the Group will stop delineating sales incentives and will recognize contract assets due to the transition to a new standard.

For the transition to a new standard, the Telekom Slovenije Group will use the cumulative effect method. The Group will recognize the contracts still active on 1 January 2018 as if they were recognized in accordance with IFRS 15 from the very beginning. The cumulative effect due to the transition to a new standard will be recognized as an adjustment of the initial balance of retained earnings in the period of initial use. Comparative data from the past period will not be adjusted. The Group will instead clarify the differences of the changed items due to the adoption of IFRS 15 in the balance sheet and income statement for the period.

**IFRS 16 - "Leases"** - adopted by the EU on 31 October 2017 [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.

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.

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.

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 standard, when initially applied, will have a significant impact on the Group's financial statements, since it will require the Group to recognise in its balance sheet the right-of-use assets relating to operating leases for which the Company acts as a lessee. . The Group is currently implementing the new standard and setting up new IT support for the new standard. Valuation changes will be analysed throughout this project, therefore reliable impact assessment will not be possible until after the project is completed.

## NEW STANDARDS AND AMENDMENTS TO THE EXISTING STANDARDS ISSUED BY THE IASB BUT NOT YET ADOPTED BY THE EU

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB), except for the following new standards, amendments to the existing standards and new interpretations, which on 31 December 2017 (the effective dates stated below is for IFRS in full) were not endorsed for use in EU:

**IFRS 14 “Regulatory Deferral Accounts”** [effective for annual periods beginning on or after 1 January 2016] - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,

IFRS 14 permits first-time adopters of IFRS to continue recognising regulatory deferral accounts in accordance with their previous generally accepted accounting policies (GAAP), upon their first-time adoption of IFRS.

**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].

The amendments implement accounting requirements on the following areas: (a) the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; (b) share-based payment transactions with a net settlement feature for withholding tax obligations; and (c) 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.

**Amendments to IFRS 9 “Financial Instruments”** - Prepayment Features with Negative Compensation [effective for annual periods beginning on or after 1 January 2019].

The existing requirements in IFRS 9 regarding termination rights are amended in order to allow measurement at amortized cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments. Under the amendments, the sign of the prepayment amount is not relevant – depending on the interest rate prevailing at the time of termination, a payment may also be made in favour of the contracting party effecting the early repayment. The calculation of this compensation payment must be the same both in the case of an early repayment penalty as well as in the case of a early repayment gain.

**Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures”** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments [effective date deferred indefinitely until the research project on the equity method has been concluded].

The amendments refer to the conflict between IAS 28 and IFRS 10 and clarify that the extent of gain or loss recognition for transactions between an investor and its associate or joint venture depends on whether the sale or contribution of assets constitutes a business.

**Amendments to IAS 7 “Statement of Cash Flows”** - Disclosure Initiative – published by the IASB on 29 January 2016. The amendments are intended to clarify IAS 7 to improve information provided to users of financial statements about an entity’s financing activities. Under the amendments, an entity must provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities; including changes from cash flows and non-cash changes.

**Amendments to IAS 12 “Income Taxes”** - Recognition of Deferred Tax Assets for Unrealised Losses – published by the IASB on 19 January 2016.

The amendments to IAS 12 clarify how and when to account for deferred tax assets related to debt instruments measured at fair value.

**Amendments to IAS 28 “Investments in Associates and Joint Ventures”** - Long-term Interests in Associates and Joint Ventures [effective for annual periods beginning on or after 1 January 2019].

Amendments to clarify that IFRS 9, including the impairment requirements, must be applied to long-term interests in an associate or joint venture that, in substance, form part of the net investment in the associate or joint venture but to which the equity method is not applied. Paragraph 41 is deleted because the Board felt that it merely reiterated requirements in IFRS 9 and that it had created confusion regarding the accounting for long-term interests.

**Amendments to IAS 40 “Investment Property”** - Transfers of Investment Property [effective for annual periods beginning on or after 1 January 2018].

The amendments specify that an entity must transfer a property into, or out of, investment property only when there is evidence of a change in use. A change in use occurs if a property meets, or ceases to meet, the definition of investment property. A change in management’s intentions for the use of a property by itself does not constitute evidence of a change in use. The amendments also clarify that the previous exhaustive list of evidence in paragraph 57 of the standard is re-characterized as a non-exhaustive list of examples.

Amendments to various standards due to **“Improvements to IFRSs (cycle 2014 - 2016)”** resulting from the annual improvement project of IFRS [IFRS 1, IFRS 12, IAS 28] primarily with a view to removing inconsistencies and clarifying wording [amendments to IFRS 12 are effective for annual periods beginning on or after 1 January 2017, and amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018].

The amendments include: [i] removal of short-term exemptions in E3–E7 of IFRS 1, because their intended purpose was served, [ii] clarification of the scope of IFRS 12 that the requirements of IFRS 12 specifying the disclosure requirements, except for those in paragraphs B10–B16, apply to an entity’s interests listed in paragraph 5 which are classified as held for sale or as discontinued operations in accordance with IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations, [iii] clarification that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

Amendments to various standards due to **“Improvements to IFRSs (cycle 2015-2017)”** resulting from the annual improvement project of IFRS [IFRS 3, IFRS 11, IAS 12, IAS 23] primarily with a view to removing inconsistencies and clarifying wording [effective for annual periods beginning on or after 1 January 2019].

The amendments clarify that: when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business [IFRS 3]; when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business [IFRS 11]; an entity recognises all income tax consequences of dividends in the same way [IAS 12]; an entity treats any outstanding borrowing made specifically to obtain a qualifying asset as part of general borrowings when that qualifying asset is ready for its intended use or sale [IAS 23].

**IFRIC 22 “Foreign Currency Transactions and Advance Consideration”** [effective for annual periods beginning on or after 1 January 2018].

The interpretation clarifies that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.

**IFRIC 23 “Uncertainty over Income Tax Treatments”** [effective for annual periods beginning on or after 1 January 2019].

It may be unclear how tax laws apply to a particular transaction or circumstance or whether the entity's tax treatment will be accepted by the taxation authorities. IAS 12 Income Taxes specifies how to recognize current and deferred tax, but not how to reflect the effects of uncertainty. **IFRIC 23** complements the requirements of IAS 12 with the provisions as to how to reflect the effects of uncertainty in the recognition of income taxes.

The Group anticipates that the adoption of these new standards, amendments to the existing standards and new interpretations will have no material impact on the financial statements of the Group in the period of initial application.

Hedge accounting regarding the portfolio of financial assets and liabilities, whose principles have not been adopted by the EU, is still unregulated.

## 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.

### 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;

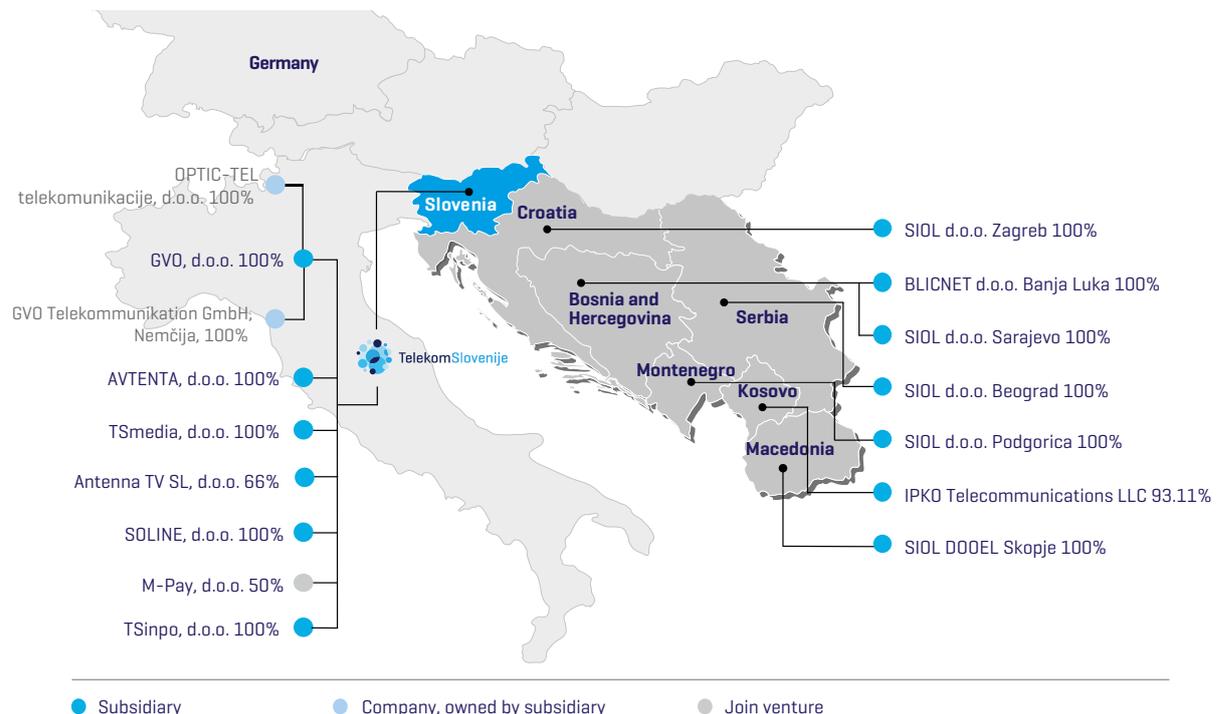
Level 2: other models used to determine fair value based on assumptions and material impact on fair value in line with observed current market transactions with the same instruments either directly or indirectly;

Level 3: other models used to determine fair value based on assumptions and material impact on fair value that are not in line with observed current market transactions with the same instruments and investments.

## 5. COMPOSITION OF THE TELEKOM SLOVENIJE GROUP

### SUBSIDIARIES AND THE JOINT VENTURE<sup>114</sup>

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



114 GRI GS 102-45

## SUBSIDIARIES

Company	Address	Country	Core activity	Tax rate	Share in equity [%]	Share in voting rights [%] 2017	Share in voting rights [%] 2016	Carrying amount of equity in EUR thousand		Profit or loss in EUR thousand		
								2017	2016	2017	2016	
<b>SLOVENIA</b>												
1	GVO, gradnja in vzdrževanje telekomunikacijskih omrežij, d. o. o.	Cigaletova 10, Ljubljana	Slovenia	building and maintenance works on telecommunication networks	19%	100%	100%	100%	22,715	18,988	3,657	2,120
2	Avtenta, napredne poslovne rešitve, d. o. o.	Stegne 19, Ljubljana	Slovenia	systems integrator	19%	100%	100%	100%	2,090	1,749	325	175
3	TSmedia, medijske vsebine in storitve, d. o. o.	Stegne 19, Ljubljana	Slovenia	multimedia and internet services	19%	100%	100%	100%	-67	-2,939	-768	-1,592
4	SOLINE Pridelava soli, d. o. o.	Seča 115, Portorož	Slovenia	production of salt and preservation and management of a natural park	19%	100%	100%	100%	2,729	2,666	61	-233
5	Antenna TV SL, d. o. o.*	Stegne 19, Ljubljana	Slovenia	television-related services	19%	66%	66%	66%	-8,117	-1,650	-6,413	-13,074
6	SETCCE, d. o. o.**	Litostrojska cesta 58 A	Slovenia	paper and cardboard tubes	19%	100%	100%	0%	53	0	-1	0
7	Optic-Tel, d. o. o.***	Letališka cesta 32, Ljubljana	Slovenia	telecommunication services	19%	100%	100%	0%	5,109	0	0	0

\* part of the Group since 31 December 2016

\*\* part of the Group since 31 October 2017

\*\*\* part of the Group since 31 December 2017

## SUBSIDIARIES

Company	Address	Country	Core activity	Tax rate	Share in equity [%]	Share in voting rights [%] 2017	Share in voting rights [%] 2016	Carrying amount of equity in EUR thousand		Profit or loss in EUR thousand		
								2017	2016	2017	2016	
<b>SUBSIDIARIES ABROAD</b>												
6	IPKO Telecommunications LLC	Lagjja Ulpiana, Rruga Zija Shemsiu nr. 34, Priština	Kosovo	telecommunication services	10%	93%	93%	93%	-6,991	-3,868	-2,594	-5,956
7	Blicnet d. o. o., Banja Luka	Majke Jugovića 25, Banja Luka	Bosnia and Herzegovina	telecommunication services	10%	100%	100%	100%	16,144	15,038	1,314	1,167
10	SIOL, d. o. o., Zagreb	Margaretska 3, Zagreb	Croatia	telecommunication services	20%	100%	100%	100%	720	610	109	20
11	SIOL d. o. o., Sarajevo	Fra Andela Zvizdovića 1, Sarajevo	Bosnia and Herzegovina	telecommunication services	10%	100%	100%	100%	1,749	1,747	2	22
12	SIOL, d. o. o., Podgorica	Bulevar Svetog Petra Cetinjskog br.106, Podgorica	Montenegro	telecommunication services	9%	100%	100%	100%	2,789	2,701	88	61
13	SIOL d. o. o., Skopje	Dimitrie Chupovski no. 4-1/14, Skopje	Macedonia	telecommunication services	10%	100%	100%	100%	1,372	1,195	159	129
14	SIOL D. O. O. BEOGRAD-PALILULA	Dvadesetsedmog Marta 11, Beograd Palilula	Serbia	telecommunication services	15%	100%	100%	100%	329	225	94	65
15	GVO Telekommunikation GmbH	Daimlerstr. 3, Stadtlohn,	Germany	building and maintenance works on telecommunication networks	15%	100%	100%	100%	-59	-58	-1	-3

## ASSOCIATES AND THE JOINT VENTURE

Company	Address	Country	Core activity	Tax rate	Share in equity [%]	Share in voting rights [%] 2017	Share in voting rights [%] 2016	Carrying amount of equity in EUR thousand		Profit or loss in EUR thousand		
								2017	2016	2017	2016	
1.	M-PAY, Družba za mobilno plačevanje, storitve in trgovino d. o. o.	Ul.Vita Kraigherja 3, MARIBOR	Slovenia	processing of mobile phone payments	19%	50%	50%	50%	254	243	10	9
2.	SETCCE D. O. O.*	Tehnološki park 21, Ljubljana	Slovenia	research and development services on other fields of nature and technology	19%	0%	0%	36%	0	446	0	-39

\*sale agreement signed 8 December 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

### TSinpo

In September 2017, the Telekom Slovenije Group bought a 100% share in the sheltered workshop JORDAN podjetje za zaposlovanje in usposabljanje invalidov Krško. In november 2017, the company was renamed to TSinpo, storitveno in invalidsko podjetje, d. o. o.

The Group included Tsinpo in the statements of the Telekom Slovenije Group on 1 November 2017. Gains are recognized only for the period from November to December 2017, when the Group acquired control over the subsidiary. The purchase price for the 100% share was 169 thousand EUR. From the date of the acquisition to the end of the accounting period, TSinpo generated revenue in the amount of 27 thousand EUR and net loss in the amount of -1 thousand EUR. If the acquisition of TSinpo had already been carried out on 1 January 2017, the management estimates the Group would have had revenue in the amount of 716,329 thousand EUR and would have generated net profit in the amount of 9,022 thousand EUR.

The Telekom Slovenije Group has recognized goodwill from the acquisition of TSinpo as follows:

### Fair value of identifiable assets and liabilities of TSinpo, d. o. o. on the day of acquisition

in EUR thousand	Carrying amount and fair value
<b>ASSETS</b>	
Property, plant and equipment	34
Trade receivables	22
Inventories	8
Cash	14
Other assets	1
<b>Total assets</b>	<b>79</b>
Liabilities to suppliers	-19
Other liabilities	-6
<b>Total liabilities</b>	<b>-25</b>
Fair value of net assets	54
Purchase price paid and liabilities assumed	169
<b>Goodwill</b>	<b>115</b>
Purchase price paid	-169
Cash receipts	14
<b>Net cash from acquisition</b>	<b>-155</b>

## OPTIC-TEL (GVO)

In December 2017, the Group, through its subsidiary GVO, bought a 100% share in the company OPTIC-TEL telekomunikacije d. o. o. The change of ownership was entered in the companies register on 20 December 2017.

The Group included OPTIC-TEL in the statements of the Telekom Slovenije Group on 31 December 2017.

The purchase price for the 100% share was 4,354 thousand EUR.

If the acquisition of OPTIC-TEL had already been carried out on 1 January 2017, the management estimates the Group would have had revenue in the amount of 717,232 thousand EUR and would have generated net profit in the amount of 9,040 thousand EUR.

Through the acquisition, the Telekom Slovenije Group has generated gains from the negotiated purchase in the amount of 755 thousand EUR, and recognized the gains in the income statement under other financial income.

## Fair value of identifiable assets and liabilities of OPTIC-TEL (GVO), d. o. o. on the day of acquisition

in EUR thousand	Carrying amount and fair value
<b>ASSETS</b>	
Intangible assets	103
Property, plant and equipment	5,156
Trade receivables	114
Cash	9
Other assets	3
<b>Total assets</b>	<b>5,385</b>
Liabilities to suppliers	-109
Other liabilities	-167
<b>Total liabilities</b>	<b>-276</b>
Fair value of net assets	5,109
Purchase price paid and liabilities assumed	4,354
<b>Gains from the negotiated purchase</b>	<b>755</b>
Purchase price paid	-4,354
Cash receipts	9
<b>Net cash from acquisition</b>	<b>-4,345</b>

## 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 country of a company's headquarters, 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, TSinpo and OPTIC-TEL 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 2017

in EUR thousand	Slovenia	Other countries	Eliminations and adjustments	Consolidated
External sales	646,512	70,181	-519	716,174
Intersegment sales	88,727	21,577	-110,304	0
<b>Total segment revenue</b>	<b>735,239</b>	<b>91,758</b>	<b>-110,823</b>	<b>716,174</b>
<b>Other income</b>	<b>10,021</b>	<b>926</b>	<b>-1,080</b>	<b>9,867</b>
Cost of goods and material sold	-75,553	-946	10,425	-66,074
Costs of materials and energy costs	-20,965	-2,049	7,683	-15,331
Costs of services	-355,883	-51,310	80,360	-326,833
Labour costs	-121,343	-7,454	9,833	-118,964
Amortisation	-138,472	-26,586	879	-164,179
Other operating expenses	-31,901	-650	2,452	-30,099
<b>Total operating expenses</b>	<b>-744,117</b>	<b>-88,995</b>	<b>111,632</b>	<b>-721,480</b>
<b>Operating profit per segment</b>	<b>1,143</b>	<b>3,689</b>	<b>-271</b>	<b>4,561</b>
Share in profit or loss of associates and joint ventures	5			5
Finance income				5,461
Finance expenses				-8,262
<b>Profit before tax</b>				<b>1,765</b>
Income tax expense				-1,140
Deferred tax				8,398
<b>Net profit for the period</b>				<b>9,023</b>

Other data by segment 31 December 2017	Slovenia	Other countries	Eliminations and adjustments	Consolidated
Segment assets	1,420,726	154,336	223,068	<b>1,351,994</b>
Impairment and write-off of non-financial assets	2,331	103	0	<b>2,434</b>
Carrying amount of goodwill	3,718	373	0	<b>4,091</b>
Investments in associates and the joint venture by applying equity method	5	0	0	<b>5</b>
Investments in intangible assets	61,791	5,108	0	<b>66,899</b>
Investments in property, plant and equipment	87,477	11,104	0	<b>98,581</b>
Segment liabilities	701,859	138,283	-169,013	<b>671,129</b>

### Revenue by segment in 2017

in EUR thousand	Slovenia	Other countries	Eliminations and adjustments	Consolidated
Mobile services on end- customer market	218,224	32,619	-1,303	<b>249,540</b>
Fixed-line telephone services on end-customer market	199,744	35,881	-1,213	<b>234,412</b>
New sources of income	2,789	0	0	<b>2,789</b>
Wholesale market	193,066	22,960	-29,008	<b>187,018</b>
Other revenue and merchandise	121,416	298	-79,299	<b>42,415</b>
<b>Total revenue</b>	<b>735,239</b>	<b>91,758</b>	<b>-110,823</b>	<b>716,174</b>

in EUR thousand	Slovenia	Other countries	Eliminations and adjustments	Consolidated
Revenue from services	657,750	89,501	-101,809	<b>645,442</b>
Revenue from sale of goods	77,489	2,257	-9,014	<b>70,732</b>
<b>Total revenue</b>	<b>735,239</b>	<b>91,758</b>	<b>-110,823</b>	<b>716,174</b>

## Operating segments 2016

in 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
<b>Total segment revenue</b>	<b>697,147</b>	<b>90,753</b>	<b>-86,152</b>	<b>701,748</b>
<b>Other income</b>	<b>8,897</b>	<b>1,024</b>	<b>-488</b>	<b>9,433</b>
Cost of goods and material sold	-69,691	-1,094	8,481	-62,304
Costs of materials and energy costs	-19,132	-2,049	6,475	-14,706
Costs of services	-311,927	-51,928	62,453	-301,402
Labour costs	-116,168	-7,335	7,450	-116,053
Amortisation	-138,313	-26,145	1,316	-163,142
Other operating expenses	-17,705	-618	871	-17,452
<b>Total operating expenses</b>	<b>-672,936</b>	<b>-89,169</b>	<b>87,046</b>	<b>-675,059</b>
<b>Operating profit per segment</b>	<b>33,108</b>	<b>2,608</b>	<b>406</b>	<b>36,122</b>
Share in profit or loss of associates and joint ventures	-6,415			-6,415
Finance income				23,557
Finance expenses				-19,396
<b>Profit before tax</b>				<b>33,868</b>
Income tax expense				-541
Deferred tax				6,613
<b>Net profit for the period</b>				<b>39,940</b>

Other data by segment 31 December 2016	Slovenia	Other countries	Eliminations and adjustments	Consolidated
Segment assets	1,421,016	163,468	-217,065	<b>1,367,419</b>
Impairment and write-off of non-financial assets	4,785	161	0	<b>4,946</b>
Carrying amount of goodwill	3,603	580	0	<b>4,183</b>
Investments in associates and the joint venture by applying equity method	-9	0	0	<b>-9</b>
Investments in intangible assets	62,395	2,751	0	<b>65,146</b>
Investments in property, plant and equipment	73,209	12,624	0	<b>85,833</b>
Segment liabilities	667,564	145,878	-151,885	<b>661,557</b>

## Revenue by segment in 2016

Other data by segment 31 December 2016	Slovenia	Other countries	Eliminations and adjustments	Consolidated
Mobile services on end-customer market	235,067	31,834	-988	<b>265,913</b>
Fixed-line telephone services on end-customer market	196,507	33,749	-1,000	<b>229,256</b>
New sources of income	2,017	0	0	<b>2,017</b>
Wholesale market	188,898	24,935	-30,742	<b>183,091</b>
Other revenue and merchandise	74,658	235	-53,422	<b>21,471</b>
<b>Total revenue</b>	<b>697,147</b>	<b>90,753</b>	<b>-86,152</b>	<b>701,748</b>

Other data by segment 31 December 2016	Slovenia	Other countries	Eliminations and adjustments	Consolidated
Revenue from services	626,308	88,986	-78,426	<b>636,868</b>
Revenue from sale of goods	70,839	1,767	-7,726	<b>64,880</b>
<b>Total revenue</b>	<b>697,147</b>	<b>90,753</b>	<b>-86,152</b>	<b>701,748</b>

## 7. NET SALES REVENUE

EUR thousand	2017	2016
Mobile services on end-customer market	249,540	265,913
Fixed-line telephone services on end-customer market	234,412	229,256
New sources of revenue	2,789	2,017
Wholesale market	187,018	183,091
Other revenue and merchandise	42,415	21,471
<b>Total net sales revenue</b>	<b>716,174</b>	<b>701,748</b>

EUR thousand	2017	2016
Revenue from services rendered	645,442	636,868
Revenue from sale of goods	70,732	64,880
<b>Total net sales revenue</b>	<b>716,174</b>	<b>701,748</b>

Net sales revenue increased in 2017 by EUR 14,426 thousand as compared to 2016.

As for the **mobile services on end-customer market**, revenue has decreased over the previous year due to lower revenue from mobile subscribers [less subscribers, transition to the new and for customer more favourable packages with included contents] and prepaid users.

The expected decrease in revenue from fixed-line phone services, which is the result of the decline in classical connections and its replacement with the IP-telephony, was for **fixed-line telephone services on end-customer market** replaced by increased revenue from broadband and IT services. As compared to 2016, revenue from broadband services increased due to a higher number of broadband subscribers. Revenue from IT services grew due to the strong growth in revenue from managing comprehensive IT solutions and cloud services.

**New sources of revenue** include revenue from financial services, energy services and eHealth; this revenue exceeded the one from the previous year mostly due to higher energy-related revenue.

Revenue from the **wholesale market** exceeded the 2016 figures. As for the domestic market, revenue increased as a result of more broadband access connections. The growth in revenue on the international market is the result of higher revenue from transit and closing of international calls. Lower revenue abroad is attributable also to lower revenue from incoming calls in Kosovo, due to the growing use of free web talk applications.

**Other revenue and merchandise** consist of revenue from investment construction, maintenance and elimination of errors, and sale of other merchandise. This item includes revenue of the company Antenna TV SL, which was not consolidated in 2016. It is also higher due to increased revenue from other, non-telecommunications services [recognition of revenue from electronic toll collection].

## 8. OTHER OPERATING REVENUE

EUR thousand	2017	2016
Reversal of provisions	191	2,675
Government grants and other aids	2,162	867
Gains on disposal of property, plant and equipment	940	453
Revaluation operating revenue	3,535	32
Other revenue	3,039	5,406
<b>Total other operating revenue</b>	<b>9,867</b>	<b>9,433</b>

Revaluation operating revenue refers to revenue from collected, previously impaired receivables.

Other revenue comprises contractual penalties and court-related expenses.

## 9. COST OF SERVICES

EUR thousand	2017	2016
Telecommunications services	140,201	135,099
• Network interconnection	35,799	35,559
• Roaming	11,285	8,247
• International services	92,293	90,565
• Other telecommunications services	824	728
Costs of leased lines	11,074	10,660
Multimedia contents	28,989	21,042
Sales incentives	18,597	17,539
Sales commissions	3,728	4,004
Maintenance of property, plant and equipment	22,991	25,590
Lease of property, plant and equipment	13,736	13,321
Cost of fairs, advertising, sponsorships and hospitality	12,548	13,742
Cost of intellectual and personal services	12,412	11,192
Reimbursement of work-related costs	793	876
Insurance premiums	3,666	3,920
Cost of communications services	3,598	2,924
Banking services	1,122	1,135
Costs of other services	53,376	40,358
<b>Total costs of services</b>	<b>326,833</b>	<b>301,402</b>

Costs of services increased in 2017 as compared to 2016 by EUR 25,431 thousand; mostly costs related to the volume of operations increased.

As compared to 2016, the costs of telecommunications services grew due to increased volume of international calls.

The costs of multimedia contents of the company Antenna TV SL, which was not consolidated in the financial statements of the Telekom Slovenije Group in 2016, also increased.

Costs of maintaining property, plant and equipment decreased mostly due to optimising the network core and access network and due to optimising IT systems and technologies and gradual abolition of certain systems.

Costs of leasing property, plant and equipment are lower as a result of property optimisation.

The majority of costs of other services refers to the costs of sub-contractors, which increased as the result of broadening the optical access network and due to the electronic toll collection project.

## 10. LABOUR COSTS

EUR thousand	2017	2016
Salaries and compensations	96,956	95,140
Social security contributions	19,526	19,911
- of which pension insurance contributions	12,766	13,319
Other labour costs	11,776	11,695
Provisions for jubilee benefits and termination benefits	5,870	2,502
Capitalised own products and services	-15,164	-13,195
<b>Total labour costs</b>	<b>118,964</b>	<b>116,053</b>

Of the total of EUR 17,141 thousand capitalised own products and services (2016: EUR 14,951 thousand), EUR 15,164 thousand are disclosed under labour costs (2016: EUR 13,195 thousand). Services rendered for the needs of the Group are capitalised among intangible assets and property, plant and equipment [Note 15 and 16].

In the 2017 reporting period, the average number of employees based on the working hours equalled 3,577.80 (2016: 3,615.00 employees). The average number of employees and employee structure by level of education are disclosed in 2.8.2 Responsibility to Employees.

## 11. OTHER OPERATING EXPENSES

EUR thousand	2017	2016
Provisions	26,011	3,014
Loss on disposal of intangible assets and property, plant and equipment	870	1,122
Write-off of inventories	1,887	2,625
Impairment and write-off of operating receivables	0	7,411
Impairment of intangible assets and property, plant and equipment	547	2,183
Capitalised own products and services	-1,977	-1,756
Other expenses	2,761	2,853
<b>Total other operating expenses</b>	<b>30,099</b>	<b>17,452</b>

Expenses for provisions have increased in 2017 due to additional provisions formed for probable liabilities from legal actions [Note 28].

## 12. FINANCE REVENUE AND FINANCE EXPENSES

EUR thousand	2017	2016
Dividend revenue	253	168
Other revenue from shares and interests	0	106
Interest revenue	1,573	2,231
Net exchange gains	1,536	576
Revenue from derivative financial instruments	1,103	18,897
Other finance revenue	996	1,579
<b>Total finance revenue</b>	<b>5,461</b>	<b>23,557</b>
Interest on bonds issued	1,992	15,761
Interest expense	5,955	1,875
Impairment and write-off of available-for-sale investments	0	488
Impairment and write-off of loans	0	2
Other finance expenses	315	1,270
<b>Total finance expenses</b>	<b>8,262</b>	<b>19,396</b>
<b>Financial result</b>	<b>-2,801</b>	<b>4,161</b>
<b>Share in the results of associated and jointly controlled companies</b>	<b>5</b>	<b>-6,415</b>

Unplanned net exchange gains increased by EUR 1.5 million and resulted from the weakened dollar. The majority relates to the liabilities from capitalised programme rights.

Other finance revenue in 2017 and 2016 resulted from derivative financial instrument, namely the sale of the remaining interest in the company ONE.VIP based on the agreement on purchase option, which was concluded with the Telekom Austria Group. By doing so, the Group finally exited from the ownership of the company ONE.VIP DOO Skopje.

Finance expenses decreased as compared to 2016 due to the effective interest rate on debt serving to refinance euro bonds. The planned interest rate swap transaction was only realised in 2017; therefore, interest expenses realised are lower, which led to a higher financial result.

### 13. INCOME TAX, DEFERRED TAX ASSETS AND LIABILITIES

EUR thousand	2017	2016
Current tax payable	-1,140	-541
Deferred tax assets/ liabilities	8,616	6,968
Other taxes not disclosed under other items	-218	-355
<b>Total tax</b>	<b>7,258</b>	<b>6,072</b>

Other taxes not disclosed under other items comprise the write-off of the withholding tax paid by the Group abroad.

#### Alignment of the actual and accounted tax expenses considering the effective tax rate

EUR thousand	2017	2016
Profit or loss before tax	1,765	33,868
Income tax using the prescribed tax rate	-335	-5,758
Tax-free dividends received	51	298
Non-taxable profit from disposal of equity interest	0	9
Tax incentives used in the current period	1,594	11,626
Reversal of tax incentives used in previous periods	-540	-170
Change in tax rate	0	3,801
Non-deductible expenses	-4,135	-3,097
Deductible expenses/revenues that were non-deductible in previous years	-296	-109
Tax loss and unused reliefs	11,091	0
Other	-172	-528
<b>Total tax expense</b>	<b>7,258</b>	<b>6,072</b>
<b>Effective tax rate</b>	<b>0.00%</b>	<b>0.00%</b>

As at 31 December 2017, tax loss amounts to EUR 145,262 thousand [31 December 2016: EUR 143,832 thousand].

In 2017, the Group formed deferred taxes from unused reliefs in the amount of EUR 11,091 thousand.

Deferred tax assets and liabilities are calculated on the basis of temporary differences under the balance sheet liability method using the corporate income tax rate in the following years. In the period concerned, corporate income was taxed at 19% tax rate [2016: 17%].

## Deferred tax assets

EUR thousand	2017	2016	Through profit or loss	Through comprehensive income
Intangible assets, and property, plant and equipment	13,315	14,744	-1,430	0
Investments	1,080	970	0	111
Operating receivables	5,575	7,001	-1,426	0
Tax loss and unused reliefs	22,639	11,494	11,145	0
Provisions	2,267	1,932	335	0
<b>Deferred tax assets</b>	<b>44,876</b>	<b>36,141</b>	<b>8,624</b>	<b>111</b>

## Movement of deferred tax assets

EUR thousand	
<b>Balance at 1 Jan 2016</b>	<b>29,001</b>
Elimination/use	-4,436
Formation	7,775
Recalculation of tax rate to 19%	3,801
<b>Balance at 31 Dec 2016</b>	<b>36,141</b>
Elimination/use	-9,703
Formation	18,437
<b>Balance at 31 Dec 2017</b>	<b>44,876</b>

## Deferred tax liabilities

EUR thousand	2017	2016	Through profit or loss	Through comprehensive income
Intangible assets, and property, plant and equipment	1,658	1,121	-537	0
Investments	224	159	0	-65
<b>Deferred tax liabilities</b>	<b>1,882</b>	<b>1,280</b>	<b>-537</b>	<b>-65</b>

## Movement of deferred tax liabilities

EUR thousand	
<b>Balance at 1 Jan 2016</b>	<b>1,140</b>
Elimination/use	-54
Formation	177
Recalculation of tax rate to 19%	17
<b>Balance at 31 Dec 2016</b>	<b>1,280</b>
Formation	602
<b>Balance at 31 Dec 2017</b>	<b>1,882</b>

As at the reporting date, unused tax reliefs amounted to EUR 60,041 thousand (2016: EUR 30,045 thousand).

In 2017, the Group formed no deferred tax assets for deductible temporary differences in the amount of EUR 3,422 thousand, of which EUR 1,241 thousand for tax loss and EUR 2,181 thousand for other tax reliefs [2016: EUR 2,358 thousand].

In 2016, Slovenian Corporate Income Tax Act [Official Journal of RS, no. 68/2016] was amended, which resulted in a change of the tax rate from 17% to 19% for 2017. The Group recalculated in 2016 deferred taxes to the rate of 19%. Due to the changed tax rate, the Group recognised already in 2016 higher deferred tax assets to the benefit of the income statement and higher liabilities for deferred taxes chargeable to equity.

## 14. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit or loss for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

The weighted average number of ordinary shares outstanding during the period is calculated on the basis of data about the number of outstanding ordinary shares, taking into account any acquisitions and disposals within the period and the time during which the shares participated in the generation of profit.

Diluted net profit per share is not calculated as the Company has no dilutive potential ordinary shares.

EUR thousand	2017	2016
Net profit or loss used attributable to shareholders, owners of ordinary shares of the parent company	9,023	39,940
Weighted average number of ordinary shares for earnings per share	6,505,478	6,505,478
<b>Earnings per share</b>	<b>1.39</b>	<b>6.14</b>

### Weighted average number of ordinary shares

EUR thousand	2017	2016
Weighted average number of ordinary shares for earnings per share	6,535,478	6,535,478
Less treasury shares of the Company	-30,000	-30,000
<b>Total</b>	<b>6,505,478</b>	<b>6,505,478</b>

## 15. INTANGIBLE ASSETS

Concessions refer to the right to use 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 90,955 thousand [2016: EUR 101,434 thousand]. Useful lives of individual concessions are disclosed in [Note 42 in the table Concessions for mobile phone services](#).

As at 31 December 2017, the carrying amounts of concessions obtained in Slovenia for UMTS amounted to EUR 15,761 thousand [2016: EUR 19,777 thousand], for GSM EUR 32,678 thousand [2016: EUR 35,192 thousand], and for LTE EUR 20,374 thousand [2016: EUR 22,159 thousand]. The carrying amounts of concessions for GSM in Kosovo amounted to EUR 19,602 thousand [2016: EUR 24,306 thousand], and for LTE EUR 2,540 thousand [2016: EUR 4,233 thousand].

Under concessions and licences, the Group also discloses programme rights and licences for use of computer software.

As at 31 December 2017, the Group's intangible assets include the fair value of the customer list from the takeover of the company Debitel in the amount of EUR 3,204 thousand and the customer list of Intell in the amount of EUR 839 thousand.

Goodwill of EUR 4,091 thousand occurred during the takeover of companies TSinpo (EUR 115 thousand) in 2017 and the takeover of companies Debitel (EUR 3,603 thousand) and Netkom, BanjaLuka (EUR 373 thousand).

The Group carried out impairment testing of the customer list that occurred with the takeover of the company Debitel. For the purpose of valuation, the Group applied earnings-based valuation with the excess earnings method. Within the selected method, the Group defines for all recognised assets earnings, which are to be made on these assets for owners. Based on this method, the value of the customer base is assessed at EUR 8,213 thousand with the estimate ranging between EUR 7,740 thousand and EUR 8,718 thousand. The discount rate used was 10.74% and the required yield on assets 10.7%. It was established that the recoverable value of the customer list exceeds its carrying amount, thus requiring no impairment. As the Group established no indication of impairment as regards the customer list, it also did not establish any indication for the impairment of goodwill.

Impairment testing of goodwill that occurred during the takeover of the company Netkom, Banja Luka was carried out. The relevant calculations are based on future cash flow projections made for the aforesaid companies for the period from 2018 to 2022. The main assumptions used include the growth rate of 2% and the discount rate of 15%. It was established that the recoverable value of the cash generating units (CGUs) exceeds their carrying amount, thus requiring no impairment of goodwill.

The Group companies have unlimited property rights on intangible assets, which are free of encumbrances.

As at 31 December 2017, the Group companies disclosed contractual commitments for intangible assets in the amount of EUR 10,416 thousand (2016: EUR 4,598 thousand), which relate to the set-up of computer systems and to software licences.

## Movement of intangible assets in 2017

EUR thousand	Goodwill	Concessions and licences	Sales commissions	Software	Other intangible assets	Intangible assets under construction	Other	Total
<b>Cost</b>								
<b>Balance at 1 Jan 2017</b>	<b>109,356</b>	<b>329,453</b>	<b>25,514</b>	<b>137,598</b>	<b>52,111</b>	<b>27,381</b>	<b>269</b>	<b>681,682</b>
Difference from the translation to the presentation currency	0	-1	0	0	0	0	0	-1
Increases	115	2,449	0	266	0	61,573	9	64,412
Fixed assets generated in the Group	0	0	0	56	0	2,328	0	2,384
Increase on business combinations	0	0	0	0	103	0	0	103
Transfer into use	0	17,181	9,693	35,367	967	-63,208	0	0
Decreases	0	-17,644	-15,794	-337	0	0	0	-33,775
Write-offs	0	-908	0	-109	0	0	0	-1,017
Other transfers*	-244	-6,237	0	6,181	0	-1,688	11	-1,977
<b>Balance at 31 Dec 2017</b>	<b>109,227</b>	<b>324,293</b>	<b>19,413</b>	<b>179,022</b>	<b>53,181</b>	<b>26,386</b>	<b>289</b>	<b>711,811</b>
<b>Accumulated amortisation</b>								
<b>Balance at 1 Jan 2017</b>	<b>105,173</b>	<b>198,884</b>	<b>15,969</b>	<b>121,133</b>	<b>30,986</b>	<b>267</b>	<b>38</b>	<b>472,450</b>
Decreases	0	-17,644	-15,794	-322	0	0	0	-33,760
Write-offs	0	-892	0	-110	0	0	0	-1,002
Other transfers*	-37	-6,408	0	6,161	355	0	0	71
Amortisation	0	30,507	9,133	17,091	2,891	0	18	59,640
<b>Balance at 31 Dec 2017</b>	<b>105,136</b>	<b>204,447</b>	<b>9,308</b>	<b>143,953</b>	<b>34,232</b>	<b>267</b>	<b>56</b>	<b>497,399</b>
<b>Carrying amount</b>								
<b>Balance at 1 Jan 2017</b>	<b>4,183</b>	<b>130,569</b>	<b>9,545</b>	<b>16,465</b>	<b>21,125</b>	<b>27,114</b>	<b>231</b>	<b>209,232</b>
<b>Balance at 31 Dec 2017</b>	<b>4,091</b>	<b>119,846</b>	<b>10,105</b>	<b>35,069</b>	<b>18,949</b>	<b>26,119</b>	<b>233</b>	<b>214,412</b>

\* Other transfers include transfers between intangible assets and property, plant and equipment, transfers among groups of assets and transfers to inventories.

Major increases in intangible assets mostly relate to purchase and development of software.

## Movement of intangible assets in 2016

EUR thousand	Goodwill	Concessions and licences	Sales commissions	Software	Other intangible assets	Intangible assets under construction	Other	Total
<b>Cost</b>								
<b>Balance at 1 Jan 2016</b>	<b>108,156</b>	<b>285,422</b>	<b>15,689</b>	<b>122,871</b>	<b>47,543</b>	<b>57,290</b>	<b>61</b>	<b>637,032</b>
Increases	0	731	0	505	1	58,917	0	60,154
Fixed assets generated in the Group	0	0	0	0	0	3,552	0	3,552
Increase on business combinations	1,200	0	0	0	0	9	231	1,440
Transfer into use	0	62,444	9,825	14,671	4,582	-91,522	0	0
Decreases	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
<b>Balance at 31 Dec 2016</b>	<b>109,356</b>	<b>329,453</b>	<b>25,514</b>	<b>137,598</b>	<b>52,111</b>	<b>27,381</b>	<b>269</b>	<b>681,682</b>
<b>Accumulated amortisation</b>								
<b>Balance at 1 Jan 2016</b>	<b>103,973</b>	<b>189,833</b>	<b>7,743</b>	<b>108,780</b>	<b>27,825</b>	<b>267</b>	<b>3</b>	<b>438,424</b>
Increases	0	0	60	0	0	0	0	60
Increase on business combinations	1,200	0	0	0	0	0	32	1,232
Decreases	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
<b>Balance at 31 Dec 2016</b>	<b>105,173</b>	<b>198,884</b>	<b>15,969</b>	<b>121,133</b>	<b>30,986</b>	<b>267</b>	<b>38</b>	<b>472,450</b>
<b>Carrying amount</b>								
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	231	209,232

\* Other transfers include transfers between intangible assets and property, plant and equipment, transfers among groups of assets and transfers to inventories.

## 16. PROPERTY, PLANT AND EQUIPMENT

Significant increases in property, plant and equipment in use refer in 2017 mostly to the construction and upgrade of cable network and obtainment of cable lines, telecommunications and other equipment. The item of other equipment comprises modems, setup boxes, other equipment at clients, furniture, cars and other equipment.

Fixed assets generated in the Company relate to services that are rendered for the Group and mostly refer to 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 commitments for property, plant and equipment were as at 31 December 2017 disclosed at EUR 2,638 thousand [2016: EUR 2,382 thousand] and largely refer to the set-up of telecommunications network.

## Movement of property, plant and equipment in 2017

EUR thousand	Land, buildings, cables and lines	Cable network	Telephone exchanges	Equipment for mobile telephony	Other equipment	Assets under construction	Other	Total
<b>Cost</b>								
<b>Balance at 1 Jan 2017</b>	<b>442,984</b>	<b>982,702</b>	<b>277,885</b>	<b>625,844</b>	<b>445,587</b>	<b>35,662</b>	<b>152</b>	<b>2,810,816</b>
Difference from the translation to the presentation currency	0	7	0	0	52	0	0	59
Increases	108	1,500	7	1,467	3,157	72,220	18	78,477
Fixed assets generated in the Group	5	83	0	89	276	14,304	0	14,757
Increase on business combinations	95	2,689	0	0	96	2,467	0	5,347
Transfer from assets under construction	10,832	19,672	5,098	8,874	35,289	-79,765	0	0
Decreases	-160	-1	-48,696	-26,796	-27,426	-217	0	-103,296
Write-offs	-1,004	-2,689	-3,298	-298	-27,321	0	0	-34,610
Other transfers*	-3,346	1,514	-36	1,038	-290	-456	-130	-1,706
<b>Balance at 31 Dec 2017</b>	<b>449,514</b>	<b>1,005,477</b>	<b>230,960</b>	<b>610,218</b>	<b>429,420</b>	<b>44,215</b>	<b>40</b>	<b>2,769,844</b>
<b>Accumulated depreciation</b>								
<b>Balance at 1 Jan 2017</b>	<b>156,409</b>	<b>791,218</b>	<b>265,994</b>	<b>535,693</b>	<b>359,972</b>	<b>11,390</b>	<b>0</b>	<b>2,120,676</b>
Difference from the translation to the presentation currency	-1	0	0	0	18	0	0	17
Increases	29	0	0	141	65	0	0	235
Increase on business combinations	78	0	0	0	79	0	0	157
Decreases	-156	-1	-48,679	-26,439	-24,628	0	0	-99,903
Write-offs	-999	-2,686	-3,297	-279	-27,054	0	0	-34,315
Impairment	251	0	0	0	0	15	0	266
Depreciation	14,831	21,640	4,388	28,720	34,845	64	0	104,488
Other transfers*	-935	-694	-7	-2	622	0	0	-1,016
<b>Balance at 31 Dec 2017</b>	<b>169,507</b>	<b>809,477</b>	<b>218,399</b>	<b>537,834</b>	<b>343,919</b>	<b>11,469</b>	<b>0</b>	<b>2,090,605</b>
<b>Carrying amount</b>								
<b>Balance at 1 Jan 2017</b>	<b>286,575</b>	<b>191,484</b>	<b>11,891</b>	<b>90,151</b>	<b>85,615</b>	<b>24,272</b>	<b>152</b>	<b>690,140</b>
<b>Balance at 31 Dec 2017</b>	<b>280,007</b>	<b>196,000</b>	<b>12,561</b>	<b>72,384</b>	<b>85,501</b>	<b>32,746</b>	<b>40</b>	<b>679,239</b>

\* Other transfers include transfers between intangible assets and property, plant and equipment, transfers among groups of assets and transfers to inventories.

## Movement of property, plant and equipment in 2016

EUR thousand	Land, buildings, cables and lines	Cable network	Telephone exchanges	Equipment for mobile telephony	Other equipment	Assets under construction	Other	Total
<b>Cost</b>								
<b>Balance at 1 Jan 2016</b>	<b>438,550</b>	<b>964,860</b>	<b>275,464</b>	<b>656,600</b>	<b>458,783</b>	<b>33,496</b>	<b>78</b>	<b>2,827,831</b>
Difference from the translation to the presentation currency	0	0	0	0	1	0	0	1
Increases	58	2,893	6	3,041	3,798	63,982	0	73,778
Fixed assets generated in the Group	0	0	0	0	0	11,399	0	11,399
Increase on 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
Decreases	-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
<b>Balance at 31 Dec 2016</b>	<b>442,984</b>	<b>982,702</b>	<b>277,885</b>	<b>625,844</b>	<b>448,588</b>	<b>35,662</b>	<b>154</b>	<b>2,813,819</b>
<b>Accumulated depreciation</b>								
<b>Balance at 1 Jan 2016</b>	<b>140,929</b>	<b>766,880</b>	<b>263,944</b>	<b>545,586</b>	<b>378,022</b>	<b>11,390</b>	<b>0</b>	<b>2,106,751</b>
Difference from the translation to the presentation currency	0	0	0	0	6	0	0	6
Increases	195	0	2	152	82	0	0	431
Increase on business combinations	0	0	0	0	402	0	0	402
Decreases	-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
<b>Balance at 31 Dec 2016</b>	<b>156,409</b>	<b>791,218</b>	<b>265,994</b>	<b>535,693</b>	<b>362,975</b>	<b>11,390</b>	<b>0</b>	<b>2,123,679</b>
<b>Carrying amount</b>								
<b>Balance at 1 Jan 2016</b>	<b>297,621</b>	<b>197,980</b>	<b>11,520</b>	<b>111,014</b>	<b>80,761</b>	<b>22,106</b>	<b>78</b>	<b>721,080</b>
<b>Balance at 31 Dec 2016</b>	<b>286,575</b>	<b>191,484</b>	<b>11,891</b>	<b>90,151</b>	<b>85,613</b>	<b>24,272</b>	<b>154</b>	<b>690,140</b>

\* Other transfers include transfers between intangible assets and property, plant and equipment, transfers among groups of assets and transfers to inventories.

## 17. INVESTMENTS IN ASSOCIATED COMPANIES AND JOINT VENTURES

The Telekom Slovenije Group includes the company M-Pay as a joint venture, which at 31 December 2017 amounted to EUR 129 thousand together with attributed profit under the equity method (2016: EUR 124 thousand).

The company is not listed on any public stock exchange.

## 18. OTHER INVESTMENTS

### Long-term investments

EUR thousand	2017	2016
Investments in shares of banks	247	0
Investments in other shares and interests	4,265	2,423
<b>Total available-for-sale investments</b>	<b>4,512</b>	<b>2,423</b>
Loans to companies	108	325
Loans to employees	324	429
<b>Total loans given</b>	<b>432</b>	<b>754</b>
Other non-current financial assets	8	0
<b>Total long-term investments</b>	<b>4,952</b>	<b>3,177</b>

All investments in shares and interests are classified as available-for-sale investments.

Of the total amount of EUR 4,512 thousand, EUR 1,796 thousand (2016: EUR 1,454 thousand) relates to investments that are listed on the stock exchange and are recognised at 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 their fair value.

Investments are not pledged as collateral and are free of encumbrances.

### Short-term investments

EUR thousand	2017	2016
Other short-term loans	457	474
Other current financial assets	227	118,897
Bank deposits	77,283	299
<b>Total short-term investments</b>	<b>77,967</b>	<b>119,670</b>

The item of other short-term investments included in 2016 the Group's receivables due from the sale of the company ONE.VIP, in which the Group held a 45% equity interest. Despite the material equity interest, the Group did not control the company ONE.VIP and had no influence over its business operations due to the composition of the management and supervisory bodies; in addition, the Group was not entitled to dividends and consequently had no economic influence. In 2017, the Telekom Austria Group exercised its purchase option and paid to the Group total proceeds of EUR 120 million. On receiving the proceeds, the Telekom Slovenije Group exited entirely from the ownership of the company ONE.VIP DOO Skopje.

As at the reporting date, the Group had 6 time deposits (31 December 2016: 1 deposit) in the total amount of EUR 77,283 thousand (2016: EUR 299 thousand) with maturity from 39 to 151 days (2016: 91 days). The annual interest rate is between 0.00% and 0.10% (2016 annual interest rate: 0.01%). One deposit has the purpose of securing Moneta in the first quarter of 2018, whilst other deposits are intended to regulate current liquidity in the first four months of 2018. Deposits have a fixed interest rate; therefore, the Group is not exposed to interest rate risk.

## Table of loans

EUR thousand	2017	2016
<b>Long-term loans given</b>	<b>432</b>	<b>754</b>
Loans given	108	325
Loans to employees	324	429
<b>Short-term loans given</b>	<b>457</b>	<b>474</b>
Long-term loan portion falling due in 12 months - loans given	311	310
Long-term loan portion falling due in 12 months - loans to employees	113	132
Short-term loans given and interest	0	3
Short-term interest receivables	33	29
<b>Balance of loans given at the end of the period</b>	<b>889</b>	<b>1,228</b>

The maturity of short-term and long-term loans as well as other data are disclosed in [Note 41, Financial risk management](#).

The interest rate for loans given to others is ranging between 0.728% and 5%, whereas the interest rate for loans given to employees is ranging between 3.70% and 6.23%.

## 19. OTHER NON-CURRENT ASSETS

EUR thousand	2017	2016
Prepaid rents	11,366	12,853
Long-term deferred costs of sales incentives	2,659	2,731
Long-term operating receivables	15,570	13,461
Programme rights (TV contents, TC channels)	11,691	2,525
Other long-term deferred costs	1,012	1,275
<b>Total other non-current assets</b>	<b>42,298</b>	<b>32,845</b>

The item of long-term operating receivables includes the sale of goods in instalments in the amount of EUR 15,233 thousand (2016: EUR 13,181 thousand) with maturity of over 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 long-term operating receivables and long-term deferred costs

EUR thousand	Rents	Sales incentives	Programme rights
<b>Balance at 1 Jan 2016</b>	<b>11,446</b>	<b>3,171</b>	<b>0</b>
Increase on business combinations	237	0	2,525
Increase	3,169	14,620	0
Transfer to costs	-1,999	-15,060	0
<b>Balance at 31 Dec 2016</b>	<b>12,853</b>	<b>2,731</b>	<b>2,525</b>
Increase on business combinations	0	0	0
Increase	1,291	15,185	11,079
Transfer to costs	-2,778	-15,257	-1,913
<b>Balance at 31 Dec 2017</b>	<b>11,366</b>	<b>2,659</b>	<b>11,691</b>

Prepaid rents include primarily leases of premises and land for setting up base stations, and lease of optical fibres. Programme rights relate to own production, films and serials of other productions relating to the television activities of Planet TV. The Group transfers programme rights to costs in line with the history of broadcasting serials or own production.

## 20. INVESTMENT PROPERTY

### Movement of investment property in 2017

EUR thousand	Land	Buildings	Total
<b>Cost</b>			
<b>Balance at 1 Jan 2017</b>	<b>4,865</b>	<b>1,810</b>	<b>6,675</b>
Increases	0	3	3
<b>Balance at 31 Dec 2017</b>	<b>4,865</b>	<b>1,813</b>	<b>6,678</b>
<b>Accumulated depreciation</b>			
<b>Balance at 1 Jan 2017</b>	<b>1,572</b>	<b>923</b>	<b>2,495</b>
Impairment	117	9	126
Depreciation	0	51	51
<b>Balance at 31 Dec 2017</b>	<b>1,689</b>	<b>983</b>	<b>2,672</b>
<b>Carrying amount</b>			
<b>Balance at 1 Jan 2017</b>	<b>3,293</b>	<b>887</b>	<b>4,180</b>
<b>Balance at 31 Dec 2017</b>	<b>3,176</b>	<b>830</b>	<b>4,006</b>

## Movement of investment property in 2016

EUR thousand	Land	Buildings	Total
<b>Cost</b>			
<b>Balance at 1 Jan 2016</b>	<b>4,865</b>	<b>1,977</b>	<b>6,842</b>
Decreases	0	-167	-167
<b>Balance at 31 Dec 2016</b>	<b>4,865</b>	<b>1,810</b>	<b>6,675</b>
<b>Accumulated depreciation</b>			
<b>Balance at 1 Jan 2016</b>	<b>1,232</b>	<b>589</b>	<b>1,821</b>
Decreases	0	-2	-2
Impairment	340	270	610
Depreciation	0	66	66
<b>Balance at 31 Dec 2016</b>	<b>1,572</b>	<b>923</b>	<b>2,495</b>
<b>Carrying amount</b>			
<b>Balance at 1 Jan 2016</b>	<b>3,633</b>	<b>1,388</b>	<b>5,021</b>
<b>Balance at 31 Dec 2016</b>	<b>3,293</b>	<b>887</b>	<b>4,180</b>

The Group carries investment property at cost less accumulated depreciation and impairment losses. Fair value of investment property is presented in [Note 36, Carrying amounts and fair values](#).

As at 31 December 2017, the Group's investment property included land and building at the Sečovelje salt-pans in the amount of EUR 2,972 thousand, and land, landscaping, purification facility and building of the Tisa hotel on Pohorje in the amount of EUR 1,034 thousand.

These items of property were assessed by a certified property appraiser on 31 December 2017.

When making the assessment, the suitability of land valuation methods was verified: cost method, income method and market comparison method. With respect to the purpose of the valuation, type of property and available data, the market comparison method was used to assess the fair value of land and buildings at the Sečovelje salt-pans. To assess the fair value of land, landscaping, purification facility and building of the Tisa hotel on Pohorje, the market comparison and cost methods were used.

Based on this appraisal, the Group impaired the two investment properties in the amount of EUR 126 thousand and recognized expenses for impairment of intangible assets and property, plant and equipment [[Note 11](#)].

Revenue generated on investment property in 2017 is recognised in profit or loss in the amount of EUR 292 thousand (2016: EUR 181 thousand). The Group recognised expenses relating to investment property in the income statement for 2017 in the amount of EUR 174 thousand (2016: EUR 165 thousand) and disclosed them under cost of material and energy, cost of services, maintenance of property, plant and equipment, costs of other services [[Note 9](#)], and under item of other expenses [[Note 11](#)] under other operating expenses.

## 21. ASSETS HELD FOR SALE

As at 31 December 2017, assets held for sale include land and buildings that Group companies will no longer use for business purposes and for which the companies' management adopted decision on sale, which is anticipated in the next 12 months.

EUR thousand	Assets held for sale
<b>Balance at 1 Jan 2016</b>	<b>913</b>
Increases	932
Sale	-27
<b>Balance at 31 Dec 2016</b>	<b>1,818</b>
Increases	2
Sale	-925
Impairment	-141
<b>Balance at 31 Dec 2017</b>	<b>754</b>

In March 2017, the Group obtained new market value assessments for ten items of property, which were prepared by certified property appraisers DODOMA, d. o. o., Maribor and SIGMA, d. o. o., Kopriva, Dutovlje.

The fair value assessment was prepared based on the market value. In line with this, the Group impaired assets held for sale in the amount of EUR 141 thousand. The Group recognised impairment in the income statement under item Impairment of intangible assets and property, plant and equipment [Note 11].

In 2017, assets held for sale decreased by EUR 925 thousand due to disposal of land and property. The Group thus generated EUR 362 thousand gains on sale, which were recognised in the income statement under Gains on disposal of property, plant and equipment [Note 8].

## 22. INVENTORIES

EUR thousand	2017	2016
Material	10,573	11,133
Products	773	584
Merchandise	10,858	11,773
Advances for inventories	35	22
<b>Total inventories</b>	<b>22,239</b>	<b>23,512</b>

In 2017, the Group wrote off EUR 1,887 thousand of inventories (2016: EUR 2,625 thousand). Material was valued at its net realisable value at EUR 3,204 thousand (2016: EUR 1,601 thousand) and merchandise at EUR 1,442 thousand (2016: EUR 465 thousand). Other inventories are valued at their initial cost as the purchase cost of these inventories was lower than their net realisable value. The Group's inventories include no inventories that are pledged for its liabilities.

## 23. OPERATING AND OTHER RECEIVABLES

EUR thousand	2017			2016
	Gross value	Allowances	Net value	Net value
Trade receivables	145,114	-23,146	121,968	116,467
Operating receivables due from foreign operators	16,482	-1,746	14,736	19,857
Operating receivables due from domestic operators	26,644	-11,509	15,135	5,753
<b>Total operating receivables</b>	<b>188,240</b>	<b>-36,401</b>	<b>151,839</b>	<b>142,077</b>
Advances given	1,698	0	1,698	2,143
VAT and other tax receivables	4,998	0	4,998	5,711
Other receivables	1,291	-8	1,283	891
<b>Total other receivables</b>	<b>7,987</b>	<b>-8</b>	<b>7,979</b>	<b>8,746</b>
<b>Total operating and other receivables</b>	<b>196,227</b>	<b>-36,409</b>	<b>159,818</b>	<b>150,823</b>

Operating receivables do not bear interest.

### Allowance for receivables

EUR thousand	2017	2016
<b>Balance at 1 Jan</b>	<b>-43,733</b>	<b>-41,013</b>
Acquisition of new companies	0	-107
Allowances during the year	-5,990	-15,067
Reversal of allowances	9,805	8,542
Write-offs	3,509	3,912
<b>Balance at the end of the period</b>	<b>-36,409</b>	<b>-43,733</b>

The method of forming allowances for receivables has not changed in 2017 as compared to previous years.

## 24. SHORT-TERM DEFERRED COSTS AND ACCRUED REVENUE

EUR thousand	2017	2016
Deferred costs	10,966	11,886
Accrued revenue for services rendered and goods supplied (not yet invoiced)	25,936	8,266
Accrued revenue and deferred costs – international services	22,057	15,969
Short-term portion of sales incentives	11,974	11,752
Other	1,120	5,184
<b>Total short-term deferred costs and accrued revenue</b>	<b>72,053</b>	<b>53,057</b>

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. The increase in accrued revenue for services rendered mostly relates to revenue from e-tolls.

## 25. CASH AND CASH EQUIVALENTS

EUR thousand	2017	2016
Cash on hand and bank balances	27,229	42,538
Short-term bank deposits with maturity up to three months	2,016	16
<b>Total cash and cash equivalents</b>	<b>29,245</b>	<b>42,554</b>

Bank balances bear interest at bank interest 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 interest rates defined for individual deposit periods.

To balance its short-term liquidity, the Group has credit lines or revolving loans in the total amount of EUR 100 million. In 2017, the Company also obtained long-term credit lines or revolving loans in the total amount of EUR 70 million to ensure long-term stand-by liquidity. As at 31 December 2017, these loans and lines were not utilised.

Credit lines are outlined by the Group in [Note 30, Borrowings](#).

## 26. EQUITY AND RESERVES

EUR thousand	2017	2016
<b>EQUITY AND RESERVES</b>		
Called-up capital	272,721	272,721
Capital surplus	181,488	181,488
Revenue reserves	106,479	238,773
<i>Legal reserves</i>	51,612	51,612
<i>Reserves for treasury shares and interests</i>	3,671	3,671
<i>Treasury shares and interests</i>	-3,671	-3,671
<i>Statutory reserves</i>	54,854	54,854
<i>Other revenue reserves</i>	13	132,307
Retained earnings or losses	125,039	14,788
<i>Retained earnings or losses from previous periods</i>	113,836	-4,922
<i>Profit or loss for the year</i>	11,203	19,710
Fair value reserve for financial instruments	955	678
Fair value reserve for hedging instruments in net amount	-472	0
Revaluation surplus for actuarial gains and losses	-2,585	-1,982
Translation reserve	0	-24
<b>Total equity attributable to owners of the parent company</b>	<b>683,625</b>	<b>706,442</b>
Non-controlling interest	-2,760	-580
<b>Total equity</b>	<b>680,865</b>	<b>705,862</b>

## CALLED-UP CAPITAL

Authorised, issued and fully paid-up capital amounts to EUR 272,721 thousand and is divided into 6,535,478 ordinary registered no-par value shares. Each ordinary no-par value share has the same share and attributable amount in the share capital.

## OWNERSHIP STRUCTURE

Shareholder	31. 12. 2017		31. 12. 2016	
	No. of shares	Share in %	No. of shares	Share in %
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	822,060	12.58	794,839	12.16
Other domestic legal entities	212,876	3.26	211,488	3.24
Kapitalska družba, d. d.	365,175	5.59	365,175	5.59
Domestic financial companies and funds	356,525	5.46	445,871	6.82
Foreign legal entities	383,434	5.87	322,697	4.94
Treasury shares	30,000	0.46	30,000	0.46
<b>Total</b>	<b>6,535,478</b>	<b>100.00</b>	<b>6,535,478</b>	<b>100.00</b>

The balances and changes in equity are illustrated in the Statement of Changes in Equity. The number of issued shares did not change in 2017.

At the end of 2017, 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 appropriated. 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 capital surplus amounts to 20% of share capital. As at 31 December 2017, the Group's legal reserves were recorded at EUR 51,612 thousand.

In accordance with the Companies Act, capital surplus and legal reserves can in their excess amount be used to increase share capital based on a company's assets and to cover retained losses, if revenue reserves are not simultaneously used for payout of profits to shareholders.

As at 31 December 2017, the parent company had 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 treasury shares 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. The 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.

When compiling the Annual Report, the Group can form **other revenue reserves** up to 50% of net 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 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 21 April 2017 by the General Meeting of Shareholders, the accumulated profit for 2016 in the amount of EUR 32,835 thousand was used in for dividend pay-out in the amount of EUR 32,527 thousand, i.e. EUR 5.00 per share. [In 2016, dividends for the fiscal year 2015 were paid out in the amount of EUR 32,527 thousand or EUR 5.00 per share]. The residual part in the amount of EUR 308 thousand is brought forward to the next year.

Dividends were paid to the shareholders registered in the share register on the cut-off date of 19 July 2017 as stock holders with the right to dividends or to other parties entitled to dividends. Dividends were paid out on 20 July 2017.

### Proposed dividend pay-out for 2017

Amount of dividend paid: EUR 40,984,511.40

Dividend per ordinary share: EUR 6.30

## FAIR VALUE RESERVE FOR FINANCIAL INSTRUMENTS

Fair value reserve for financial instruments includes the change in fair value of investments available for sale and the change in fair value of hedging instruments.

### Change in revaluation reserve for the fair value of available-for-sale investments

EUR thousand	2017	2016
<b>Balance at 1 Jan</b>	<b>678</b>	<b>943</b>
Revaluation of available-for-sale investments (increase in value)	342	1
Deferred taxes	-65	0
Reclassification of revaluation of available-for-sale investments to profit or loss	0	-300
Deferred taxes on reclassification of revaluation of available-for-sale of investments to profit or loss	0	51
Change in deferred taxes due to tax rate recalculation	0	-17
<b>Balance at 31 Dec</b>	<b>955</b>	<b>678</b>

### Change in revaluation reserve for the fair value of hedging instruments (net amount)

EUR thousand	2017	2016
<b>Balance at 1 Jan</b>	<b>0</b>	<b>0</b>
Change in fair value of hedging instruments	-583	0
Deferred tax	111	0
<b>Balance at 31 Dec</b>	<b>-472</b>	<b>0</b>

## RESERVE FOR ACTUARIAL GAINS AND LOSSES

Reserve for actuarial gains and losses includes changes in the present value of payables to employees due to changed actuarial assumptions and on the basis of experience-based adjustments.

In 2017, this reserve declined by EUR 603 thousand (2016: decline of EUR 453) and equalled EUR -2,585 thousand at the end of 2017 (2016: EUR -1,982 thousand).

## 27. LONG-TERM DEFERRED REVENUE

EUR thousand	2017	2016
Co-location billed in advance	10,404	7,366
Other long-term deferred revenue	2,825	3,428
<b>Total long-term deferred revenue</b>	<b>13,229</b>	<b>10,794</b>

Accrued co-locations relate to renting of premises and equipment to other operators.

## 28. PROVISIONS

EUR thousand	2016	Increase on business combinations	Utilisation	Reversal	Formation	Change in discount rate	2017
Provisions for probable liabilities resulting from legal actions	20,208	0	-10,494	-25	24,612	0	34,301
Provisions for termination benefits upon retirement and jubilee benefits	11,650	0	-214	-487	790	258	11,997
Provisions for estimated costs of the removal of base stations	3,445	0	-26	-13	53	-6	3,453
Other provisions	565	272	-249	-260	1,593	0	1,921
Provisions for restructuring	2,718	0	-2,718	0	5,829	0	5,829
<b>Total provisions</b>	<b>38,586</b>	<b>272</b>	<b>-13,701</b>	<b>-785</b>	<b>32,877</b>	<b>252</b>	<b>57,501</b>

EUR thousand	2015	Increase on business combinations	Utilisation	Reversal	Formation	Change in discount rate	2016
Provisions for probable liabilities resulting from legal actions	20,689	0	-1,438	-2,030	2,987	0	20,208
Provisions for termination benefits upon retirement and jubilee benefits	11,340	30	-284	-405	774	195	11,650
Provisions for estimated costs of the removal of base stations	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
<b>Total provisions</b>	<b>43,992</b>	<b>30</b>	<b>-9,540</b>	<b>-3,057</b>	<b>6,734</b>	<b>427</b>	<b>38,586</b>

## PROVISIONS FOR PROBABLE LIABILITIES RESULTING FROM LEGAL ACTIONS

Provisions for probable liabilities resulting from legal actions are created on the basis of the estimated outcome of actions, conducted with a high level of prudence. The date of liability due date cannot be determined. The relevant actions refer among others to the alleged abuse of holding a dominant market position on markets, on which Telekom Slovenije conducts its business operations, for which the Competition Protection Office of the Republic of Slovenia (AVK) began several ex officio procedures 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 promptly in accordance with the Stock Exchange's rules. On the basis of the management's estimate and obtained legal opinions, provisions in the amount of EUR 34,301 thousand were formed.

Total damages claimed by pending legal actions brought against the Telekom Slovenije Group companies amount to EUR 268,396 thousand (2016: EUR 265,595 thousand) – [Note 37, Contingent liabilities](#).

## PROVISIONS FOR TERMINATION AND JUBILEE BENEFITS

Provisions for termination benefits upon retirement are based on actuarial calculations. The calculations applied the discount rate of 1.92% or 1.44, which equals the 2017 year-end yield on 15-year or 10-year gilt-edged bonds from euro area issuers (in 2016, the discount rate was 1.75%). The rate of fluctuation is taken into account according to age intervals and ranges from 0% to 3.5% (2016: the rate ranged from 0% to 3.5%). Liabilities recorded by individual companies in the Group equal the 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 with the discount rate of 1.92% p.a. (2016: 1.75% p.a.), which equals the 2017 year-end yield on 15-year gilt-edged bonds from euro area issuers.

## PROVISIONS FOR RESTRUCTURING

In 2017, the Group used provisions for restructuring in the amount of EUR 2,718 thousand that were created in the previous reporting period. Pursuant to the business plan, the Group created new provisions in the amount of EUR 5,829 thousand for severance benefits of employees within HR restructuring activities.

## 29. NON-CURRENT OPERATING LIABILITIES

EUR thousand	2017	2016
Contractual liabilities for programme rights	9,684	9,702
Microsoft licences	0	1,803
Other	6,742	67
<b>Total non-current operating liabilities</b>	<b>16,426</b>	<b>11,572</b>

Other non-current liabilities increased in 2017 due to the settlement with the company Telemach.

## 30. BORROWINGS

This note provides information about the contractual terms of borrowings. For more information relating to exposure to interest rate and foreign currency risk refer to [Note 41, Financial risk management](#).

EUR thousand	2017	2016
<b>Long-term borrowings</b>		
Borrowings from banks	284,142	304,534
• Current portion of long-term borrowings	-115,252	-304,378
<b>Total long-term portion</b>	<b>168,890</b>	<b>156</b>
<b>Short-term borrowings</b>		
Current portion of long-term borrowings	115,252	304,378
Interest	0	1
<b>Total short-term portion</b>	<b>115,252</b>	<b>304,379</b>

### Contractual provisions of borrowings

EUR thousand	Long-term portion at 31 Dec 2017	Short-term portion at 31 Dec 2017	Maturity exceeding 5 years	Contractual interest rate	Maturity of final instalment	Collateral
Long-term financial liabilities to banks	169,231	115,385	7,692	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
				94	63	6-month EURIBOR + 3.75%

The Group has short-term and long-term credit lines or revolving loans, which are secured by blank bills of exchange. Short-term credit lines or revolving loans mature in 2018 and are subject to fixed or variable interest rates and a mark-up ranging from 0.70% to 3.00%. Long-term credit lines or revolving loans mature in 2020 and are subject to variable interest rate and a mark-up ranging from 0.80% to 1.1%. In addition, the Group concluded agreements with banks on bank-account overdrafts subject to an interest rate ranging up to 3.50%.

Banks that have approved 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 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 2017, all financial covenants on the Group level were achieved. One of the agreement terms was violated, for which the lending banks issued a waiver prior to the date of the balance sheet.

### 31. OTHER NON-CURRENT FINANCIAL LIABILITIES

EUR thousand	2017	2016
Bonds	99,898	99,857
Liabilities for interest rate swap	583	0
Other	45	4
<b>Total other non-current financial liabilities</b>	<b>100,526</b>	<b>99,861</b>

Telekom Slovenije issued in June 2016 bonds with the nominal value of EUR 100,000 thousand, fixed annual interest rate of 1.95% and the maturity date of 10 June 2021. The total issue comprises 100,000 denominations of EUR 1,000. Interest is due for payment on an annual basis, whereby the nominal value in a full single amount. The bonds are measured at amortised cost by applying the effective interest rate of 1.994%.

In February 2017, an interest rate swap was concluded with the purpose of interest rate hedging, the fair value of which as at 31 December 2017 equalled EUR 583 thousand. More detailed explanation is under [Note 41, Financial risk management](#).

In 2018, the company Antenna Slovenia B.V. Amsterdam is able to exercise a put option, and Telekom Slovenije a sell option. More in Accounting Report of Telekom Slovenije, d. d., [Note 15. Investments in Subsidiaries](#).

### 32. OPERATING AND OTHER LIABILITIES

EUR thousand	2017	2016
Trade payables	94,753	92,758
Liabilities to domestic operators	4,166	4,597
Liabilities to foreign operators	5,970	14,844
VAT and other tax liabilities	5,352	5,649
Liabilities to employees	7,875	8,615
Liabilities for advances and securities	2,154	1,188
Other liabilities	14,941	13,013
<b>Total operating and other liabilities</b>	<b>135,211</b>	<b>140,664</b>

Operating liabilities are non-interest bearing and are generally settled in the agreed period of 8 to 120 days. Liabilities to operators are also non-interest bearing and are usually settled in an agreed-upon term between 10 and 90 days from the date of the invoice issue.

### 33. OTHER CURRENT FINANCIAL LIABILITIES

EUR thousand	2017	2016
Liabilities under bonds issued	1,053	1,053
Other financial liabilities	3,276	3,277
<b>Total other current financial liabilities</b>	<b>4,329</b>	<b>4,330</b>

### 34. SHORT-TERM DEFERRED REVENUE

EUR thousand	2017	2016
Deferred revenue from sale of prepaid cards	5,585	6,087
Subscriptions billed in advance and short-term co-locations	1,537	1,621
Short-term portion of government grants for property, plant and equipment	83	234
Other deferred revenue	1,473	1,465
<b>Total short-term deferred revenue</b>	<b>8,678</b>	<b>9,407</b>

### 35. ACCRUED COSTS AND EXPENSES

EUR thousand	2017	2016
Accrued costs and expenses for services rendered and goods supplied	25,266	20,454
Accrued costs and deferred revenue – international services	15,582	12,833
Accrued wages and bonuses	2,697	2,301
Accrued costs for unused vacation days	4,200	4,245
Other	886	354
<b>Total accrued costs and expenses</b>	<b>48,631</b>	<b>40,187</b>

### 36. CARRYING AMOUNTS AND FAIR VALUES

The table contains data on the classification in terms of fair value hierarchy solely for financial assets and financial liabilities that are measured at fair value and for which fair value is disclosed.

Carrying amounts and fair values of financial instruments as at 31 December 2017

EUR thousand	Carrying amount	Fair value	Level 1	Level 2	Level 3
<b>Non-current financial assets</b>					
Available-for-sale financial assets	1,796	1,796	1,796		
Loans given	432	432			432
<b>Current financial assets</b>					
Loans given	457	457			457
<b>Non-current financial liabilities</b>					
Bonds	99,898	101,000	101,000		
Borrowings	168,890	168,890			168,890
Liabilities for interest rate swap	583	583		583	
<b>Current financial liabilities</b>					
Bonds	-42	-42			-42
Interest on bonds	1,095	1,095			1,095
Borrowings	115,252	115,252			115,252
Other financial liabilities	3,276	3,276			3,276

## 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
<b>Non-current financial assets</b>					
Available-for-sale financial assets	1,454	1,454	1,454		
Loans given	754	754			754
<b>Current financial assets</b>					
Loans given	474	474			474
Other current financial assets	118,897	118,897			118,897
<b>Non-current financial liabilities</b>					
Bonds	99,857	104,000	104,000		
Borrowings	156	156			156
<b>Current financial liabilities</b>					
Bonds	-42	-42			-42
Interest on bonds	1,095	1,095			1,095
Borrowings	304,379	304,379			304,379
Other financial liabilities	3,277	3,277			3,277

The Group did not have any transfers between fair value levels in 2017.

The table does not include the Group's operating receivables and liabilities as these are distinctively short-term and are as a rule settled in less than 180 days.

The table also does not include investments the Group values at cost. The value of these investments as at 31 December 2017 amounts to EUR 2,716 thousand [2016: EUR 969 thousand].

## ASSETS AND LIABILITIES THAT ARE NOT MEASURED AT FAIR VALUE, BUT FOR WHICH FAIR VALUE IS DISCLOSED:

### Carrying amounts and fair values at 31 December 2017

EUR thousand	Carrying amount	Fair value	Level 1	Level 2	Level 3
Investment property	4,006	4,117			4,117

### Carrying amounts and fair values at 31 December

EUR thousand	Carrying amount	Fair value	Level 1	Level 2	Level 3
Investment property	4,180	4,180			4,180

The Group did not classify those assets and liabilities for which fair value is not measured into any of the fair value categories.

## 37. CONTINGENT LIABILITIES

### LIABILITIES AND RECEIVABLES RELATED TO OPERATING LEASE

#### The Group companies as lessees

Liabilities from operating leases relate to the lease of property, plant and equipment and primarily relate to lines, business premises and base stations.

Lease payments for 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 for most services defined by published price lists. Long-term leases are subject to conclusion of contracts with a fixed-term period of predominantly 15 years. Lease contracts for short-term leases are mostly concluded for the period of 12 months with automatic 1-month prolongation periods. The customer can cancel the contract or order in compliance with provisions of the contract or order. Customers are charged penalties in case of premature cancellation.

Lease payments for business premises and base stations are defined on the basis of the lessor's price list and comparison of own price list for lease of premises and base stations. Lease contracts are concluded for an indefinite period of time or for 15 years with the possibility of prolongation based on new negotiations. Contracts concluded for an indefinite period of time can be terminated based on certain conditions. These may be as follows:

- the lessee can terminate the contract in writing within 3 months in case the respective property does not meet the technical requirements or is no longer required;
- the resolutive condition 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 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, the same terms and conditions for purchase apply for the Group as lessee.

#### The Group companies as lessees

Payable in - EUR thousand	2017	2016
- up to 1 year	11,105	11,584
- from 1 to including 5 years	33,904	45,042
- more than 5 years	28,696	39,840

For the reporting period, total costs of operating leases recognised in the income statement amounted to EUR 12,263 thousand (2016: EUR 11,059 thousand).

#### The Group companies as 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 regulated services whereby commercial tariffs are applied for unregulated services.

## The Group companies as lessors

Payable in - EUR thousand	2017	2016
- up to 1 year	9,351	9,038
- from 1 to including 5 years	31,118	31,816
- more than 5 years	28,267	31,009

The bases for lease payments are prepared under the same terms and conditions as when the Group acts as a lessee. Lease contracts for joint use of premises, co-locations and base stations are mostly concluded for an indefinite period of time. The period of notice is defined at 2 to 12 months.

In the reporting period, total revenue from operating leases recognised in the income statement amounted to EUR 9,240 thousand (2016: EUR 10,485 thousand).

## Amounts of legal claims

EUR thousand	2017	2016
Amounts of legal claims	268,396	265,595

At the reporting date, the Group recorded 75 (2016: 91) pending legal actions brought against it, whereof the largest refer to T-2 (EUR 129,557 thousand), Mtel Banja Luka (EUR 50,260 thousand) and SKY NET (EUR 33,047 thousand).

The relevant cases are at various stages as follows:

- In the commercial dispute filed by T-2 against Telekom Slovenije, the Supreme Court of the Republic of Slovenia annulled the ruling by the courts of first and second instance and returned the case to the court of first instance for retrial.
- In the commercial dispute filed by SKY NET against Telekom Slovenije due to payment of damages in the amount of EUR 25,960 thousand, the primary claim of SKY NET was finally rejected. The District Court will decide in another trial also on the subordinate claim, i.e. fulfilment of contract. The same court merged also the case of SKY NET against Telekom Slovenije relating to the fulfilment of contract of EUR 7,087 thousand with the mentioned commercial dispute. The court has not yet decided on the subordinate claim, i.e. fulfilment of contract.
- Based on the put option contract from 2017, the company Antenna Slovenia B.V. Amsterdam delivered to Telekom Slovenije in 2017 the statement on exercising the option. Telekom Slovenije argues the put option was not exercised properly and has thus refused to pay the proceeds demanded. The dispute will be resolved through the arbitration procedure before the International Court of Arbitration in Zürich.

Based on the obtained legal opinions and the estimate of the management, the Group formed provisions for legal actions in the amount of EUR 34,301 thousand (Note 28, Provisions). At the date of the balance sheet, contingent liabilities amount to EUR 105,278 thousand (2016: 21,679).

Given the proceedings' progress, it is difficult to provide an estimate of the completion of individual matters with a sufficient degree of certainty.

## GUARANTEES ISSUED

The Group provides the following guarantees:

EUR thousand	2017	2016
Performance bonds and guarantees for repairs	7,400	7,142
Other securities	1,263	448
<b>Total guarantees issued</b>	<b>8,663</b>	<b>7,590</b>

## SUPPORTING LETTER GIVEN TO THE SUBSIDIARIES

The company Telekom Slovenije issued as the sole shareholder of TSmedia and majority owner of IPKO and Antenna TV SL supporting letters to these companies, in which it ensures that it has no intention of terminating operations nor decreasing them significantly and that it will provide sufficient funds to these companies in the 12 months following the signing of the letter, so that they can settle their liabilities regularly.

None of the stated liabilities meets the terms for recognition among balance sheet items. Thus, no related material consequences are expected for the Group.

## 38. RELATED PARTY TRANSACTIONS

Related entities are individuals or companies that are related to the Telekom Slovenije Group.

### TRANSACTIONS WITH INDIVIDUALS

Related natural persons or individuals (the President and members of the Management Board, and the Chairman and members of the Supervisory Board) hold a total of 448 shares in the Company, representing an equity holding of 0.00687%.

No loans were extended to related individuals in 2017 and 2016.

#### Data on groups of persons in 2017

EUR thousand	Total gross receipts	Receipts as profit pay-outs based on the resolution of the Shareholders' Meeting	Loans	
			Unpaid portion at 31 Dec 2017	Repayments in 2017
<i>Members of the Management Board</i>	824	-	-	-
<i>Members of the Supervisory Board</i>	263	-	-	-
<i>Members of the Supervisory Board commissions</i>	20	-	-	-
<i>Other managerial staff employed under contracts that are not subject to the tariff part of the collective agreement</i>	6,437	-	28	11

#### Data on groups of persons in 2016

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
<i>Members of the Management Board</i>	713	-	-	-
<i>Members of the Supervisory Board</i>	254	-	-	-
<i>Members of the Supervisory Board commissions</i>	23	-	-	-
<i>Other managerial staff employed under contracts that are not subject to the tariff part of the collective agreement</i>	6,345	-	38	11

Loans to other managers and employees in the Group under contracts that are not subject to the tariff part of the collective agreement were approved at interest rates ranging from 3.81% 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 has no liabilities to these persons. The Group also did not record any write-offs or remitted amounts for these groups.

## Remuneration of the members of the Management Board in 2017 - breakdown

in EUR	Salary	Variable pay*	Reimbursement of costs	Holiday allowance	Insurance premiums	Benefits	PDPZ	Total gross**	Total net***
Rudolf Skobe [1 Jan - 31 Dec]	145,222	15,864	1,710	1,158	697	6,690	2,819	174,160	76,623
Tomaž Seljak [1 Jan - 31 Dec]	145,222	15,864	2,305	1,158	697	5,182	2,819	173,247	78,137
Aleš Aberšek [1 Jan - 31 Dec]	145,222	12,816	1,439	1,158	12,452	8,050	2,819	183,956	67,079
Ranko Jelača [1 Jan - 31 Dec]	145,222	12,829	1,772	1,158	827	8,612	2,819	173,239	77,745
Vesna Lednik [1 Jan - 31 Dec]	101,658	7,403	1,298	1,158	697	4,638	2,819	119,671	55,924
<b>Total</b>	<b>682,546</b>	<b>64,776</b>	<b>8,524</b>	<b>5,790</b>	<b>15,370</b>	<b>33,172</b>	<b>14,095</b>	<b>824,273</b>	<b>355,508</b>

\* Variable pay refers to the performance bonus for 2016.

\*\* The total gross amount is the sum of all types of labour costs, including net receipts (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 net earnings of Management Board members, and exclusive of PDPZ, which is remitted to the pension company and not to the members personally.

## Remuneration of the members of the Management Board in 2016 - breakdown

in EUR	Salary	Variable pay*	Reimbursement of costs	Holiday allowance	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 March - 31 Dec]	106,063	0	1,228	825	2,742	6,900	2,114	119,872	48,164
Ranko Jelača [15 March - 31 Dec]	112,068	0	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	0	61	169	89	14,336	6,519
<b>Total</b>	<b>603,386</b>	<b>43,138</b>	<b>8,323</b>	<b>4,950</b>	<b>5,643</b>	<b>34,701</b>	<b>12,774</b>	<b>712,915</b>	<b>305,159</b>

\* Variable pay refers to the performance bonus 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 is the sum of all types of labour costs, including net receipts (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 net earnings of Management Board members, and exclusive of PDPZ, which is remitted to the pension company and not to the members personally.

Members of the Management Board did not receive any shares in profit, options, commissions or other earnings. All benefits of the Management Board members, except PDPZ, are short-term receipts.

## LIABILITIES OF THE TELEKOM SLOVENIJE GROUP

The Telekom Slovenije Group records liabilities to related parties arising from earnings that have not yet been paid out and amount as follows:

### Liabilities of the Telekom Slovenije Group

EUR thousand	Total amount of all liabilities 2017	Total amount of all liabilities 2016
Total Management Board members	227	11
Other managerial staff employed under contracts that are not subject to the tariff part of the collective agreement	518	75

## Remuneration of the Supervisory Board members in 2017 (breakdown)

in EUR	Attendance fees	Monthly pay	Commissions	Travel expenses	Liability insurance	Total gross*	Total net**
<b>External members</b>							
Borut Jamnik (1 Jan - 27 Apr)	1,100	10,821	2,420	0	0	14,341	10,430
Tomaž Berločnik (1 Jan - 27 Apr)	825	6,417	220	0	0	7,462	5,427
Adolf Zupan (1 Jan - 27 Apr)	1,100	8,633	660	458	0	10,851	7,892
Bernarda Babič (1 Jan - 31 Dec)	3,700	20,183	3,300	2,018	290	29,491	21,165
Marko Hočevar (1 Jan - 27 Apr)	1,100	7,000	1,276	0	0	9,376	6,819
Dimitrij Marjanovič (1 Jan - 31 Dec)	3,355	21,000	3,645	0	290	28,290	20,292
Lidija Glavina (27 Apr - 31 Dec)	3,025	18,667	1,100	0	290	23,082	16,504
Barbara Gorjup (27 Apr - 31 Dec)	2,530	14,000	2,137	0	290	18,957	13,504
Barbara Kürner Čad (27 Apr - 31 Dec)	2,750	14,000	1,100	0	290	18,140	12,910
Ljubomir Rajšič (27 Apr - 31 Dec)	2,863	14,000	1,804	8,420	290	27,377	16,683
<b>Internal members</b>							
Primož Per (1 Jan - 31 Dec)	4,125	17,500	1,760	0	290	23,675	16,935
Samo Podgornik (1 Jan - 31 Dec)	3,850	17,500	660	0	290	22,300	15,935
Dean Žigon (1 Jan - 31 Dec)	3,905	22,400	3,095	0	290	29,690	21,310
<b>Total</b>	<b>34,228</b>	<b>192,121</b>	<b>23,177</b>	<b>10,896</b>	<b>2,610</b>	<b>263,032</b>	<b>185,806</b>

\* The total gross amount includes the sum of all attendance fees, basic salaries for performing the function and payments for participating in commissions, 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 reduce net earnings of Supervisory Board members, and travel expenses.

## Remuneration of the Supervisory Board members in 2016 (breakdown)

in EUR	Attendance fees	Basic pay for performing the function	Commissions	Travel expenses	Liability insurance	Total gross*	Total net**
<b>External members</b>							
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
<b>Internal members</b>							
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
<b>Total</b>	<b>41,350</b>	<b>186,775</b>	<b>18,745</b>	<b>4,333</b>	<b>2,898</b>	<b>254,101</b>	<b>182,701</b>

\* The total gross amount includes the sum of all attendance fees, basic salaries for performing the function and payments for participating in commissions, including net earnings (travel expenses) and liability insurance.

\*\* The total net amount represents the sum of net earnings of Supervisory Board members, inclusive of liability insurance, which actually reduce net earnings, together with travel expenses

Members of the Supervisory Board received no other payments.

## Remuneration of members of the Supervisory Board commissions in 2017 [breakdown]

in EUR	Attendance fees	Basic pay for performing the function	Commissions	Travel expenses	Liability insurance	Total gross*	Total net**
<b>External commission members</b>							
Barbara Nose [1 Jan - 27 Apr, 10 July - 31 Dec]	0	8,750	2,244	0	0	10,994	7,996
Slavko Ovčina [4 Oct - 31 Dec]	0	0	0	0	0	1,750	1,273
Miha Kerin [1 Jan - 12 Apr]	0	0	1,540	0	0	3,523	2,563
Alenka Stanič [1 Jan - 12 Apr]	0	0	1,540	0	0	3,523	2,563
<b>Total</b>	<b>0</b>	<b>14,466</b>	<b>5,324</b>	<b>0</b>	<b>0</b>	<b>19,790</b>	<b>14,395</b>

\* The total gross amount includes the sum of the basic salary for performing the function and payments for participating in commissions.

\*\* The total net amount refers to net earnings of the members of the Supervisory Board commissions.

## Remuneration of members of the Supervisory Board commissions in 2016 [breakdown]

in EUR	Attendance fees	Basic pay for performing the function	Commissions	Travel expenses	Liability insurance	Total gross*	Total net**
<b>External commission members</b>							
Barbara Nose [1 Jan - 31 Dec]	0	8,750	3,080	0	0	11,830	8,604
Mladen Kaliterna [1 April - 30 April]	0	583	660	0	0	1,243	904
Miha Kerin [1 July - 31 Dec]	0	3,500	660	0	0	4,160	3,026
Alenka Stanič [1 April - 30 April, 1 July - 31 Dec]	0	4,083	1,320	0	0	5,403	3,930
<b>Total</b>	<b>0</b>	<b>16,916</b>	<b>5,720</b>	<b>0</b>	<b>0</b>	<b>22,636</b>	<b>16,464</b>

\* The total gross amount includes the sum of the basic salary for performing the function and payments for participating in commissions.

\*\* The total net amount refers to net earnings of the members of the Supervisory Board commissions.

Members of the Management Board and the Supervisory Board of Telekom Slovenije are members of supervisory or management boards of other companies or owners of other companies with which the company Telekom Slovenije conducts business. All related party transactions are carried out under market prices.

## TRANSACTIONS WITH COMPANIES IN THE GROUP – JOINT VENTURES AND ASSOCIATED COMPANIES

All transactions with companies in the Group – joint ventures and associated companies – are performed under market conditions applicable for transactions with unrelated parties.

### Transactions with companies in the Group – joint ventures and associated companies

EUR thousand	2017	2016
Receivables due from companies in the Group	0	0
Liabilities to companies in the Group	2	2

EUR thousand	2017	2016
Net revenue in the Group	0	1,166
Purchase of material and services in the Group	8	1,266

## TRANSACTIONS WITH OWNERS AND THEIR RELATED COMPANIES

The largest owner of Telekom Slovenije is the Republic of Slovenia, which holds together with Slovenski državni holding (SDH) 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 website of the 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	2017	2016
Outstanding operating receivables	3,875	1,672
Short-term accrued revenue	20,558	3,944
Outstanding operating liabilities	1,561	1,211

The increase in short-term accrued revenue arises from the e-tolls project.

### Revenue and expenses

EUR thousand	2017	2016
Operating revenue	32,369	15,081
Purchase costs of material and services	10,382	7,747

All related party transactions are carried out under market prices.

## 39. AUDITOR'S FEE

EUR thousand	2017	2016
Audit services	116	111
Other assurance engagements	8	14
Other non-audit services	0	6
<b>Total auditor's fees</b>	<b>124</b>	<b>131</b>

## 40. CATEGORIES OF FINANCIAL INSTRUMENTS

The Group classified financial instruments into groups as shown in the table below.

EUR thousand	2017	2016
<b>Financial assets</b>		
<b>Cash and cash equivalents</b>	<b>29,245</b>	<b>42,554</b>
<b>Bank deposits</b>	<b>77,283</b>	<b>299</b>
<b>Financial assets measured at fair value through profit or loss</b>	<b>227</b>	<b>118,897</b>
Derivative financial instruments	227	118,897
<b>Investments in loans and receivables</b>	<b>160,707</b>	<b>152,051</b>
Loans given	889	1,228
Operating and other receivables	159,818	150,823
<b>Available-for-sale financial assets</b>	<b>4,649</b>	<b>2,547</b>
Investments in shares and interests of companies	4,520	2,423
Investments in subsidiaries, joint ventures and associated companies	129	124
<b>Financial liabilities</b>		
<b>Derivative financial instruments</b>	<b>3,642</b>	<b>3,059</b>
Derivative financial instrument	3,059	3,059
Liabilities for interest rate swap	583	0
<b>Held to maturity</b>	<b>520,566</b>	<b>546,331</b>
Operating liabilities	135,211	140,664
Borrowings	284,142	304,535
Liabilities under bonds issued	100,951	100,910
Liabilities for dividends	262	222

The Group did not reclassify these instruments to other groups during the year.

## 41. FINANCIAL RISK MANAGEMENT

The most significant financial risks the Telekom Slovenije Group is exposed to are the credit risk, long-term and short-term liquidity risk and the interest rate risk. Exposure to individual types of financial risks and measures for their management are conducted and assessed by the Telekom Slovenije Group on the basis of effects on cash flows and the income statement. Below are presented major financial risks, which the Group regularly assesses and verifies the adequacy of the measures for their management in compliance with the adopted policy.

### CREDIT RISK

Credit risk is the risk of financial loss if a client or party to an agreement does not settle its obligations in full or not at all.

The maximum exposure to credit risk equals the carrying amount of financial assets.

## Credit risk exposure

EUR thousand	2017	2016
Loans given	889	1,228
Investments	77,518	119,196
Operating and other receivables	159,818	150,823
- of which trade receivables	151,839	142,077
Cash and cash equivalents	29,245	42,554
<b>TOTAL</b>	<b>267,470</b>	<b>313,801</b>

The Group makes sure investments are properly diversified, so the concentration risk is low.

The credit risk or the counterparty risk refers mostly to non-payment of liabilities by customers (retail sale) and by operators (wholesale). Trade receivables represent the maximum exposure to credit risk. As at 31 December 2017, these amounted to EUR 151,839 thousand and indicate a rise over 2016 of EUR 9,762 thousand. Most of the Group's operating and other receivables refer to Telekom Slovenije d.d. Most receivables are not secured. The Group records receivables due from a large number of natural persons and legal entities. The biggest buyers of the Group are operators, with which transactions are as a rule two-way, decreasing net credit exposure. Therefore, we have assessed that no major credit risk concentration exists for individual clients or individual industries.

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 (reminders and disconnection) and via specialised outsourced collectors. 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). Telekom Slovenije, which has the most post-paid customers, also has in place the Credit Management System (CMS).

As a result of introduced procedures for managing receivables, the Group assesses credit risk as manageable.

The Telekom Slovenije Group monitors financial risks also on other segments of business operations. Bank balances are allocated by the principle of minimising risks and observing proper diversification of investments. The Group is also exposed to risk in relation to loans given to third parties and employees and investments in short-term deposits. Loan-related risk is managed by means of diverse insurance instruments in loan contracts, such as right of lien on real properties and assets, assignment of existing and future claims, pledges on equity interests, guarantee statements and other adequate forms of insurance. As for investments, it is mitigated by adequate diversification of investments and monitoring of credit rating and capital adequacy of individual banks.

## Ageing analysis of receivables as at the reporting date

EUR thousand	2017			2016		
	Gross value	Allowances	Net value	Gross value	Allowances	Net value
<b>Total trade receivables</b>	<b>188,240</b>	<b>-36,401</b>	<b>151,839</b>	<b>185,803</b>	<b>-43,726</b>	<b>142,077</b>
Not past due trade receivables	126,075	0	126,075	122,392	-4	122,388
<b>Overdue</b>						
Up to and including 30 days	14,076	-4	14,072	11,768	-6	11,762
31 to and including 60 days	4,689	-11	4,678	4,113	-7	4,106
61 to and including 90 days	1,766	-13	1,753	1,384	-18	1,366
91 to and including 120 days	1,212	-480	732	1,042	-644	397
121 days and more	40,422	-35,893	4,529	45,105	-43,047	2,058
<b>Total overdue trade receivables</b>	<b>62,165</b>	<b>-36,401</b>	<b>25,764</b>	<b>63,411</b>	<b>-43,722</b>	<b>19,690</b>
Other operating receivables	7,987	-8	7,979	8,753	-7	8,746
<b>Total receivables</b>	<b>196,227</b>	<b>-36,409</b>	<b>159,818</b>	<b>194,555</b>	<b>-43,733</b>	<b>150,823</b>

## Maturity profile of loans given

EUR thousand	2017	2016
<b>Overdue</b>	<b>137</b>	<b>60</b>
<b>Due in:</b>	<b>752</b>	<b>1,168</b>
- less than 3 months	82	86
- 3 to 12 months	238	328
- 1 to 2 years	189	322
- 2 to 5 years	171	319
- more than 5 years	72	113
<b>Total</b>	<b>889</b>	<b>1,228</b>

## Ageing analysis of loans given as at 31 December 2017

EUR thousand	Not yet due	Overdue					Total
		Less than 3 months	3 to 12 months	1 to 2 years	2 to 5 years	More than 5 years	
Loans given	752	108	0	0	29	0	889

## Ageing analysis of loans given as at 31 December 2016

EUR thousand	Not yet due	Zapadle					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

The management of the Company has assessed that the above financial assets not impaired or past due as at 31 December 2017 have a good credit quality.

## LIQUIDITY RISK

The Group's liquidity is the result of an active planning and managing of cash flows, provision of adequate maturity and financial debt diversification, financing within the Group, and the optimisation of the working capital and cash. The liquidity risk on the Group level is managed by the parent company, which plans and monitors the cash requirements of subsidiaries and provides them with the necessary funds.

In 2017, long-term credit lines were obtained to manage stand-by liquidity, which ensure, together with short-term revolving lines, a high level of liquidity for the Group. The total liquidity reserve in the form of short-term and long-term lines with banks amounted as at 31 December 2017 to EUR 170 million (as at 31 December 2016, EUR 96.5 million).

A relatively low level of 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 the Group's financial liabilities refer to the long-term syndicated loan in the amount of EUR 284.6 million and the issue of bonds of EUR 100 million.

### Maturity profile of liabilities of the Telekom Slovenije Group as at 31 December 2017 and 31 December 2016 based on contractual, undiscounted payments

EUR thousand	Overdue	On demand	Up to 3 months	3 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	Total
<b>2017</b>								
Loans and borrowings	0	0	100,000	15,448	15,479	146,153	7,692	284,772
Anticipated interest on loans	0	0	404	3,091	2,816	3,891	32	10,234
Other financial liabilities	3,244	0	0	1,127	23	100,359	245	104,998
Anticipated interest on bonds	0	0	0	1,950	3,900	1,950	0	7,800
Trade payables and other operating liabilities	7,716	3,841	102,865	20,789	14,144	2,212	70	151,637
<b>Total</b>	<b>10,960</b>	<b>3,841</b>	<b>203,269</b>	<b>42,405</b>	<b>36,362</b>	<b>254,565</b>	<b>8,039</b>	<b>559,441</b>
<b>2016</b>								
Loans and borrowings	0	0	0	305,450	0	156	0	305,606
Anticipated interest on loans	0	0	0	4,941	0	0	0	4,941
Other financial liabilities	3,267	0	0	1,105	4	100,000	0	104,376
Anticipated interest on bonds	0	0	0	1,950	0	0	0	1,950
Trade payables and other operating liabilities	10,996	2,350	112,123	15,195	6,803	4,769	0	152,236
<b>Total</b>	<b>14,263</b>	<b>2,350</b>	<b>112,123</b>	<b>328,641</b>	<b>6,807</b>	<b>104,925</b>	<b>0</b>	<b>569,109</b>

## INTEREST RATE RISK

Interest rate risk is the risk of a negative impact of changes in market interest rates on the Group's operations. As at 31 December 2017, the Group's interest rate exposure arises from the possible increase in the Euribor reference interest rate as the Group records more interest sensitive liabilities than investments.

The Telekom Slovenije Group pursues the target ratio between variable interest bearing and fixed interest bearing or hedged financial liabilities, which is to be around 50% of the debt with fixed or hedged interest rate.

In the structure of the Group's interest-bearing financial liabilities, the liabilities relating to borrowings and the finance lease, which bear variable interest rates linked to 3- and 6-month Euribor, account for a share of 74.02% as at 31 December 2017. The remaining liabilities arise from bonds issued with a fixed interest rate.

In February 2017, interest rate swap was concluded to hedge interest exposure arising from long-term syndicated loan, which became effective on 30 June 2017. The amount of hedged principal as at 31 December 2017 was EUR 92.3 million. The principal is hedged for the growth in reference interest rate should it equal zero or more. At the level of the Group, it has a fixed or hedged interest rate of 49.97% of interest -bearing financial debt.

### Exposure to interest rate risk

EUR thousand	31. 12. 2017	31. 12. 2016
<b>Financial instruments with variable interest rate</b>		
Financial receivables	344	561
Financial liabilities	192,540	305,618
<b>Net financial liabilities</b>	<b>192,196</b>	<b>305,057</b>

The table is exclusive of non-interest bearing financial instrument and instruments bearing a fixed interest rate, as they are not exposed to interest rate risk. It also does not include financial liabilities with hedged interest rate for Euribor growth.

## SENSITIVITY ANALYSIS

The following table illustrates the sensitivity analysis of the changed interest rate on the Group's profit as at the reporting date, whereby all other variables are constant.

### Interest rate risk table

	Interest rate increase/decrease	Effect on profit before tax in EUR thousand
<b>31 Dec 2017</b>		
EURO	+100 bps	-1,150
EURO	-100 bps	-926
<b>31 Dec 2016</b>		
EURO	+100 bps	-2,376
EURO	-100 bps	-3

## EURIBOR interest rate values

EURIBOR	Value at 31 Dec 2016	Value at 31 Dec 2017	Change in percentage
3-month	-0.319	-0.329	-3.13
6-month	-0.221	-0.271	-22.62

## CAPITAL MANAGEMENT

The key objectives of the Group's capital management are capital adequacy and consequently long-term liquidity and financial stability, which ensure the best possible credit rating for the further financing of the Group's operations and development and thereby maximising shareholder value.

The Group monitors changes in equity by using a debt-to-equity ratio and equity-to-total assets ratio. The Group's net financial liabilities include borrowings and other financial liabilities less current investments and cash. The Group observes also financial covenants under loan contracts when adopting decisions relating to capital management.

EUR thousand	2017	2016
Borrowings and other financial liabilities	388,997	408,726
Less short-term investments and cash with short-term deposits	-107,212	-162,224
<b>Net liabilities</b>	<b>281,785</b>	<b>246,502</b>
Equity	680,865	705,862
<b>Total assets</b>	<b>1,351,994</b>	<b>1,367,419</b>
Debt/equity ratio	41.4%	34.9%
Equity/total assets ratio	50.4%	51.6%

## 42. GENERAL AUTHORISATION AND THE RIGHT TO USE RADIO FREQUENCY AND BLOCK NUMBERS

### FIXED-LINE AND MOBILE PHONE SERVICES

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 a local administrative authority before exercising the rights stemming from the authorisation.

The Group is obliged to pay an annual compensation in the amount of EUR 591 thousand (2016: EUR 545 thousand) in connection with the following electronic communications services:

- publicly available telephone services on a fixed location;
- services in the public mobile network;
- inter-operator services and transit;
- data-related services and internet access;
- lease of public communications network; and
- provision of public communications networks.

The amount of the fee paid is defined by the tariff in the general act of the Agency.

The Group companies pay on an annual basis right-of-use fees for radio frequencies, for telephony numbering space, and other rights for rendering fixed-line and mobile phone services.

The total amount of compensations in 2017 equalled EUR 3,448 thousand (2017: EUR 8,861 thousand).

### The Group's concessions for mobile phone services

Concession agreement	Date of authorisation	Period	Fee
Concession agreement for use of the radio frequency spectrum for rendering services UMTS/IMT-2000	27 November 2001	to 21 September 2021	Initial amount of the compensation at EUR 91,804 thousand
Decision on allocating the radio frequencies for LTE 800 MHz, UMTS 210 MHz	26 May 2014	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 and 1800 MHz, LTE 2600 MHz	26 May 2014	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 second GSM generation in the mobile network on the territory of Kosovo	6 March 2007	to 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 at 1800Mhz) in the territory of Kosovo	6 December 2015	to 30 July 2019	Initial amount of the compensation at EUR 5,926 thousand

## 43. EVENTS AFTER THE REPORTING DATE

### JANUAR

On 5 January 2018, the credit rating agency S&P Global Ratings confirmed credit rating of BB+ for Telekom Slovenije and assessed the future prospects as stable. The stable assessment of future prospects reflects the expectation of S&P for Telekom Slovenije to keep its leading position on the Slovenian market for both mobile and fixed segment despite the strong competition. S&P expects at the same time that Telekom Slovenije will successfully conclude the planned upgrading and expansion of the network and successfully keep revenue and EBITDA levels through new services.

The Supervisory Board of Telekom Slovenije was familiarised with the resignation statement of the member of the Supervisory Board, Dean Žigon, employee representative. Dean Žigon resigns from his position as employee representative in the Supervisory Board as of 22 January 2018.

GVO and the sole shareholder of the company INFRATEL, telekomunikacijska infrastruktura, d.o.o. agreed on purchase of 100% interest in the mentioned company by GVO. Following the fulfilment of suspensive conditions defined in the Agreement on Sale and Purchase of an Interest, procedures for the transfer of business interests were initiated, so that on 24 January 2018 change in the ownership of the company was entered in the Companies Register.

### FEBRUAR

The Council of Workers of Telekom Slovenije appointed at its meeting held on 14 February 2018 Urban Škrjanc as the new employee representative in the Supervisory Board of Telekom Slovenije.

Based on the Agreement on the Sale and Purchase of Interests, concluded on 15 December 2009 between the minority owners of the Kosovan company IPKO Telecommunications LLC and Telekom Slovenije, d.d. and which defined exit of minority owners from the company, Telekom Slovenije, d.d. concluded the agreement on purchase of 6.89-percent interest in the mentioned company on 16 February 2018. The Company paid consideration of EUR 2.98 million for the 6.89-percent interest.

On 16 February 2018, Telekom Slovenije received from the Administrative Court of the Republic of Slovenia judgment in which the mentioned court judged that the action of the plaintiff Slovenian Competition Protection Agency (AVK) be partially upheld, namely in the part in which Telekom Slovenije is accused of abuse of dominant position on the wholesale market of bit stream broadband access in the Republic of Slovenia, making its wholesale service of bit stream broadband access in the period from 1 July 2005 to 22 September 2008 conditional on acceptance of additional obligations, i.e. the obligation to lease telephone connections by the end user or operator. In this part, the decision of the AVK is set aside and the matter is returned to the same authority for repeated procedure. In the remaining part, the Administrative Court of the Republic of Slovenia dismissed the action of the plaintiff.

### MAREC

The Supervisory Board of Telekom Slovenije appointed Dean Žigon to the position of a member of the Management Board – Workers Director. The appointment was carried out on proposal of the Works Council in compliance with the Worker Participation in Management Act and will start his four-year term of office on 24 April 2018, after the expiration of the current member of the Management Board – Workers Director term of office.

On 5 March 2018, Telekom Slovenije received the order of the Ljubljana Higher Court concerning the commercial dispute between the plaintiff Telekom Slovenije and the defendants Bojan Dremelj, Dušan Mitič, Filip Ogris Martič, Željko Puljić and Darja Senica due to the payment of EUR 7,635,500.00 with related amounts. The Higher Court decided that the appeal of Telekom Slovenije be upheld, the contested judgment be annulled and the matter be returned to the court of first instance for retrial.

On 12 March 2018, Telekom Slovenije increased the capital of IPKO Telecommunications LLC by EUR 15 million.

### 3.2.3. INDEPENDENT AUDITOR'S REPORT FOR THE TELEKOM SLOVENIJE GROUP



Deloitte Revizija d.o.o.  
Dunajska cesta 165  
1000 Ljubljana  
Slovenija

Tel: + 386 (0)1 3072 800  
Fax: + 386 (0)1 3072 900  
www.deloitte.si

## INDEPENDENT AUDITOR'S REPORT to the owners of Telekom Slovenije d.d.

### Opinion

We have audited the consolidated financial statements of Telekom Slovenije d.d. and its subsidiaries (hereinafter 'the Group'), which comprise the consolidated balance sheet as at 31 December 2017, and the consolidated income statement, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU (hereinafter 'IFRSs').

### 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 Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and other ethical requirements that are relevant to our audit of the financial statements in Slovenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the 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.

Key Audit Matter	How our audit addressed the key audit matter
<b>Provisions for Lawsuits</b>	
Telekom Slovenije Group is involved in legal and regulatory proceedings regarding its operations and had claims amounting to EUR 268,396 thousand as at 31 December 2017. The Group has a balance of EUR 34,301 thousand of provisions for lawsuits recorded.	<p>Our audit procedures focused on the evaluation of judgments used to record provisions. Among others, our audit procedures included:</p> <ul style="list-style-type: none"> <li>We have evaluated and tested the design and implementation of key internal controls</li> </ul>

Ime Deloitte se nanaša na Deloitte Touche Tohmatsu Limited, pravno osebo, ustanovljeno v skladu z zakonodajo združenega kraljestva Velike Britanije in Severne Irske (v izvirniku »UK private company limited by guarantee«), in mrežo njenih članic, od katerih je vsaka ložena in samostojna pravna oseba. Podroben opis pravne organiziranosti združenja Deloitte Touche Tohmatsu Limited in njenih družb članic je na voljo na <http://www2.deloitte.com/si/env/pages/about-deloitte/articles/about-deloitte.html>

Družba članica Deloitte Touche Tohmatsu Limited.

Deloitte Revizija d.o.o. - Družba vpisana pri Okrožnem sodišču v Ljubljani - Matična številka: 1647105000 - ID št. za DDV: S62560085 - Osnovni kapital: 74.214,30 EUR

<p>The final impact of these proceedings to the financial statements is uncertain and depends on the final outcome of the proceedings. Consequently, the estimated provisions for lawsuits are subject to great uncertainty and require significant judgement of the management regarding probability and amounts of the claims.</p>	<p>regarding the recognition of provisions for lawsuits.</p> <ul style="list-style-type: none"> <li>• We have obtained and reviewed the Supervisory Board, the Audit Committee and the Management Board minutes, and correspondence with the regulators.</li> <li>• We have obtained and reviewed the confirmations of the Group's legal representatives and experts on the probable outcomes and significance of the Group's exposure to the respective disputes and claims.</li> <li>• We have reviewed the appropriateness of estimates and assumptions used by the Group regarding the recognition of provisions for lawsuits.</li> </ul> <p>We have also evaluated whether the disclosures regarding provisions for lawsuits were appropriate. Accounting for provisions for lawsuits is disclosed in Notes 28 and 37.</p>
--	---

#### Other Information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. We obtained the other information before the auditor's report date except for the report from the Supervisory Board, which will be made available subsequently. Management is responsible for the other information. Our opinion on the consolidated financial statements does not cover the other information.

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, legal requirements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law or regulation, in particular, whether the other information complies with law or regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the consolidated financial statements is, in all material respects, consistent with the consolidated financial statements; and
- The other information is prepared in compliance with applicable law or regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Group obtained in the audit, on whether the other information contains any material misstatement of fact. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement of fact.

### **Responsibilities of Management, the Supervisory Board and the Audit Committee for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, 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 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 and the Audit Committee are responsible for overseeing the Group's financial reporting process.

### **Auditor's Responsibilities for the Audit of the 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 auditor's 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 scepticism 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 controls.
- 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 auditor's 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 auditor's 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 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 concerning the financial statements of group companies or their business activities in order to express an opinion on the consolidated financial statements. We are responsible for conducting, overseeing and performing the audit of the Group. We have sole responsibility for the audit opinion expressed.

With the Supervisory Board and the Audit Committee we communicate the planned scope and timing of the audit and significant findings from the audit, including significant deficiencies in internal control we have identified during our audit.

We also provide the Supervisory Board and the Audit Committee with the statement of compliance with relevant ethical requirements regarding independence, and we communicate with them all relationships and other matters for which it may reasonably be thought to bear on independence, and, if appropriate, all the related safeguards.

Among the matters we communicate with the Supervisory Board and the Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period, and are therefore the key audit matters. We describe these matters in our auditor's 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.

#### **Other reporting obligations as required by EU Regulation No. 537/2014 of the European Parliament and the Council**

In compliance with the Article 10(2) of EU Regulation No. 537/2014 of the European Parliament and the Council, we provide the following information in our independent auditor's report, which is required in addition to the requirements of International Standards on Auditing:

##### Appointment of the Auditor and the Period of Engagement

We were appointed as the statutory auditor of the Company for the first time by the shareholders on the General Shareholders' Meeting held on 21 April 2017 for the financial years 2017, 2018 and 2019.

##### Consistence with the Additional Report to the Audit Committee

We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report issued to the Audit Committee of the Company on 4 April 2018 in accordance with the Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

##### Provision of Non-audit Services

Apart from a minor inconsistency regarding the valuation services performed for the audited company indirectly by another member of the Deloitte network, we have not performed any prohibited non-audit services referred to in the Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council. We declare that our audit was performed independently.

There are no services, in addition to the statutory audit, which we provided to the Company and its controlled undertakings, and which have not been disclosed in the Annual Report.

DELOITTE REVIZIJA d.o.o.

Barbara Žibret Kralj  
Certified auditor

*For signature please refer to the original  
Slovenian version.*

**Deloitte.**  
DELOITTE REVIZIJA D.O.O.  
Ljubljana, Slovenija 3

Ljubljana, 4 April 2018

**TRANSLATION ONLY – SLOVENIAN ORIGINAL PREVAILS**



### 3.3. ACCOUNTING REPORT OF TELEKOM SLOVENIJE, D. D.

#### 3.3.1. SEPARATE INCOME STATEMENT OF TELEKOM SLOVENIJE, D. D. FOR THE PERIOD ENDED 31 DECEMBER 2017

Separate Income Statement of Telekom Slovenije, d. d. for the period ended 31 December 2017

EUR thousand	Note	2017	2016
Net sales revenue	4	645,190	639,471
Other operating income	5	8,034	6,963
Cost of goods sold		-75,110	-69,186
Costs of materials and energy costs		-10,195	-10,433
Costs of services	6	-301,963	-285,864
Labour costs	7	-98,514	-96,896
Amortisation	12, 13, 18	-134,814	-134,946
Other operating expenses	8	-29,113	-16,765
<b>Total operating expenses</b>		<b>-649,709</b>	<b>-614,090</b>
<b>Operating profits</b>		<b>3,515</b>	<b>32,344</b>
Finance income	9	9,335	30,710
Finance expenses	9	-19,281	-29,364
<b>Profit before tax</b>		<b>-6,431</b>	<b>33,690</b>
Income tax expense	10	0	0
Deferred tax	10	8,151	6,770
<b>Profit for the period</b>		<b>1,720</b>	<b>40,460</b>

Notes on pages from 258 to 324 are a constituent part of these financial statements.

Separate Statement of Other Comprehensive Income of Telekom Slovenije, d.d. for the period ended 31 December 2017

EUR thousand	Note	2017	2016
<b>Profit for the period</b>		<b>1,720</b>	<b>40,460</b>
<b>Other comprehensive income that may be reclassified subsequently to profit or loss</b>			
Change in fair value of available-for-sale investments	24	342	1
Deferred tax	11	-65	0
Change in reclassifying the fair value of available-for-sale investments to profit or loss	24	0	-300
Deferred tax on reclassifying the fair value of available-for-sale investments to profit or loss	11	0	51
Change in deferred tax due to recalculation of tax rate	11	0	-17
<b>Change in fair value of available-for-sale investments (net)</b>		<b>277</b>	<b>-265</b>
Change in fair value of hedging financial instruments	24	-583	0
Deferred tax from change in fair value of hedging financial instruments	11	111	0
<b>Change in fair value of hedging financial instruments (net)</b>		<b>-472</b>	<b>0</b>
<b>Other comprehensive income that may not be reclassified subsequently to profit or loss</b>			
<b>Change in the fair value for actuarial deficits and surpluses</b>		<b>-711</b>	<b>-355</b>
<b>Other comprehensive income for the period after tax</b>		<b>-906</b>	<b>-620</b>
<b>Total comprehensive income for the period</b>		<b>814</b>	<b>39,840</b>

Notes on pages from 258 to 324 are a constituent part of these financial statements.

## Separate Balance Sheet of Telekom Slovenije, d. d. as at 31 December 2017

in EUR thousand	Note	2017	2016
<b>ASSETS</b>			
Intangible assets	12	174,413	161,775
Property, plant and equipment	13	582,178	590,826
Investments in subsidiaries	14	36,079	33,371
Investment in a joint venture	14	63	63
Other investments	16	85,407	126,468
Other non-current assets	17	33,097	33,272
Investment property	18	4,006	4,180
Deferred tax assets	10	44,136	35,656
<b>Total non-current assets</b>		<b>959,379</b>	<b>985,611</b>
Assets held for sale	19	754	1,818
Inventories	20	18,106	19,258
Trade and other receivables	21	151,302	145,198
Short-term deferred costs and accrued revenue	22	68,929	45,443
Income tax receivables		0	125
Current investments	16	121,731	132,526
Cash and cash equivalents	23	17,358	34,448
<b>Total current assets</b>		<b>378,180</b>	<b>378,816</b>
<b>Total assets</b>		<b>1,337,559</b>	<b>1,364,427</b>
<b>EQUITY AND LIABILITIES</b>			
Called-up capital	24	272,721	272,721
Capital surplus	24	180,956	180,956
Revenue reserves	24	104,978	237,272
<i>Legal reserves</i>	24	50,434	50,434
<i>Treasury share reserve</i>	24	3,671	3,671
<i>Treasury share and interests</i>	24	-3,671	-3,671
<i>Statutory reserve</i>	24	54,544	54,544
<i>Other revenue reserve</i>	24	0	132,294
Retained earnings	24	137,756	36,256
<i>Retained earnings from previous periods</i>	24	136,036	16,026
<i>Profit for the period</i>	24	1,720	20,230
Fair value reserve		-2,056	-1,150
<b>Equity, total</b>		<b>694,355</b>	<b>726,055</b>
Long-term deferred revenue	25	12,547	9,869
Provisions	26	53,229	35,992
Long-term operating liabilities	27	16,358	11,401
Interest-bearing borrowings	28	168,796	0
Other non-current financial liabilities	29	100,481	99,857
Deferred tax liabilities	10	224	159
<b>Total non-current liabilities</b>		<b>351,635</b>	<b>157,278</b>
Operating and other liabilities	30	121,195	125,937
Income tax payable		0	0
Current borrowings and loans	28	115,189	306,316
Other current financial liabilities	31	4,296	4,320
Short-term deferred income	32	4,307	4,610
Accrued costs and expenses	33	46,582	39,911
<b>Total current liabilities</b>		<b>291,569</b>	<b>481,094</b>
<b>Total liabilities</b>		<b>643,204</b>	<b>638,372</b>
<b>Total equity and liabilities</b>		<b>1,337,559</b>	<b>1,364,427</b>

Notes on pages from 258 to 324 are a constituent part of these financial statements.

## Separate Statement of Changes in Equity of Telekom Slovenije, d. d. for the period ended 31 December 2017\*

in EUR thousand	Called-up capital	Capital surplus	Revenue reserves					Retained earnings		Fair value reserve for financial instruments	Fair value reserve for hedging financial instruments [net]	Reserves for actuarial deficits and surpluses	Total
			Legal reserves	Treasury share reserve	Treasury shares	Statutory reserve	Other revenue reserve	Retained earnings from previous periods	Profit for the period				
Balance at 1 January 2017	272,721	180,956	50,434	3,671	-3,671	54,544	132,294	16,026	20,230	678	0	-1,828	726,055
Profit for the period									1,720				1,720
Other comprehensive profit or loss for the period										277	-472	-711	-906
Total comprehensive income for the period	0	0	0	0	0	0	0	0	1,720	277	-472	-711	814
Dividends paid								-32,514					-32,514
Transactions with owners	0	0	0	0	0	0	0	-32,514	0	0	0	0	-32,514
Transfer of profit or loss from previous period to retained earnings or losses								20,230	-20,230				0
Release of other reserves							-132,294	132,294					0
Balance at 31 December 2017	272,721	180,956	50,434	3,671	-3,671	54,544	0	136,036	1,720	955	-472	-2,539	694,355

\*More details in [note 24](#).

## Separate Statement of Changes in Equity of Telekom Slovenije, d. d. for the period ended 31 December 2016

in EUR thousand	Called-up capital	Capital surplus	Revenue reserves					Retained earnings		Fair value reserve for financial instruments	Reserves for actuarial deficits and surpluses	Totals
			Legal reserves	Treasury share reserve	Treasury shares	Statutory reserve	Other revenue reserve	Retained earnings from previous periods	Profit for the period			
Balance at 1 January 2016	272,721	180,956	50,434	3,671	-3,671	54,544	112,064	754	48,309	943	-1,464	719,261
Profit for the period									40,460			40,460
Other comprehensive profit or loss for the period										-265	-355	-620
Total comprehensive income for the period	0	0	0	0	0	0	0	0	40,460	-265	-355	39,840
Dividends paid								-32,527				-32,527
Transactions with owners	0	0	0	0	0	0	0	-32,527	0	0	0	-32,527
Transfer of profit or loss from previous period to retained earnings or losses								48,309	-48,309			0
Business combinations under joint management											-9	-519
Transfer of profit or loss from previous period to retained earnings or losses							20,230		-20,230			0
Balance at 31 December 2016	272,721	180,956	50,434	3,671	-3,671	54,544	132,294	16,026	20,230	678	-1,828	726,055

Notes on pages from 258 to 324 are a constituent part of these financial statements.

Separate Statement of Cash Flows of Telekom Slovenije, d.  
d. for the period ended 31 December 2017

in EUR thousand	2017	2016
<b>Cash flows from operating activities</b>		
<b>Net profit</b>	<b>1,720</b>	<b>40,460</b>
<b>Adjustments for:</b>		
Depreciation and amortisation expense	134,814	134,946
Impairment and write-offs of property, plant and equipment, intangible assets, and investment property	518	2,163
Gain or loss on disposal of property, plant and equipment	8	523
Finance income	-9,335	-30,710
Finance expenses	19,281	29,364
Tax on profit with deferred taxes	-8,151	-6,770
<b>Cash flows from operating activities prior to changes in net operating current assets and provisions</b>	<b>138,855</b>	<b>169,976</b>
Change in trade and other receivables	-6,104	-86
Change in deferred costs and accrued revenue	-21,562	-10,346
Change in other non-current assets	349	885
Change in inventories	2,539	3,786
Change in provisions	17,237	-4,783
Change in long-term and short-term deferred income	2,375	-135
Change in accrued costs and expenses	8,185	9,494
Change in operating and other liabilities	452	15,334
Income tax paid	115	-126
<b>Net cash from operating activities</b>	<b>142,441</b>	<b>183,999</b>
<b>Cash flows from investing activities</b>		
<b>Receipts from investing activities</b>	<b>146,441</b>	<b>34,842</b>
Proceeds from sale of property, plant and equipment	1,853	635
Gain on sale of investment property	0	195
Dividends received	253	168
Interest received	4,382	6,563
Disposal of non-current investments	10,331	26,747
Disposal of current investments	129,622	534
<b>Disbursements from investing activities</b>	<b>-243,246</b>	<b>-160,348</b>
Acquisition of property, plant and equipment	-80,185	-70,691
Acquisition of intangible non-current assets	-61,197	-60,108
Acquisition of investments	-81,866	-3,610
Investments in associates and the joint venture	-3,789	-3,816
Investments in the form of loans provided	-16,209	-22,123
<b>Net cash used in investing activities</b>	<b>-96,805</b>	<b>-125,506</b>
<b>Cash flows from financing activities</b>		
<b>Receipts from financing activities</b>	<b>0</b>	<b>420,000</b>
Non-current borrowings	0	300,000
Current borrowings	0	20,000
Issued bonds	0	100,000
<b>Disbursements from financing activities</b>	<b>-62,726</b>	<b>-450,259</b>
Costs of loan approval and issue of bonds	-5	-1,313
Repayment of issued bonds	0	-300,000
Repayment of current borrowings	-2,000	-70,450
Repayment of non-current borrowings	-20,771	-30,160
Interest paid	-7,399	-15,884
Dividends paid	-32,551	-32,452
<b>Cash flow used in financing activities</b>	<b>-62,726</b>	<b>-30,259</b>
<b>Net increase/decrease in cash and cash equivalents</b>	<b>-17,090</b>	<b>28,234</b>
<b>Opening balance of cash</b>	<b>34,448</b>	<b>6,214</b>
<b>Closing balance of cash</b>	<b>17,358</b>	<b>34,448</b>

Notes on pages from 258 to 324 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 is a public limited company with its registered office at Cigaletova 15, Ljubljana, Slovenia. Its shares are listed on the Ljubljana Stock Exchange. As at 31 December 2017, Republic of Slovenia is the majority shareholder, holding 4,087,569 shares, which equals a 62.54% equity interest.

Telekom Slovenije provides 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 to private and corporate customers.

### 2. BASIS OF MEASUREMENT

#### a. STATEMENT OF COMPLIANCE

The accompanying consolidated financial statements of the Telekom Slovenije company 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 20 March 2018.

#### b. BASIS OF MEASUREMENT

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 statements 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 non-listed available-for-sale assets 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 revenue	purchase cost
Current investments	amortised cost
Cash and cash equivalents	purchase cost
Non-current assets	method of measurement
Long-term deferred revenue	purchase cost
Provisions	
• whereof for jubilee benefits and termination benefits	present value of estimated future payments based on actuary calculation
• other provisions	present value of future settlements
Long-term operating liabilities	amortised cost
Interest-bearing borrowings	amortised cost
Other non-current financial liabilities	amortised cost
Deferred tax liabilities	non-discounted value measured at tax rates
Short-term liabilities	method of measurement
Operating and other liabilities	amortised cost
Current borrowings and loans	amortised cost
Other current financial liabilities	amortised cost
Short-term deferred income	purchase cost
Accrued costs and expenses	purchase cost

### c. FUNCTIONAL AND PRESENTATION CURRENCY

The financial statements are presented in Euro, which is the functional and presentation currency of the 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 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 the Company's financial statements include:

- assessment whether a lease is operating or finance lease – [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](#).

## 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.b](#), [3.c](#) and [Note 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](#).

## 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. Cash and liabilities 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 the differences that arise on restatement of capital instruments classified as available for sale and are recognised directly in other comprehensive income.

### b. INTANGIBLE ASSETS

An item of intangible assets is recognized 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 accumulated impairment losses. 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 generally **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, software 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	3-20
• trademarks	10
• licences	1-7
• program rights TV contents	1-6
• sales commissions	1-2
• customer list	5
• computer software application software	3-5
• other concessions, patents, trademarks and licences	5-20

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 40](#)].

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 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 reach at least 5% of total assets' value. Upon assessment whether this indication of impairment of intangible assets exists, it is checked 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 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 is established for the cash generating unit (CGU). 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'.

The Company records impairment when the determined recoverable amount of an individual asset is lower than the carrying amount by more than 20%.

## c. PROPERTY, PLANT AND EQUIPMENT

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 and direct labour. Costs of construction of property, plant and equipment that are included in cost are recognised as lower costs within profit or loss. Recognition of these assets is subject to equal criteria as those applied with intangible assets. 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.

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 by years

Groups of property, plant and equipment	Useful lives in years
• buildings	50
• electrical and machine installation	15-30
• cable lines	33.3
• cable network air	10
• cable network land	20-25
• exchange switches	5-12.5
• other equipment	1-15

In 2017, the Company has not changed the Management's assessment of useful lives, except for the useful lives of terrestrial optical fiber network, Lan and IP equipment of subscribers and aggregates. The combined effect of the change in the period is reduced depreciation of property, plant and equipment in the amount of 2,639 thousand EUR.

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 income

#### 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. All costs related to leased assets [including depreciation] are recognised as expenses in the period

#### e. FINANCIAL ASSETS

The Company recognizes a financial asset only when it becomes a party to contractual provisions of the financial instrument. 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 associates and joint ventures are measured at cost less possible impairment losses. Investments in subsidiaries are recognised on the date, when the controlling company assumes the risks and benefits i.e. upon obtaining control.

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. 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 subsidiaries, 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, associates or joint ventures exists, the Company engages an independent appraiser to evaluate the recoverable amount of the investment. 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, financial assets are classified into following groups:

- a) financial assets measured at fair value through profit or loss,
- b) investments in loans and receivables, and
- c) available-for-sale financial assets.

**a) 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.

Derivative financial instruments are used to hedge a company's exposure to risks arising from financing and investing activities. The method of recognition of gains or losses arising from the change in fair value depends on whether hedge accounting has been applied or not. If hedge accounting has not been applied, derivative financial instruments are recognized at fair value, and changes in fair value are recognized in the income statement. When hedge accounting has been applied, the recognition of gains or losses arising from the change in fair value depends on the type of hedging:

- when a derivative financial instrument is designated as a hedge of the exposure to variability in cash flows attributable to a particular risk associated with a recognized asset or liability of a forecast transaction, the portion of the gain or loss on the hedging instrument that is ascertained as an effective hedge is recognized directly in equity and in the statement of comprehensive income. When the forecast transaction becomes an asset or liability, the associated cumulative gains or losses are removed from equity and entered into the initial measurement of the acquisition cost or other carrying amount of the asset or liability. For other hedges of the exposure to variability in cash flows, the amounts recognized directly in equity are included in net profit or loss in the period during which the hedged forecast transaction affects net profit or loss, and the reclassification is recognized in the statement of comprehensive income;
- the ineffective portion of the hedge is immediately recognized in the income statement.

**b) 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 recognizes loans and receivables on the date they originated (for more details about the receivables, [see note j, Trade and other receivables](#)).

**c) 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.

## 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 expenses.

### **b) Investments in loans and receivables.**

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 a revaluation finance expense.

Most of the loans given refer to subsidiaries. One of indicators that impairment is required also includes the lowering of investments; the Company, however, individually assesses the need for impairment with individual companies. 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 impairment loss is recognised in profit or loss.

### c) 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.

## 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. 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 are 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 impaired 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 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 REVENUE

The item of short-term deferrals and accruals includes mostly deferred costs, accrued revenue for services already rendered and goods supplied but not invoiced, accrued revenue and deferred costs in connection with international services, and short-term portion of sales incentives.

Short-term deferred costs and accrued revenue 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 REVENUE

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 revenue 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 if the Company has a present legal or constructive obligation as a result of a past event and 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.

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 Company.

Management of the 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.

**Provisions for probable liabilities from legal actions** are formed on the basis of the estimate of the actions' outcome. The formation of provisions is assessed 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 Company 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 jubilee benefits and termination benefits** are formed on the basis of statutory requirements, the collective agreement and the internal rules and regulations, according to which the Company is obliged to pay jubilee benefits and termination benefits. Employee benefit liabilities are calculated by a certified actuary. Liabilities are formed in the amount of estimated future payments of termination benefits and jubilee benefits 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 26, Provisions](#).

**Provisions for costs of removal of base stations** are made for costs of the removal of base stations and the restoration of leased property to its original condition. 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 using the effective interest rate method. Any differences between cost and the redemption value are recognised in the income statement over the period of the loans. 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. OPERATING AND OTHER LIABILITIES**

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, whose elimination is assessed individually.

## 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 INCOME AND FINANCE EXPENSES**

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 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 assets and deferred tax liabilities are offset if there is a legal right to offset deferred tax assets and deferred income tax liabilities and if the deferred tax is related to the same taxable legal entity and the same taxation authority.

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 2017 and 31 December 2016, the income statement for the financial year 2017, 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.

### INITIAL APPLICATION OF NEW AMENDMENTS TO THE EXISTING STANDARDS EFFECTIVE FOR THE CURRENT REPORTING PERIOD

The following amendments to the existing standards and new interpretation issued by the International Accounting Standards Board (IASB) and adopted by the EU are effective for the current reporting period:

**Amendments to IAS 7 “Statement of Cash Flows”** – Disclosure Initiative – adopted by EU on 6 November 2017 [effective for annual periods beginning on or after 1 January 2017],

**Amendments to IAS 12 “Income Taxes”** – Recognition of Deferred Tax Assets for Unrealised Losses – adopted by EU on 6 November 2017 [effective for annual periods beginning on or after 1 January 2017],

Standards and amendments to the existing standards issued by IASB and adopted by the EU but not yet effective

At the date of authorisation of these financial statements, the following new standards issued by IASB and adopted by the EU are not yet effective:

**IFRS 9 – “Financial Instruments”** – adopted by the EU on 22 November 2016, effective for annual periods beginning on or after 1 January 2018. To be applied retroactively 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 to cash flows that are solely payments of principal and interest on the principal outstanding.

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.

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. However, extensive additional disclosures regarding an entity’s risk management and hedging activities are required.

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.

The Company anticipates that the IFRS 9 will have no material impact on its financial statements. The classification and measurement of the Company's financial instruments will not materially change while taking into account the provisions of IFRS 9.

The Company will classify financial assets into two categories:

- financial assets measured at amortized cost,
- financial assets measured at fair value through other comprehensive income.

The classification will depend on the Company's business model for managing financial assets and their contractual cash flow characteristics.

In accordance with the new standard, the Company will classify investments in loans and receivables in the category of financial assets measured at amortized cost.

Investments in equity instruments, currently classified as available for sale and are stated at cost, will be irrevocably classified into the category of financial assets managed at fair value through other comprehensive income upon initial recognition. The Company will recognize any changes in fair value of these instruments in OCI. When an investment is derecognized, the cumulative amount of changes in fair value remains in other comprehensive income and is not reclassified to the income statement. Investments in equity instruments listed on the stock exchange, currently accounted for at fair value through other comprehensive income, will continue to be accounted for. Dividends are recognized in the income statement.

At each reporting date, the Company measures the value adjustment for the loss incurred for each financial instrument as an amount that is equivalent to expected credit losses for the entire duration if the credit risk for the said financial instrument has significantly increased since initial recognition. For trade receivables and contracts with customers that do not include a significant financing component, the Company will use a simplified approach that requires value adjustment for the loss always to be measured as an amount that is equivalent to expected credit losses in the entire duration.

IFRS 9 includes a general orientation that companies must apply this standard retroactively in accordance with IFRS 8 – Accounting policies, changes in accounting estimates and errors. However, this standard sets a number of exemptions concerning impairments. The Company has established that there is no significant increase in credit risk since initial recognition of financial instruments, hence no restatement of prior periods will be made. The Company also does not expect any increases in allowances of receivables due to the new receivables impairment model.

**IFRS 15 - "Revenue from Contracts with Customers"** and amendments to IFRS 15 "Effective date of IFRS 15" - adopted by the EU on 22 September 2016 [effective for annual periods beginning on or after 1 January 2018], and

**Amendments to IFRS 15 "Revenue from Contracts with Customers"** - Clarifications to IFRS 15 Revenue from Contracts with Customers - adopted by the EU on 31 October 2017 [effective for annual periods beginning on or after 1 January 2018].

The new Standard provides a framework that replaces existing revenue recognition guidance in IFRS. The Company 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] the Company transfers control of goods or services to a customer at the amount to which the Company expects to be entitled. Depending on whether certain criteria are met, revenue is recognised:

- over the period
- at a point in time.

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 Company will recognize revenue from contracts with customers on the basis of a contract with a customer and when goods and services are passed to the customer in the amount that reflects the compensation to which the Company expects to be entitled in exchange for these goods and services.

Each promised good or service is a separate performance obligation if it is distinct. It is distinct when the customer can benefit from said good or service. Performance obligation is a promise to provide goods or services to the customer.

The Company recognizes revenue primarily by providing mobile and fixed telecommunication services. The Company has identified the following performance obligations:

- service,
- goods,
- installation.

In the case of contracts with customers with a length of 12 or 24 months that include several performance obligations, the Company allocates the price of the whole transaction to individual performance obligations on the basis of relative stand-alone selling prices of the goods or services (stand-alone selling price is a price at which the Company would sell goods or services separately to the customer – not in the bundle). The price of the whole transaction is the amount of the compensation which the Company expects in exchange for transferring promised goods or services. The price can be fixed or determinable.

Revenue is recognised when the Company satisfies a performance obligation. This occurs when control of a good or service is transferred to a customer. A customer obtains control of a good or service if it has the ability to direct the use of and to receive the benefit from the good or service, and the ability to prevent others from using and receiving the benefit from the good or service.

In accordance with the new standard, the Company will reveal qualitative and quantitative data regarding:

- contracts with buyers,
- significant assessments and assessment changes in the use of this standard for the said contracts and
- all assets recognized on the basis of costs of acquiring or fulfilling a contract with a customer.

It is expected that the new standard, when initially applied, will have an 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 delineated the costs of sales incentives even before the new standard came into effect, hence the new standard will have no material impact on the financial statements of the Company, since the Company will stop delineating sales incentives and will recognize contract assets due to the transition to a new standard.

For the transition to a new standard, Telekom Slovenije will use the cumulative effect method. The Company will recognize the contracts still active on 1 January 2018 as if they were recognized in accordance with IFRS 15 from the very beginning. The cumulative effect due to the transition to a new standard will be recognized as an adjustment of the initial balance of retained earnings in the period of initial use. Comparative data from the past period will not be adjusted. The Company will instead clarify the differences of the changed items due to the adoption of IFRS 15 in the balance sheet and income statement for the period.

**IFRS 16 - "Leases"** - adopted by the EU on 31 October 2017 [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.

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.

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.

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 standard, when initially applied, will have a significant impact on the Company's financial statements, since it will require the Company to recognise in its balance sheet the right-of-use assets relating to operating leases for which the Group acts as a lessee. The Group is currently implementing the new standard and setting up new IT support for the new standard. Valuation changes will be analysed throughout this project, therefore reliable impact assessment will not be possible until after the project is completed.

## NEW STANDARDS AND AMENDMENTS TO THE EXISTING STANDARDS ISSUED BY THE IASB BUT NOT YET ADOPTED BY THE EU

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB), except for the following new standards, amendments to the existing standards and new interpretations, which on 31 December 2017 (the effective dates stated below is for IFRS in full) were not endorsed for use in EU:

**IFRS 14 "Regulatory Deferral Accounts"** [effective for annual periods beginning on or after 1 January 2016] - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard.

IFRS 14 permits first-time adopters of IFRS to continue recognising regulatory deferral accounts in accordance with their previous generally accepted accounting policies (GAAP), upon their first-time adoption of IFRS.

**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].

The amendments implement accounting requirements on the following areas: (a) the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; (b) share-based payment transactions with a net settlement feature for withholding tax obligations; and (c) 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.

**Amendments to IFRS 9 "Financial Instruments"** - Prepayment Features with Negative Compensation [effective for annual periods beginning on or after 1 January 2019].

The existing requirements in IFRS 9 regarding termination rights are amended in order to allow measurement at amortized cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments. Under the amendments, the sign of the prepayment amount is not relevant - depending on the interest rate prevailing at the time of

termination, a payment may also be made in favour of the contracting party effecting the early repayment. The calculation of this compensation payment must be the same both in the case of an early repayment penalty as well as in the case of a early repayment gain.

**Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures”** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments [effective date deferred indefinitely until the research project on the equity method has been concluded].

The amendments refer to the conflict between IAS 28 and IFRS 10 and clarify that the extent of gain or loss recognition for transactions between an investor and its associate or joint venture depends on whether the sale or contribution of assets constitutes a business.

**Amendments to IAS 7 “Statement of Cash Flows”** - Disclosure Initiative - published by the IASB on 29 January 2016. The amendments are intended to clarify IAS 7 to improve information provided to users of financial statements about an entity’s financing activities. Under the amendments, an entity must provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities; including changes from cash flows and non-cash changes.

**Amendments to IAS 12 “Income Taxes”** - Recognition of Deferred Tax Assets for Unrealised Losses - published by the IASB on 19 January 2016.

The amendments to IAS 12 clarify how and when to account for deferred tax assets related to debt instruments measured at fair value.

**Amendments to IAS 28 “Investments in Associates and Joint Ventures”** - Long-term Interests in Associates and Joint Ventures [effective for annual periods beginning on or after 1 January 2019].

Amendments to clarify that IFRS 9, including the impairment requirements, must be applied to long-term interests in an associate or joint venture that, in substance, form part of the net investment in the associate or joint venture but to which the equity method is not applied. Paragraph 41 is deleted because the Board felt that it merely reiterated requirements in IFRS 9 and that it had created confusion regarding the accounting for long-term interests.

**Amendments to IAS 40 “Investment Property”** - Transfers of Investment Property [effective for annual periods beginning on or after 1 January 2018].

The amendments specify that an entity must transfer a property into, or out of, investment property only when there is evidence of a change in use. A change in use occurs if a property meets, or ceases to meet, the definition of investment property. A change in management’s intentions for the use of a property by itself does not constitute evidence of a change in use. The amendments also clarify that the previous exhaustive list of evidence in paragraph 57 of the standard is re-characterized as a non-exhaustive list of examples.

Amendments to various standards due to **“Improvements to IFRSs [cycle 2015-2017]”** resulting from the annual improvement project of IFRS [IFRS 1, IFRS 12, IAS 28] primarily with a view to removing inconsistencies and clarifying wording [amendments to IFRS 12 are effective for annual periods beginning on or after 1 January 2017, and amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018].

The amendments include: [i] removal of short-term exemptions in E3-E7 of IFRS 1, because their intended purpose was served, [ii] clarification of the scope of IFRS 12 that the requirements of IFRS 12 specifying the disclosure requirements, except for those in paragraphs B10-B16, apply to an entity’s interests listed in paragraph 5 which are classified as held for sale or as discontinued operations in accordance with IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations, [iii] clarification that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

Amendments to various standards due to **“Improvements to IFRSs (cycle 2015-2017)”** resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12, IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2019).

The amendments clarify that: when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business (IFRS 3); when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business (IFRS 11); an entity recognises all income tax consequences of dividends in the same way (IAS 12); an entity treats any outstanding borrowing made specifically to obtain a qualifying asset as part of general borrowings when that qualifying asset is ready for its intended use or sale (IAS 23).

**IFRIC 22 “Foreign Currency Transactions and Advance Consideration”** (effective for annual periods beginning on or after 1 January 2018).

The interpretation clarifies that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.

**IFRIC 23 “Uncertainty over Income Tax Treatments”** (effective for annual periods beginning on or after 1 January 2019).

It may be unclear how tax laws apply to a particular transaction or circumstance or whether the entity’s tax treatment will be accepted by the taxation authorities. IAS 12 Income Taxes specifies how to recognize current and deferred tax, but not how to reflect the effects of uncertainty. **IFRIC 23** complements the requirements of IAS 12 with the provisions as to how to reflect the effects of uncertainty in the recognition of income taxes.

The Company anticipates that the adoption of these new standards, amendments to the existing standards and new interpretations will have no material impact on the financial statements of the Company in the period of initial application.

Hedge accounting regarding the portfolio of financial assets and liabilities, whose principles have not been adopted by the EU, is still unregulated.

## 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 the Company’s assets and liabilities.

### INVESTMENT PROPERTY

Fair values of investment property must be disclosed on an annual basis. The Company 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.

## 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 material impact on fair value in line with observed current market transactions with the same instruments either directly or indirectly;

Level 3: other models used to determine fair value based on assumptions and material impact on fair value that are not in line with observed current market transactions with the same instruments and investments.

## 5. NET SALES REVENUE

EUR thousand	2017	2016
Mobile services on end-customer market	218,224	235,067
Fixed-line telephone services on end-customer market	199,744	196,507
New sources of revenue	2,789	2,017
Wholesale market	193,066	188,898
Other revenue and other merchandise	31,367	16,982
<b>Total net sales revenue</b>	<b>645,190</b>	<b>639,471</b>

EUR thousand	2017	2016
Revenue from services sold on the domestic market	443,221	445,594
Revenue from services sold abroad	125,509	124,095
Revenue from domestic sales of merchandise and material	75,199	68,874
Revenue from international sales of merchandise and material	1,261	908
<b>Total net sales revenue</b>	<b>645,190</b>	<b>639,471</b>

As for the **mobile services on end-customer market**, revenue has decreased over the previous year due to lower revenue from mobile subscribers [less subscribers, transition to the new and for customer more favourable packages with included contents] and prepaid users. Revenue from sales of mobile merchandise increased by 5% as compared to 2016.

The expected decrease in revenue from fixed-line phone services [which is the result of the decline in classical connections and its replacement with the IP-telephony] was for **fixed-line telephone services on end-customer market** replaced by increased revenue from broadband and IT services. As compared to 2016, revenue from **broadband services** increased mostly due to a higher number of broadband subscribers. Revenue from IT services grew predominantly due to the strong growth in revenue from managing comprehensive IT solutions and cloud services.

**New sources of revenue** include revenue from financial services, energy services and eHealth; this revenue exceeded the one from the previous year mostly due to higher energy-related revenue.

Revenue from the **wholesale market** exceeded the 2016 figures. As for the domestic market, revenue increased as a result of more broadband access connections. The growth in revenue on the international market is the result of higher revenue from transit and closing of international calls.

**Other revenue and merchandise** increased mostly due to higher revenue from material and other, non-telecommunications services [recognition of revenue from e-tolls].

## 6. OTHER OPERATING REVENUE

EUR thousand	2017	2016
Reversal of provisions	0	1,992
Government grants and other aids	1,180	762
Gains on disposal of property, plant and equipment	857	420
Revaluation operating revenue	4,226	6
Other revenue	1,771	3,783
<b>Total other operating revenue</b>	<b>8,034</b>	<b>6,963</b>

Revaluation operating revenue refers to revenue from collected, previously impaired receivables.

Other revenue comprises contractual penalties and court-related expenses.

## 7. COST OF SERVICES

EUR thousand	2017	2016
Telecommunications services	148,869	144,282
• Network interconnection	27,455	25,807
• Roaming	12,611	10,147
• International services	108,803	108,328
Costs of leased lines	15,392	14,462
Multimedia contents	11,733	11,988
Sales incentives	15,666	15,432
Sales commissions	1,039	1,126
Maintenance of property, plant and equipment	25,722	28,911
Lease of property, plant and equipment	9,350	8,894
Cost of fairs, advertising, sponsorships and hospitality	10,688	12,034
Cost of intellectual and personal services	7,415	8,184
Reimbursement of work-related costs	451	436
Insurance premiums	3,200	3,347
Cost of communications services	3,322	3,535
Banking services	689	703
Costs of other services	48,427	32,530
<b>Total costs of services</b>	<b>301,963</b>	<b>285,864</b>

Costs of services increased in 2017 as compared to 2016 by EUR 16,099 thousand; mostly costs related to the volume of operations increased.

As compared to 2016, the costs of telecommunications services grew due to increased volume of international calls. Costs of leased lines and property, plant and equipment also grew.

Costs of maintaining property, plant and equipment decreased mostly due to optimising the network core and access network and due to optimising IT systems and technologies and gradual abolition of certain systems.

Costs of fairs, advertising, sponsorship and hospitality also dropped.

The majority of costs of other services refers to the costs of sub-contractors, which increased as the result of broadening the optical access network and due to the electronic toll collection project.

## 8. LABOUR COSTS

EUR thousand	2017	2016
Salaries and compensations	74,303	75,041
Social security contributions	15,550	16,335
- of which pension insurance contributions	10,199	11,016
Other labour costs	8,493	8,661
Provisions for termination benefits upon retirement, jubilee benefits and restructuring	5,166	2,440
Capitalised own products and services	-4,998	-5,581
<b>Total labour costs</b>	<b>98,514</b>	<b>96,896</b>

Of the total of EUR 5,956 thousand capitalised own products and services, EUR 4,998 thousand are disclosed under labour costs. Services rendered for the needs of the Company are capitalised among intangible assets and property, plant and equipment ([Note 13, Intangible assets](#), and [14, Property, plant and equipment](#)).

### Employee structure by level of education

No. of employees in terms of education	Beginning of 2017	End of 2017	Changes in 2017	Average no. of employees in terms of education in 2017*	Average no. of employees in terms of education in 2016*
Level I	9	8	-1	9	10
Level II	0	0	0	0	1
Level III	11	9	-2	10	8
Level IV	151	138	-13	145	161
Level V	862	815	-47	839	932
Level VI	422	412	-10	417	443
Level VII	818	825	7	822	816
Master's and PhD degree	130	131	1	131	126
<b>Total</b>	<b>2,403</b>	<b>2,338</b>	<b>-65</b>	<b>2,371</b>	<b>2,495</b>

\* Calculation on the basis of balances of employees recorded at beginning and end of the reporting period

In the 2017 reporting period, the average number of employees based on the working hours equalled 2,299.56 [2016: 2,417.15 employees].

## 9. OTHER OPERATING EXPENSES

EUR thousand	2017	2016
Provisions	24,513	2,967
Loss on disposal of intangible assets and property, plant and equipment	865	943
Impairment and write-off of inventories	1,777	2,542
Impairment and write-off of operating receivables	0	6,667
Impairment of intangible assets and property, plant and equipment	518	2,163
Capitalised own products and services	-958	-1,000
Other expenses	2,398	2,483
<b>Total other operating expenses</b>	<b>29,113</b>	<b>16,765</b>

Expenses for provisions have increased in 2017 due to provisions formed for probable liabilities from legal actions [[Note 26, Provisions](#)].

Of the total of EUR 5,956 thousand capitalised own products and services, EUR 958 thousand are disclosed under other operating expenses. Services rendered for the needs of the Company are capitalised among intangible assets and property, plant and equipment [[Note 13, Intangible assets](#), and [14, Property, plant and equipment](#)].

## 10. FINANCE REVENUE AND FINANCE EXPENSES

EUR thousand	2017	2016
Dividend revenue	253	168
Other revenue from shares and interests	0	112
Interest revenue	6,306	9,004
Net exchange gains	1,064	586
Revenue from derivative financial instruments	1,103	18,897
Other finance revenue	609	1,943
<b>Total finance revenue</b>	<b>9,335</b>	<b>30,710</b>
Interest on bonds issued	1,992	15,761
Interest expense	5,885	1,837
Impairment of available-for-sale investments	0	489
Impairment of investments in subsidiaries	1,081	10,392
Impairment and write-off of loans	10,085	370
Other finance expenses	238	515
<b>Total finance expenses</b>	<b>19,281</b>	<b>29,364</b>
<b>Financial result</b>	<b>-9,946</b>	<b>1,346</b>

Other finance revenue in 2017 and 2016 resulted from the sale of the remaining interest in the company ONE.VIP based on the agreement on purchase option, which was concluded with the Telekom Austria Group. By doing so, the Group finally exited from the ownership of the company ONE.VIP DOO Skopje.

Unplanned net exchange gains increased by EUR 1.5 million and resulted from the weakened dollar. The majority relates to the liabilities from capitalised programme rights.

Finance expenses decreased as compared to 2016 due to the effective interest rate on debt serving to refinance euro bonds. The planned interest rate swap transaction was only realised in 2017; therefore, interest expenses realised are lower, which led to a higher financial result.

Based on indications of impairment, the company Telekom Slovenije verified the fair value of investments in the subsidiaries TSmedia and Antenna TV SL.

In line with the obtained fair value reports for both companies, the Company impaired the investment in TSmedia in the amount of EUR 1,081 thousand and loans given to Antenna TV SL in the amount of EUR 10,085 thousand at the end of 2017. The Company impaired loans given to Antenna TV SL since the investment in Antenna TV SL was already impaired to the value of 0 at the day of impairment. [More under [Note 15, Investments in subsidiaries](#)].

## 11. INCOME TAX EXPENSES, DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES

Tax expense disclosed in the income statement.

EUR thousand	2017	2016
Current tax payable	0	0
Deferred tax assets/ liabilities	8,369	7,110
Other taxes not disclosed under other items	-218	-340
<b>Tax expense charged against the result</b>	<b>8,151</b>	<b>6,770</b>

Other taxes for 2017 not disclosed under other items include the write-off of the withholding tax paid by the Company abroad, which the Company cannot claim as it decreases the tax base entirely by tax reliefs and has no tax liabilities.

Alignment of the actual and accounted tax expenses considering the effective tax rate

EUR thousand	31 Dec 2017	31 Dec 2016
Profit before tax	-6,431	33,690
Tax rate	19%	17%
Income tax using the prescribed tax rate	1,222	-5,727
Tax-free dividends received	51	298
Non-taxable profit from disposal of equity interest	0	9
Tax incentives used in the current period	1,281	11,423
Reversal of tax incentives used in previous periods	-521	-170
Change in tax rate	0	3,753
Non-deductible expenses	-4,518	-2,358
- non-deductible expenses from previous periods	-1,592	0
- currently non-deductible expenses	-2,926	-2,358
Deductible expenses/revenues that were non-deductible in previous years	-296	-109
Tax loss and unused reliefs	11,150	0
Other items	-218	-349
<b>Total tax expense</b>	<b>8,151</b>	<b>6,770</b>
<b>Effective tax rate</b>	<b>0.00%</b>	<b>0.00%</b>

As at 31 December 2017, tax loss amounts to EUR 60,069 thousand [31 December 2016: EUR 60,069 thousand].

In 2017, the Company formed deferred taxes from used reliefs in the amount of EUR 11,150 thousand.

Deferred tax assets and liabilities are calculated on the basis of temporary differences under the balance sheet liability method using the corporate income tax rate in the following years. In the period concerned, corporate income was taxed at 19% tax rate [2016: 17%].

### Deferred tax assets

EUR thousand	2017	2016	Through profit or loss	Through comprehensive income
Intangible assets, and property, plant and equipment	13,238	14,708	-1,470	0
Investments	1,080	970	0	111
Operating receivables	5,362	6,820	-1,458	0
Tax loss and unused reliefs	22,563	11,413	11,150	0
Provisions	1,893	1,745	148	0
<b>Deferred tax assets</b>	<b>44,136</b>	<b>35,656</b>	<b>8,370</b>	<b>111</b>

### Deferred tax liabilities

EUR thousand	2017	2016	Through profit or loss	Through comprehensive income
Investments	224	159	0	65
<b>Deferred tax liabilities</b>	<b>224</b>	<b>159</b>	<b>0</b>	<b>65</b>

### Movement of deferred tax assets

EUR thousand	
<b>Balance at 1 Jan 2016</b>	<b>28,105</b>
Increase on business combinations	441
Elimination/use	-4,337
Formation	7,694
Recalculation of tax rate to 19%	3,753
<b>Balance at 31 Dec 2016</b>	<b>35,656</b>
Elimination/use	-9,604
Formation	18,084
<b>Balance at 31 Dec 2017</b>	<b>44,136</b>

As at the reporting date, unused tax reliefs amounted to EUR 58,684 thousand [2016: EUR 28,896 thousand].

In 2017, the Company formed no deferred tax assets for deductible temporary differences arising from impairment of long-term investments in the amount of EUR 2,122 thousand,

## 12. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit or loss for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

The weighted average number of ordinary shares outstanding during the period is calculated on the basis of data about the number of outstanding ordinary shares, taking into account any acquisitions and disposals within the period and the time during which the shares participated in the generation of profit.

Diluted net profit per share is not calculated as the Company has no dilutive potential ordinary shares.

EUR thousand	2017	2016
Net profit or loss used attributable to shareholders, owners of ordinary shares of the parent company	1,720	40,460
Weighted average number of ordinary shares for earnings per share	6,505,478	6,505,478
Earnings per share - basic and diluted in EUR	0.26	6.22

### Weighted average number of ordinary shares

EUR thousand	2017	2016
Weighted average number of ordinary shares for earnings per share	6,535,478	6,535,478
Less treasury shares of the Company	-30,000	-30,000
Total	6,505,478	6,505,478

## 13. INTANGIBLE ASSETS

Concessions relate to the rights to use the frequency spectrum GSM, UMGTS and LTE. The carrying amount of the UMTS concession as at 31 December 2017 amounted to EUR 15,761 thousand [2016: EUR 19,777 thousand], the carrying amount of the GSM concession EUR 32,678 thousand [2016: EUR 35,192 thousand] and the carrying amount of the LTE concession EUR 20,374 thousand [2016: EUR 22,159 thousand]. Useful lives of individual concessions are disclosed in [Note 40, General authorisation and the right to use radio frequency and block numbers](#).

Under concessions and licences, the Company also discloses programme rights for TV contents and licences for use of computer software.

Goodwill of EUR 3,602 thousand arose on the takeover of the company Debitel in 2016.

As at 31 December 2017, the Company's intangible assets include the fair value of the customer list from the takeover of the company Debitel in the amount of EUR 3,204 thousand and the customer list of Intel in the amount of EUR 839 thousand.

The Company carried out impairment testing of the customer list that occurred with the takeover of the company Debitel. For the purpose of valuation, the Company applied earnings-based valuation with the excess earnings method. Within the selected method, for all recognised assets earnings are defined, which are to be made on these assets for owners. Based on this method, the value of the customer base is assessed at EUR 8,213 thousand with the estimate ranging between EUR 7,740 thousand and EUR 8,718 thousand. The discount rate used was 10.74% and the required yield on assets 10.7%. It was established that the recoverable value of the customer list exceeds its carrying amount, thus requiring no impairment. As the Company established no indication of impairment as regards the customer list, it also did not establish any indication for the impairment of goodwill.

The Company has unlimited property rights on intangible assets, which are free of encumbrances.

Contractual obligations for intangible assets equalled EUR 10,871 thousand as at 31 December 2017 (31 December 2016: EUR 4,819 thousand) and predominantly refer to the purchase of software and licences, development of software, BSS program and upgrading of the system software.

## Movement of intangible assets in 2017

EUR thousand	Goodwill	Concessions and licences	Sales commissions	Software	Other intangible assets	Intangible assets under construction	Total
<b>Cost</b>							
<b>Balance at 1 Jan 2017</b>	<b>3,602</b>	<b>223,677</b>	<b>25,514</b>	<b>121,038</b>	<b>10,141</b>	<b>25,244</b>	<b>409,216</b>
Increases	0	0	0	0	0	59,637	59,637
Fixed assets generated in the Company	0	0	0	0	0	1,560	1,560
Transfer into use	0	16,926	9,693	33,704	740	-61,063	0
Decreases	0	-17,644	-15,794	-316	0	0	-33,754
Write-offs	0	0	0	0	0	0	0
Other transfers	0	-6,230	0	6,226	0	0	-4
<b>Balance at 31 Dec 2017</b>	<b>3,602</b>	<b>216,729</b>	<b>19,413</b>	<b>160,652</b>	<b>10,881</b>	<b>25,378</b>	<b>436,655</b>
<b>Accumulated amortisation</b>							
<b>Balance at 1 Jan 2017</b>	<b>0</b>	<b>124,347</b>	<b>15,969</b>	<b>105,608</b>	<b>1,517</b>	<b>0</b>	<b>247,441</b>
Decreases	0	-17,644	-15,794	-301	0	0	-33,739
Other transfers	0	-6,520	0	6,161	355	0	-4
Amortisation	0	23,032	9,133	14,779	1,600	0	48,544
<b>Balance at 31 Dec 2017</b>	<b>0</b>	<b>123,215</b>	<b>9,308</b>	<b>126,247</b>	<b>3,472</b>	<b>0</b>	<b>262,242</b>
<b>Carrying amount</b>							
<b>Balance at 1 Jan 2017</b>	<b>3,602</b>	<b>99,330</b>	<b>9,545</b>	<b>15,430</b>	<b>8,624</b>	<b>25,244</b>	<b>161,775</b>
<b>Balance at 31 Dec 2017</b>	<b>3,602</b>	<b>93,514</b>	<b>10,105</b>	<b>34,405</b>	<b>7,409</b>	<b>25,378</b>	<b>174,413</b>

Major increases in intangible assets mostly relate to purchase and development of software.

## Movement of intangible assets in 2016

EUR thousand	Goodwill	Concessions and licences	Sales commissions	Software	Other intangible assets	Intangible assets under construction	Total
<b>Cost</b>							
<b>Balance at 1 Jan 2016</b>	<b>0</b>	<b>180,631</b>	<b>11,863</b>	<b>106,637</b>	<b>307</b>	<b>55,206</b>	<b>354,644</b>
Increases	0	0	0	0	0	57,652	57,652
Fixed assets generated in the Company	0	0	0	0	0	2,456	2,456
Increase on business combinations	3,602	190	3,826	1,443	5,340	0	14,401
Transfer into use	0	62,108	9,825	13,629	4,508	-90,070	0
Decreases	0	-19,046	0	-1,674	-14	0	-20,734
Other transfers	0	-206	0	1,003	0	0	797
<b>Balance at 31 Dec 2016</b>	<b>3,602</b>	<b>223,677</b>	<b>25,514</b>	<b>121,038</b>	<b>10,141</b>	<b>25,244</b>	<b>409,216</b>
<b>Accumulated amortisation</b>							
<b>Balance at 1 Jan 2016</b>	<b>0</b>	<b>121,971</b>	<b>4,659</b>	<b>94,271</b>	<b>187</b>	<b>0</b>	<b>221,088</b>
Increases	0	0	60	0	0	0	60
Increase on business combinations	0	190	3,084	1,428	0	0	4,702
Decreases	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
<b>Balance at 31 Dec 2016</b>	<b>0</b>	<b>124,347</b>	<b>15,969</b>	<b>105,608</b>	<b>1,517</b>	<b>0</b>	<b>247,441</b>
<b>Carrying amount</b>							
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

## 14. PROPERTY, PLANT AND EQUIPMENT

Significant increases in property, plant and equipment in use refer in 2017 mostly to the obtainment of cable lines, construction and upgrade of cable network and obtainment of telecommunications and other equipment. The item of other equipment comprises modems, setup boxes, other equipment at clients, furniture, cars and other equipment.

Fixed assets generated in the Company relate to services that are rendered in the Company and mostly refer to the set-up of base stations, air-conditioners, electrical power devices and terminal equipment at clients.

The Company has unlimited property rights on property, plant and equipment, which are free of encumbrances.

Contractual obligations for property, plant and equipment as at 31 December 2017 amounted to EUR 13,407 thousand [31 December 2016: EUR 13,881 thousand] and mostly relate to network construction, purchase of telecommunications equipment, purchase and construction of property, power supply and air-conditioning, purchase of hardware, personal computers and equipment for provision of services.

### Movement of property, plant and equipment in 2017

EUR thousand	Land, buildings, cables and lines	Cable network	Telephone exchanges	Equipment for mobile telephony	Other equipment	Assets under construction	Total
<b>Cost</b>							
<b>Balance at 1 Jan 2017</b>	<b>405,255</b>	<b>923,129</b>	<b>276,719</b>	<b>510,149</b>	<b>419,341</b>	<b>30,247</b>	<b>2,564,840</b>
Increases	0	0	7	0	1,089	75,789	76,885
Fixed assets generated in the Company	0	0	0	0	0	4,396	4,396
Transfer from assets under construction	10,422	18,417	5,098	5,955	32,068	-71,960	0
Decreases	-159	0	-48,696	-26,312	-26,478	-9	-101,654
Write-offs	-1,004	-452	-3,298	-213	-25,850	0	-30,817
Other transfers	-84	84	-36	0	-242	282	4
<b>Balance at 31 Dec 2017</b>	<b>414,430</b>	<b>941,178</b>	<b>229,794</b>	<b>489,579</b>	<b>399,928</b>	<b>38,745</b>	<b>2,513,654</b>
<b>Accumulated depreciation</b>							
<b>Balance at 1 Jan 2017</b>	<b>148,347</b>	<b>754,586</b>	<b>264,779</b>	<b>460,109</b>	<b>346,193</b>	<b>0</b>	<b>1,974,014</b>
Increases	29	0	0	141	65	0	235
Decreases	-155	0	-48,679	-26,150	-23,520	0	-98,504
Write-offs	-999	-452	-3,297	-213	-25,782	0	-30,743
Impairment	251	0	0	0	0	0	251
Depreciation	13,705	16,585	4,388	21,101	30,440	0	86,219
Other transfers	-1	1	-7	-2	13	0	4
<b>Balance at 31 Dec 2017</b>	<b>161,177</b>	<b>770,720</b>	<b>217,184</b>	<b>454,986</b>	<b>327,409</b>	<b>0</b>	<b>1,931,476</b>
<b>Carrying amount</b>							
<b>Balance at 1 Jan 2017</b>	<b>256,908</b>	<b>168,543</b>	<b>11,940</b>	<b>50,040</b>	<b>73,148</b>	<b>30,247</b>	<b>590,826</b>
<b>Balance at 31 Dec 2017</b>	<b>253,253</b>	<b>170,458</b>	<b>12,610</b>	<b>34,593</b>	<b>72,519</b>	<b>38,745</b>	<b>582,178</b>

## Movement of property, plant and equipment in 2016

EUR thousand	Land, buildings, cables and lines	Cable network	Telephone exchanges	Equipment for mobile telephony	Other equipment	Assets under construction	Total
<b>Cost</b>							
<b>Balance at 1 Jan 2016</b>	<b>401,219</b>	<b>910,543</b>	<b>274,298</b>	<b>548,525</b>	<b>433,964</b>	<b>21,620</b>	<b>2,590,169</b>
Increases	0	0	6	32	1,107	66,566	67,711
Fixed assets generated in the Company	0	0	0	0	0	4,125	4,125
Increase on 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
Decreases	-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
<b>Balance at 31 Dec 2016</b>	<b>405,255</b>	<b>923,129</b>	<b>276,719</b>	<b>510,149</b>	<b>419,341</b>	<b>30,247</b>	<b>2,564,840</b>
<b>Accumulated depreciation</b>							
<b>Balance at 1 Jan 2016</b>	<b>133,997</b>	<b>735,532</b>	<b>262,729</b>	<b>476,988</b>	<b>363,056</b>	<b>0</b>	<b>1,972,302</b>
Increases	195	0	2	152	81	0	430
Increase on business combinations	0	0	0	0	882	0	882
Decreases	-137	0	-417	-13,068	-11,797	0	-25,419
Write-offs	-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
<b>Balance at 31 Dec 2016</b>	<b>148,347</b>	<b>754,586</b>	<b>264,779</b>	<b>460,109</b>	<b>346,193</b>	<b>0</b>	<b>1,974,014</b>
<b>Carrying amount</b>							
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

## 15. INVESTMENTS IN SUBSIDIARIES

### SUBSIDIARIES

Name	Address	Country	Activity	Tax rate	Share in equity in %	Share in voting rights in % 2017	Share in voting rights in % 2016	Carrying amount of equity in EUR thousand		Profit or loss in EUR thousand		
								2017	2016	2017	2016	
<b>SLOVENIA</b>												
1	GVO, gradnja in vzdrževanje telekomunikacijskih omrežij, d.o.o.	Cigaletova 10, 1000 Ljubljana	Slovenia	construction, maintenance works and management of telecommunications network	19%	100%	100%	100%	22,715	18,988	3,657	2,120
2	Avtenta, napredne poslovne rešitve, d.o.o.	Stegne 19, Ljubljana	Slovenia	system integrator	19%	100%	100%	100%	2,090	1,749	325	175
3	TSmedia, medijske vsebine in storitve, d.o.o.	Stegne 19, Ljubljana	Slovenia	multimedia and internet contents	19%	100%	100%	100%	-67	-2,939	-768	-1,592
4	SQLINE Pridelava soli, d.o.o.	Seča 115, Portorož	Slovenia	production of salt and preservation and management of a natural park	19%	100%	100%	100%	2,729	2,666	61	-233
5	Antenna TV SL, d.o.o.*	Stegne 19, Ljubljana	Slovenia	television activity	19%	66%	66%	66%	-8,117	-1,650	-6,413	-13,074
6	TSinpo, d.o.o.**	Litostrojska cesta 58 A	Slovenia	paper products	19%	100%	100%	0%	53	0	-1	0

\* Investment in subsidiary as of 21 December 2016

\*\* Investment in subsidiary as of 31 October 2017

## SUBSIDIARIES

Name	Address	Country	Activity	Tax rate	Share in equity in %	Share in voting rights in % 2017	Share in voting rights in % 2016	Carrying amount of equity in EUR thousand		Profit or loss in EUR thousand		
								2017	2016	2017	2016	
<b>ABROAD</b>												
6	IPKO Telecommunications LLC	Lagija Ulpiana, Rruga „Zija Shemsiu“, nr 34, Prishtina	Kosovo	telecommunications services	10%	93%	93%	93%	-6,991	-3,868	-2,594	-5,956
7	Blicnet d.o.o., Banja Luka	Majke Jugovića 25, Banja Luka	Bosnia and Herzegovina	telecommunications services	10%	100%	100%	100%	16,144	15,038	1,314	1,167
10	SIOL, d.o.o., Zagreb	Margaretska 3, Zagreb	Croatia	telecommunications services	20%	100%	100%	100%	720	610	109	20
11	SiOL d.o.o., Sarajevo	Fra Anđela Zvizdovića 1, Sarajevo	Bosnia and Herzegovina	telecommunications services	10%	100%	100%	100%	1,749	1,747	2	22
12	SIOL, d.o.o., Podgorica	Bulevar Svetog Petra Cetinjskog br.106, Podgorica	Montenegro	telecommunications services	9%	100%	100%	100%	2,789	2,701	88	61
13	SIOL, d.o.o., Skopje	Dimitrie Chupovski no. 4-1/14, Skopje	Macedonia	telecommunications services	10%	100%	100%	100%	1,372	1,195	159	129
14	SIOL DOO BEOGRAD-PALILULA	Dvadesetsedmog Marta 11, Beograd Palilula	Serbia	telecommunications services	15%	100%	100%	100%	329	225	94	65

## ASSOCIATED COMPANIES AND THE JOINT VENTURE

Name	Address	Country	Activity	Tax rate	Share in equity in %	Share in voting rights in % 2017	Share in voting rights in % 2016	Carrying amount of equity in EUR thousand		Profit or loss in EUR thousand		
								2017	2016	2017	2016	
1.	M-PAY, Družba za mobilno plačevanje, storitve in trgovino d.o.o.	Ul.Vita Kraigherja 3, MARIBOR	Slovenia	processing of mobile phone payments	19%	50%	50%	50%	254	243	10	9
2.	SETCCE D.O.O.*	Tehnološki park 21, Ljubljana	Slovenia	research and development in other fields of natural science and technology	19%	0%	0%	36%	0	446	0	-39

\* Sale agreement signed on 8 December 2016

## Investments in subsidiaries

EUR thousand	31 Dec 2016	Increase	Impairment	2017
GVO	5,758	0	0	5,758
TSmedia	0	3,620	-1,081	2,539
Avtenta	1,323	0	0	1,323
Soline	147	0	0	147
Antenna TV	0	0	0	0
TSinpo	0	169	0	169
Ipko	5,730	0	0	5,730
Blicnet	14,477	0	0	14,477
SIOL Zagreb	501	0	0	501
SIOL Podgorica	2,620	0	0	2,620
SIOL Sarajevo	1,710	0	0	1,710
Siol Skopje	1,005	0	0	1,005
Siol Beograd	100	0	0	100
<b>Investments in subsidiaries</b>	<b>33,371</b>	<b>3,789</b>	<b>-1,081</b>	<b>36,079</b>
M-Pay	63	0	0	63
<b>Investments in joint ventures</b>	<b>63</b>	<b>0</b>	<b>0</b>	<b>63</b>
<b>Total investments in subsidiaries and joint ventures</b>	<b>33,434</b>	<b>3,789</b>	<b>-1,081</b>	<b>36,142</b>

In November 2017, Telekom Slovenije became 100-percent owner of the disabled enterprise JORDAN podjetje za zaposlovanje in usposabljanje invalidov Krško. The company changed its name to TSinpo, storitveno in invalidsko podjetje, d.o.o. The company Telekom Slovenije was entered as the owner in the Companies Register in November 2017. The Company paid EUR 169 thousand for the purchase.

In April 2017, Telekom Slovenije increased as the sole shareholder the share capital of the subsidiary TSmedia with a cash injection of EUR 3,620 thousand.

## IMPAIRMENT OF INVESTMENTS

Telekom Slovenije monitors the plans and realisation of performance indicators of subsidiaries. Based on indications of impairment, the Company verified the fair value of long-term investments in subsidiaries.

### Antenna TV SL

Valuation of the company Antenna TV SL as at 31 December 2017 was performed by a certified appraiser of companies. The replacement value of the 100% equity interest in Antenna TV SL as at 31 December 2017 for the purpose of financial reporting equals EUR -10,085 thousand. The replacement value of the 66% equity interest in Antenna TV SL as at 31 December 2017 equals EUR -6,656 thousand.

The discount rate used for the projection was 11.8% and the assessment of long-term growth rate was 2.5%.

Sensitivity analysis was made based on weighted average cost of capital in the range from 9.8% to 13.8% [used discount rates from -2.0 to +2.0%] and long-term growth rate between 1.5% and 3.5% taking into account the used rate of impact on the change in values of expected free cash flows, as evident in the sensitivity analysis table.

Sensitivity analysis - change in NPV of equity		
Impact of change in assumption	-1.0%	+1.0%
G - growth rate	-7,013	-6,259
WACC - discount rate	-5,543	-7,550

In 2018, the company Antenna Slovenia B.V. Amsterdam is able to exercise a put option, and Telekom Slovenije a sell option.

### TSmedia

When testing impairment of the value of the company TSmedia, the method of discounted cash flows was used, which is based on five-year projections of the company. Valuation as at 30 September 2017 was performed by an independent appraiser of companies. The discount rate used for the projection was 11.1% and cash flows over five years were extrapolated with the average 2.5-percent growth rate. In line with the report on subsidiary valuation it was established that the replacement value of the company TSmedia as at 30 September 2017 equalled EUR 2,539 thousand, so an impairment loss of EUR 1,081 thousand was recognised.

Sensitivity analysis of the replacement value was made based on weighted average cost of capital in the range from 9.1% to 13.1% (used discount rates from -2.0% to +2.0%) and long-term growth rate between 1.0% and 3.5% of impact on the change in values of expected free cash flows, as evident in the sensitivity analysis table.

Sensitivity analysis - change in NPV of equity		
Impact of change in assumption	-1.0%	+1.0%
G - growth rate	2,221	2,942
WACC - discount rate	3,077	2,116

## 16. OTHER INVESTMENTS

### Long-term investments

EUR thousand	2017	2016	Ind 17/16
Investments in shares of banks	247	0	-
Investments in other shares and interests	4,263	2,421	176
<b>Total other available-for-sale investments</b>	<b>4,510</b>	<b>2,421</b>	<b>186</b>
Loans to companies	80,587	123,639	68
<i>* of which to companies in the Group</i>	<i>80,479</i>	<i>123,314</i>	<i>68</i>
Loans to employees	310	408	76
<b>Total loans given</b>	<b>80,897</b>	<b>124,047</b>	<b>68</b>
<b>Total other investments</b>	<b>85,407</b>	<b>126,468</b>	<b>71</b>

All investments in shares and interests are classified as available-for-sale investments.

Of the total amount of EUR 4,510 thousand, EUR 1,796 thousand (2016: EUR 1,454 thousand) relates to investments that are listed on the stock exchange and are recognised at fair value.

Other investments are valued at cost as they are not listed on the stock exchange and the Company cannot acquire information in order to assess their fair value.

Investments are not pledged as collateral and are free of encumbrances.

## Short-term investments

EUR thousand	2017	2016
Other short-term loans	44,448	9,662
* in the Group	43,999	9,208
Other current financial assets	0	122,565
Bank deposits	77,283	299
<b>Total short-term investments</b>	<b>121,731</b>	<b>132,526</b>

Other short-term loans include EUR 43,999 thousand of loans to subsidiaries, together with the current portion of long-term loans given and interest charged.

The item of other short-term investments included in 2016 the Company's receivables due from the sale of the company ONE.VIP, in which Telekom Slovenije holds a 45% equity interest. Despite the material equity interest, Telekom Slovenije did not control the company ONE.VIP and had no influence over its business operations due to the composition of the management and supervisory bodies; in addition, Telekom Slovenije was not entitled to dividends and consequently had no economic influence. In 2017, the Telekom Austria Group exercised its purchase option and paid to Telekom Slovenije total proceeds of EUR 120 million. On receiving the proceeds, Telekom Slovenije exited entirely from the ownership of the company ONE.VIP DOO Skopje.

As at the reporting date, the Company had 6 time deposits [as at 31 December 2016: 1 deposit] in the total amount of EUR 77,283 thousand [2016: EUR 299 thousand] with maturity from 39 to 151 days [2016: 91 days]. The annual interest rate is between 0.00% and 0.10% [2016 annual interest rate: 0.01%].

One deposit has the purpose of securing Moneta in the first quarter of 2018, whilst the other five deposits are intended to regulate current liquidity in the first four months of 2018. Deposits have a fixed interest rate; therefore, the Company is not exposed to interest rate risk.

## Table of loans given

EUR thousand	2017	2016
<b>Long-term loans given</b>	<b>80,897</b>	<b>124,047</b>
Loans given	80,587	123,639
Loans to employees	310	408
<b>Short-term loans given</b>	<b>44,448</b>	<b>9,662</b>
Long-term loan portion falling due in 12 months - loans given	43,920	5,968
Long-term loan portion falling due in 12 months - loans to employees	105	115
Short-term loans given and interest	423	3,579
<b>Balance of loans given at the end of the period</b>	<b>125,345</b>	<b>133,709</b>

The maturity of short-term and long-term loans as well as other data are disclosed in [Note 39, Financial risk management](#).

Long-term loans given mostly consist of loans given to subsidiaries in the Group (2017: 99.5%, 2016: 99.4%).

In the structure of short-term loans given, the majority is accounted for by loans given to subsidiaries in the Group (2017: 99.0%, 2016: 95.3%).

The Company impaired at the end of the reporting period loans given to the subsidiary Antenna TV SL in the amount of EUR 10,085 thousand based on the valuation of Antenna TV SL (more in [Note 15, Investments in subsidiaries](#)).

Loans given to subsidiaries in Slovenia for the most part bear interest at the interest rate recognised for tax purposes in compliance with the Rules on Recognised Interest Rates. The annual interest rate on these loans is between 0.812% and 3.50%. Loans given to subsidiaries abroad bear interest at interest rate equal to weighted annual interest rate at which the parent company raises loans on the market, increased by a certain mark-up for credit risk in compliance with the internal rules. The interest rate on these loans ranges between 2.867% and 5.243%.

The interest rate on loans given to others is ranging between 0.728% and 5.00%, whereas the interest rate for housing loans given to employees is ranging between 3.70% and 6.23%.

All loans given, except housing loans to employees, are secured with blank bills of exchange, guarantee statements, assignment of existing or future claims or right of lien on real property and assets. If it is assessed for a loan that collateral is no longer adequate or sufficient, the Company may demand new collateral.

## 17. OTHER NON-CURRENT ASSETS

EUR thousand	2017	2016
Prepaid rents	13,812	15,776
Long-term deferred costs of sales incentives	2,671	2,744
Long-term operating receivables	15,577	13,485
Other long-term deferred costs	1,037	1,267
<b>Total other non-current assets</b>	<b>33,097</b>	<b>33,272</b>

The item of long-term operating receivables includes the sale of goods in instalments in the amount of EUR 15,240 thousand (2016: EUR 13,206 thousand) with maturity of over 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 long-term operating receivables and long-term deferred costsov

EUR thousand	Rents	Sales incentives
<b>Balance at 1 Jan 2016</b>	<b>15,456</b>	<b>2,295</b>
Increase on business combinations	0	892
Increase	2,804	14,733
Transfer to costs	-2,484	-15,176
<b>Balance at 31 Dec 2016</b>	<b>15,776</b>	<b>2,744</b>
Increase	1,299	15,248
Transfer to costs	-3,263	-15,321
<b>Balance at 31 Dec 2017</b>	<b>13,812</b>	<b>2,671</b>

Prepaid rents include primarily leases of premises and land for the purpose of setting up base stations, and lease of optical fibres.

## 18. INVESTMENT PROPERTY

### Movement of investment property in 2017

EUR thousand	Land	Buildings	Total
<b>Cost</b>			
<b>Balance at 1 Jan 2017</b>	<b>4,865</b>	<b>1,810</b>	<b>6,675</b>
Increases	0	3	3
<b>Balance at 31 Dec 2017</b>	<b>4,865</b>	<b>1,813</b>	<b>6,678</b>
<b>Accumulated depreciation</b>			
<b>Balance at 1 Jan 2017</b>	<b>1,572</b>	<b>923</b>	<b>2,495</b>
Impairment	117	9	126
Depreciation	0	51	51
<b>Balance at 31 Dec 2017</b>	<b>1,689</b>	<b>983</b>	<b>2,672</b>
<b>Carrying amount</b>			
Balance at 1 Jan 2017	3,293	887	4,180
Balance at 31 Dec 2017	3,176	830	4,006

### Movement of investment property in 2016

EUR thousand	Land	Buildings	Total
<b>Cost</b>			
<b>Balance at 1 Jan 2016</b>	<b>4,865</b>	<b>1,977</b>	<b>6,842</b>
Decreases	0	-167	-167
<b>Balance at 31 Dec 2016</b>	<b>4,865</b>	<b>1,810</b>	<b>6,675</b>
<b>Accumulated depreciation</b>			
<b>Balance at 1 Jan 2016</b>	<b>1,232</b>	<b>589</b>	<b>1,821</b>
Decreases	0	-2	-2
Impairment	340	270	610
Depreciation	0	66	66
<b>Balance at 31 Dec 2016</b>	<b>1,572</b>	<b>923</b>	<b>2,495</b>
<b>Carrying amount</b>			
Balance at 1 Jan 2016	3,633	1,388	5,021
Balance at 31 Dec 2016	3,293	887	4,180

As at 31 December 2017, the Company's investment property included land and building at the Sečovlje salt-pans in the amount of EUR 2,972 thousand, and land, landscaping, purification facility and building of the Tisa hotel on Pohorje in the amount of EUR 1,034 thousand.

These items of property were assessed by a certified property appraiser on 31 December 2017. When making the assessment, the suitability of land valuation methods was verified: cost method, income method and market comparison method. With respect to the purpose of the valuation, type of property and available data, the market comparison method was used to assess the fair value of land and buildings at the Sečovlje salt-pans. To assess the fair value of land, landscaping, purification facility and building of the Tisa hotel on Pohorje, the market comparison and cost methods were used.

Based on this appraisal, the Company impaired the two investment properties in the amount of EUR 126 thousand and recognized expenses for impairment of intangible assets and property, plant and equipment [Note 9].

Revenue generated on investment property in 2017 is recognised in profit or loss in the amount of EUR 292 thousand [2016: EUR 181 thousand]. The Company recognised expenses relating to investment property in the income statement for 2017 in the amount of EUR 174 thousand [2016: EUR 165 thousand] and disclosed them under cost of material and energy, cost of services, maintenance of property, plant and equipment, costs of other services [Note 7], and under item of other expenses [Note 9] under other operating expenses.

## 19. ASSETS HELD FOR SALE

Assets held for sale include land and buildings that the company Telekom Slovenije will no longer use for business purposes in the future in compliance with the process of rationalising and optimising property. For these assets, the Company's Management Board adopted a decision on sale, which is anticipated in the following 12 months. Assets held for sale are transferred to current assets held for sale at the lower of their carrying amount or fair value, less costs to sell. Prior to transfer, fair value of property is assessed for all assets transferred. As at 31 December 2017, the Company discloses assets held for sale, land and buildings in the amount of EUR 754 thousand [2016: EUR 1,818 thousand]. The Company implements sales activities regularly.

EUR thousand	Assets held for sale
<b>Balance at 1 Jan 2016</b>	<b>914</b>
Increases	932
Sale	-28
<b>Balance at 31 Dec 2016</b>	<b>1,818</b>
Increases	2
Sale	-925
Impairment	-141
<b>Balance at 31 Dec 2017</b>	<b>754</b>

In March 2017, the Company obtained new market value assessments for ten items of property, which were prepared by certified property appraisers DODOMA, d.o.o., Maribor and SIGMA, d.o.o., Kopriva, Dutovlje.

The fair value assessment was prepared based on the market value. In line with this, the Company impaired assets held for sale in the amount of EUR 141 thousand. The Company recognised impairment in the income statement under item Impairment of intangible assets and property, plant and equipment [Note 9].

Assets held for sale decreased by EUR 925 thousand due to the sale of land and the Primskovo property. The Company thus generated EUR 362 thousand gains on sale, which were recognised in the income statement under Gains on disposal of property, plant and equipment [Note 6].

## 20. INVENTORIES

EUR thousand	2017	2016
Material	9,530	10,041
Merchandise	8,576	9,217
<b>Total inventories</b>	<b>18,106</b>	<b>19,258</b>

In 2017, the Company wrote off EUR 1,777 thousand of inventories (2016: EUR 2,542 thousand). The write-off of inventories was recognised under costs in the income statement in item Other operating expenses, impairment and write-off of inventories (Note 9, Other operating expenses). Material was valued at its net realisable value at EUR 1,361 thousand and merchandise at EUR 3,203 thousand. Other inventories are valued at their initial cost as the purchase cost of these inventories was lower than their net realisable value. The Company's inventories include no inventories that are pledged for its liabilities.

## 21. OPERATING AND OTHER RECEIVABLES

EUR thousand	2017			2016
	Gross value	Allowances	Net value	Net value
Trade receivables	130,584	-15,305	115,279	111,151
Operating receivables due from foreign operators	17,301	-1,746	15,555	22,339
Operating receivables due from domestic operators	26,466	-11,401	15,065	5,646
<b>Total trade receivables</b>	<b>174,351</b>	<b>-28,452</b>	<b>145,899</b>	<b>139,136</b>
Paid advances and warranties	728	0	728	1,137
VAT and other tax receivables	3,989	0	3,989	4,197
Other receivables	686	0	686	728
<b>Total other receivables</b>	<b>5,403</b>	<b>0</b>	<b>5,403</b>	<b>6,062</b>
<b>Total operating and other receivables</b>	<b>179,754</b>	<b>-28,452</b>	<b>151,302</b>	<b>145,198</b>

The Company's operating receivables include EUR 41,756 thousand of instalment payments (2016: EUR 39,014 thousand).

Operating receivables do not bear interest.

### Changes in allowances for receivables

EUR thousand	2017	2016
<b>Balance at 1 Jan</b>	<b>-36,209</b>	<b>-32,222</b>
Increase on business combinations	0	-1,661
Allowances during the year	-5,805	-14,822
Reversal of allowances	9,989	8,427
Write-offs	3,573	4,069
<b>Balance at the end of the period</b>	<b>-28,452</b>	<b>-36,209</b>

The method of forming allowances for receivables has not changed in 2017.

## 22. SHORT-TERM DEFERRED COSTS AND ACCRUED REVENUE

EUR thousand	2017	2016
Deferred costs	6,977	7,885
Accrued revenue for services rendered and goods supplied	25,772	8,331
Accrued revenue and deferred costs – international services	23,107	16,420
Short-term portion of sales incentives	11,953	11,703
Other	1,120	1,104
<b>Total deferred costs and accrued revenue</b>	<b>68,929</b>	<b>45,443</b>

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. The increase in accrued revenue for services rendered mostly relates to revenue from e-tolls.

## 23. CASH AND CASH EQUIVALENTS

EUR thousand	2017	2016
Cash on hand and bank balances	15,358	34,448
Short-term bank deposits with maturity up to three months	2,000	0
<b>Total cash and cash equivalents</b>	<b>17,358</b>	<b>34,448</b>

Bank balances bear interest at bank interest rates for positive cash balances ranging between 0.001% and 0.00% p.a.

To balance its short-term liquidity, the Company has credit lines or revolving loans in the total amount of EUR 100 million. In 2017, the Company also obtained long-term credit lines or revolving loans in the total amount of EUR 70 million to ensure long-term stand-by liquidity. As at 31 December 2017, these loans and lines were not utilised. The Company also signed an agreement on overdraft facility with the bank in the amount of EUR 5 million, which was also not utilised. Credit lines are outlined by the Company in [Note 28, Borrowings](#).

## 24. EQUITY AND RESERVES

EUR thousand	2017	2016
Called-up capital	272,721	272,721
Capital surplus	180,956	180,956
Revenue reserves	104,978	237,272
Legal reserves	50,434	50,434
Reserves for treasury shares and interests	3,671	3,671
Treasury shares and interests	-3,671	-3,671
Statutory reserves	54,544	54,544
Other revenue reserves	0	132,294
Retained earnings or losses	137,756	36,256
Retained earnings or losses from previous periods	136,036	16,026
Profit or loss for the year	1,720	20,230
Fair value reserve for financial instruments	955	678
Fair value reserve for hedging instruments in net amount	-472	0
Reserve for actuarial gains and losses	-2,539	-1,828
<b>Total equity and reserves</b>	<b>694,355</b>	<b>726,055</b>

### CALLED-UP CAPITAL

Authorised, issued and fully paid-up capital amounts to EUR 272,721 thousand and is divided into 6,535,478 ordinary registered no-par value shares. The no-par value shares do not have a nominal amount. Each ordinary no-par value share has the same share and attributable amount in the share capital. The share of an individual no-par value share in the share capital is determined according to the number of n- par value shares issued.

### Ownership structure

Shareholder	31. 12. 2017		31. 12. 2016	
	No. of shares	Share in %	No. of shares	Share in %
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	822,060	12.58	794,839	12.16
Other domestic legal entities	212,876	3.26	211,488	3.24
Kapitalska družba d.d.	365,175	5.59	365,175	5.59
Domestic financial companies and funds	356,525	5.46	445,871	6.82
Foreign legal entities	383,434	5.87	322,697	4.94
Treasury shares	30,000	0.46	30,000	0.46
<b>Total</b>	<b>6,535,478</b>	<b>100.00</b>	<b>6,535,478</b>	<b>100.00</b>

Note: As of 31 December 2016, the Company started categorising 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. In 2017, the Company did not issue nor withdraw shares, so their number remained the same.

## CAPITAL SURPLUS

At the end of the 2017 financial year, 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 appropriated. Movements in capital surplus are outlined in the Statement of Changes in Equity.

## REVENUE RESERVES

In the course of its operations, the Company creates reserves below as part of revenue reserves.

**Legal reserves** are formed in an amount so that the sum of legal reserves and capital surplus, added in compliance with the law for the purpose of establishing the necessary level of legal reserves, amounts to 20% of share capital of the Company. As at 31 December 2017, the Company's legal reserves were recorded at EUR 50,434 thousand.

In accordance with the Companies Act, capital surplus and legal reserves can in their excess amount be used to increase share capital based on a company's assets and to cover retained losses, if revenue reserves are not simultaneously used for payout of profits to shareholders.

For 2017 the Company, in compliance with the Companies Act and its Articles of Association, adhered to the mandatory use of net profit and the prescribed order, not creating legal or statutory reserves as these are already at the maximum level.

**Reserves for own shares** are created in the amount of acquired treasury shares and are not intended for appropriation. The Company acquired no new treasury shares in 2017.

As at 31 December 2017, the Company had 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 treasury shares 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. The Company forms statutory reserves until their amount reaches 20% of the Company's share capital. These reserves can be used in accordance with the Company's 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 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 resolutions adopted by the 28th General Meeting of Shareholders of Telekom Slovenije, d.d. in Ljubljana on 21 April 2017, the resolution on the use of accumulated profit was adopted under resolution no. 4.1. Accumulated profit for 2016 in the amount of EUR 32,834,996.07 was used for dividend pay-out in the amount of EUR 32,527,390.00, i.e. EUR 5.00 gross per share [in 2016, dividends for 2015 were paid out in the amount of EUR 32,527,390.00 or EUR 5.00 per share]. The residual part in the amount of EUR 307,606.07 is brought forward to the next year.

## Determination of accumulated profit for 2017

	in EUR
Net profit/loss for 2017	1,719,582.92
Retained net profit/loss	3,742,353.76
Decrease in other revenue reserves	132,294,080.62
Decrease for long-term deferred development costs	-22,389,592.18
<b>Accumulated profit for 2017</b>	<b>115,366,425.12</b>

### Proposed dividend pay-out for 2017

Amount of dividend paid: EUR 40,984,511.40

Dividend per ordinary share: EUR 6.30

### Fair value reserve for financial instruments

Fair value reserve for financial instruments includes the change in value of investments available for sale and the change in fair value of hedging instruments.

### Change in reserve for the fair value of available-for-sale investments

EUR thousand	2017	2016
<b>Balance at 1 Jan</b>	<b>678</b>	<b>943</b>
Revaluation of available-for-sale investments (increase in value)	342	1
Deferred taxes	-65	0
Reclassification of revaluation of available-for-sale investments to profit or loss	0	-300
Deferred taxes on reclassification of revaluation of available-for-sale of investments to profit or loss	0	51
Change in deferred taxes due to tax rate recalculation	0	-17
<b>Balance at 31 Dec</b>	<b>955</b>	<b>678</b>

### Change in revaluation reserve for the fair value of hedging instruments (net amount)

EUR thousand	2017	2016
<b>Balance at 1 Jan</b>	<b>0</b>	<b>0</b>
Change in fair value of hedging instruments	-583	0
Deferred tax on change in fair value of hedging instruments	111	0
<b>Balance at 31 Dec</b>	<b>-472</b>	<b>0</b>

## RESERVE FOR ACTUARIAL GAINS AND LOSSES

Actuarial gains and losses include changes in the present value of payables to employees due to changed actuarial assumptions and on the basis of experience-based adjustments. In 2017, they decreased by EUR 711 thousand and amounted to EUR -2,539 thousand at the end of 2017 (2016: EUR -1,828 thousand).

## 25. LONG-TERM DEFERRED REVENUE

EUR thousand	2017	2016
Co-location billed in advance	10,404	7,366
Other long-term deferred revenue	2,143	2,503
<b>Total long-term deferred revenue</b>	<b>12,547</b>	<b>9,869</b>

Accrued co-locations relate to renting of premises and equipment to other operators.

## 26. PROVISIONS

### Changes in provisions in 2017

EUR thousand	2016	Utilisation	Reversal	Formation	Change in discount rate	2017
Provisions for probable liabilities resulting from legal actions	19,967	-10,480	0	24,513	0	34,000
Provisions for termination benefits upon retirement and jubilee benefits	9,748	-157	-382	711	238	10,158
Provisions for estimated costs of the removal of base stations	3,445	-26	-13	53	-6	3,453
Other provisions	114	-178	0	134	0	70
Provisions for restructuring	2,718	-2,718	0	5,548	0	5,548
<b>Total provisions</b>	<b>35,992</b>	<b>-13,559</b>	<b>-395</b>	<b>30,959</b>	<b>232</b>	<b>53,229</b>

### Changes in provisions in 2016

EUR thousand	2015	Utilisation	Reversal	Formation	Change in discount rate	2016
Provisions for probable liabilities resulting from legal actions	20,339	-1,346	-1,992	2,966	0	19,967
Provisions for termination benefits upon retirement and jubilee benefits	9,620	-234	-336	529	169	9,748
Provisions for estimated costs of the removal of base stations	3,155	-9	1	66	232	3,445
Other provisions	168	-179	0	125	0	114
Provisions for restructuring	7,493	-7,493	0	2,718	0	2,718
<b>Total provisions</b>	<b>40,775</b>	<b>-9,261</b>	<b>-2,327</b>	<b>6,404</b>	<b>401</b>	<b>35,992</b>

## PROVISIONS FOR PROBABLE LIABILITIES RESULTING FROM LEGAL ACTIONS

Provisions for probable liabilities resulting from legal actions are created on the basis of the estimated outcome of actions, conducted with a high level of prudence. The date of liability due date cannot be determined. The relevant actions refer among others to the alleged abuse of holding a dominant market position on markets, on which Telekom Slovenije conducts its business operations, for which the Competition Protection Office of the Republic of Slovenia (AVK) began several ex officio procedures in previous years. Actions in relation to which provisions were formed are at various stages. Telekom Slovenije was primarily successful in cases that finally concluded up to this date, which is also published promptly in accordance with the Stock Exchange's rules. Based on the obtained legal opinions and the estimate of the management, the Company formed provisions for legal actions in the amount of EUR 34,000 thousand [2016: EUR 19,967 thousand].

Total damages claimed by pending legal actions brought against the Company as at 31 December 2017 amount to EUR 188,458 thousand [2016: EUR 259,463 thousand] – [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 with the discount rate of 1.92% p.a. [2016: 1.75% p.a.], which equals the 2017 year-end yield on 15-year gilt-edged bonds from euro area issuers.

## PROVISIONS FOR TERMINATION AND JUBILEE BENEFITS

Provisions for termination benefits upon retirement are based on actuarial calculations. The calculations applied the discount rate of 1.92%, which equals the 2017 year-end yield on 15-year gilt-edged bonds from euro area issuers [in 2016, the discount rate was 1.75%]. The rate of fluctuation is taken into account according to age intervals and ranges from 0% to 3.5% [2016: the rate ranged from 0% to 3.5%]. Liabilities recorded by the Company equal the present value of estimated future payments. The Company has no other pension liabilities.

## PROVISIONS FOR RESTRUCTURING

In 2017, the Company used all provisions for restructuring in the amount of EUR 2,718 thousand that were created in the previous reporting period. Pursuant to the business plan, the Company created new provisions in the amount of EUR 5,548 thousand for severance benefits of employees within HR restructuring activities.

## 27. NON-CURRENT OPERATING LIABILITIES

EUR thousand	2017	2016
Contractual liabilities for active programme rights	9,684	9,703
Microsoft licences	0	1,695
Other	6,674	3
<b>Total non-current operating liabilities</b>	<b>16,358</b>	<b>11,401</b>

Other non-current liabilities increased in 2017 due to the settlement with the company Telemach.

## 28. BORROWINGS

This note provides information about the contractual terms of borrowings. For more information relating to exposure to interest rate and foreign currency risk refer to [Note 39, Financial risk management](#).

EUR thousand	2017	2016
<b>Long-term borrowings</b>		
Borrowings from banks	168,796	0
<b>Total long-term portion</b>	<b>168,796</b>	<b>0</b>
<b>Short-term borrowings</b>		
Borrowings from companies in the Group	0	2,000
Current portion of long-term borrowings from banks	115,189	304,316
<b>Total short-term portion</b>	<b>115,189</b>	<b>306,316</b>

### Contractual provisions of borrowings

EUR thousand	Long-term portion at 31 Dec 2017	Short-term portion at 31 Dec 2017	Maturity exceeding 5 years	Contractual interest rate	Maturity of final instalment	Collateral
Long-term financial liabilities to banks	169,231	115,385	7,692	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

The Company has short-term and long-term credit lines or revolving loans, which are secured by blank bills of exchange. Short-term credit lines or revolving loans mature in 2018 and are subject to fixed or variable interest rates and a mark-up ranging from 0.70% to 3.00%. Long-term credit lines or revolving loans mature in 2020 and are subject to variable interest rates and a mark-up ranging from 0.80% to 1.1%. The Company also signed an agreement with the bank on overdraft facility with a fixed interest rate of 3.50%.

Banks that have approved long-term 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 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 2017, all financial covenants on the Group level were achieved. One of the agreement terms was violated, for which the lending banks issued a waiver prior to the date of the balance sheet.

## 29. OTHER NON-CURRENT FINANCIAL LIABILITIES

EUR thousand	2017	2016
Liabilities under bonds issued	99,898	99,857
Liabilities for interest rate swap	583	0
<b>Total other non-current financial liabilities</b>	<b>100,481</b>	<b>99,857</b>

Telekom Slovenije issued in June 2016 bonds with the nominal value of EUR 100,000 thousand, fixed annual interest rate of 1.95% and the maturity date of 10 June 2021. The total issue comprises 100,000 denominations of EUR 1,000. Interest is due for payment on an annual basis, whereby the nominal value in a full single amount. The bonds are measured at amortised cost by applying the effective interest rate of 1.994%.

In February 2017, an interest rate swap was concluded with the purpose of interest rate hedging, the fair value of which as at 31 December 2017 equalled EUR 583 thousand. More detailed explanation is under [Note 39, Financial risk management](#).

## 30. OPERATING AND OTHER LIABILITIES

EUR thousand	2017	2016
Trade payables	84,938	82,119
Liabilities to domestic operators	3,559	3,743
Liabilities to foreign operators	7,488	16,248
VAT and other tax liabilities	4,527	4,683
Liabilities to employees	6,289	6,838
Liabilities for advances and securities	354	351
Other liabilities	14,040	11,955
<b>Total operating and other liabilities</b>	<b>121,195</b>	<b>125,937</b>

Operating liabilities are non-interest bearing and are generally settled in the agreed period of 8 to 120 days. Liabilities to operators are also non-interest bearing and are usually settled in the agreed period between 15 and 60 days.

Other liabilities mostly include liabilities from cession and assignment, liabilities to providers of goods and services (Moneta), liabilities from commission and consignment sale and the short-term portion of recognised agreements for provision of TV contents.

## 31. OTHER CURRENT FINANCIAL LIABILITIES

EUR thousand	2017	2016
Liabilities for payment of dividends	184	208
Liabilities under bonds issued	1,053	1,053
Other financial liabilities	3,059	3,059
<b>Total other current financial liabilities</b>	<b>4,296</b>	<b>4,320</b>

### 32. SHORT-TERM DEFERRED REVENUE

EUR thousand	2017	2016
Deferred revenue from sale of prepaid cards	1,479	1,565
Short-term co-locations	1,537	1,621
Short-term portion of government grants for property, plant and equipment	83	234
Other deferred revenue	1,208	1,190
<b>Total short-term deferred revenue</b>	<b>4,307</b>	<b>4,610</b>

Other deferred revenue relates mostly to the loyalty programme and services of information and communications technologies.

### 33. ACCRUED COSTS AND EXPENSES

EUR thousand	2017	2016
Accrued costs and expenses for services rendered and goods supplied	21,986	18,055
Accrued costs and deferred revenue – international services	18,684	16,522
Accrued wages and bonuses	2,414	1,689
Accrued costs for unused vacation days	3,498	3,639
Other	0	6
<b>Total accrued costs and expenses</b>	<b>46,582</b>	<b>39,911</b>

### 34. CARRYING AMOUNTS AND FAIR VALUES

This note contains data on the classification in terms of fair value hierarchy solely for financial assets and financial liabilities that are measured at fair value and for which fair value is disclosed.

#### Carrying amounts and fair values at 31 December 2017

EUR thousand	Carrying amount	Fair value	Level 1	Level 2	Level 3
<b>Non-current financial assets</b>					
Available-for-sale financial assets	1,796	1,796	1,796		
Loans given	80,897	80,894			80,897
<b>Current financial assets</b>					
Loans given	44,448	44,448			44,448
<b>Non-current financial liabilities</b>					
Bonds	99,898	101,000	101,000		
Borrowings	168,796	168,796			168,796
Liabilities for interest rate swap	583	583		583	
<b>Current financial liabilities</b>					
Bonds	-42	-42			-42
Interest on bonds	1,095	1,095			1,095
Borrowings	115,189	115,189			115,189
Other financial liabilities	3,243	3,243			3,243

## Carrying amounts and fair values at 31 December 2016

EUR thousand	Carrying amount	Fair value	Level 1	Level 2	Level 3
<b>Non-current financial assets</b>					
Available-for-sale financial assets	1,454	1,454	1,454		
Loans given	124,047	124,047			124,047
<b>Current financial assets</b>					
Loans given	9,662	9,662			9,662
Other current financial assets	118,897	118,897			118,897
<b>Non-current financial liabilities</b>					
Bonds	99,857	104,000	104,000		
<b>Current financial liabilities</b>					
Bonds	-42	-42			-42
Interest on bonds	1,095	1,095			1,095
Borrowings	306,316	306,316			306,316
Other financial liabilities	3,267	3,267			3,267

The table does not include the Company's operating receivables and liabilities as these are distinctively short-term and are as a rule settled in less than 180 days.

The table also does not include investments the Company values at cost. The value of these investments as at 31 December 2017 amounts to EUR 2,714 thousand [2016: EUR 967 thousand]. The same applies to investments in subsidiaries and joint ventures, which are also measured according to the cost model [[Note 15, Investments in subsidiaries](#)].

## ASSETS AND LIABILITIES THAT ARE NOT MEASURED AT FAIR VALUE, BUT FOR WHICH FAIR VALUE IS DISCLOSED:

### Carrying amounts and fair values at 31 December 2017

EUR thousand	Carrying amount	Fair value	Level 1	Level 2	Level 3
Investment property	4,006	4,117			4,117

### Carrying amounts and fair values at 31 December 2016

EUR thousand	Carrying amount	Fair value	Level 1	Level 2	Level 3
Investment property	4,180	4,180			4,180

The Company did not classify those assets and liabilities for which fair value is not measured into any of the fair value categories.

## 35. LIABILITIES AND RECEIVABLES RELATED TO OPERATING LEASE

### The Company as the lessee

The Company discloses liabilities from operating lease of property, plant and equipment, which refer mostly to lease of lines, business premises and base stations.

The basis for defining lease payments for the domestic segment are sample contracts for regulated services and commercial tariffs for unregulated services.

For the international segment, prices are formed with respect to the demand and offer and by taking account of framework fees that apply for domestic operators.

Lease contracts are concluded for an indefinite or a definite period of time with the possibility of prolongation based on new negotiations. The customer can cancel the contract or order in compliance with provisions of the contract or order. Customers are charged penalties in case of premature cancellation.

Lease payments for business premises and base stations are defined on the basis of the agreed fee with the owner and past fees. When the owner is the operator, the lease fee is determined according to its prices list and comparison with the own price list for lease of premises. Lease contracts are concluded for an indefinite period of time, for the time of operations or for 15 years with the possibility of prolongation based on new negotiations. Contracts concluded for an indefinite period of time can be terminated based on certain conditions. These may be as follows:

- the lessee can terminate the contract in writing within 3 months in case the respective property does not meet the technical requirements or is no longer required;
- the resolatory condition 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 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.

Payable in - EUR thousand	2017	2016
up to 1 year	10,647	11,063
from 1 to including 5 years	34,556	44,838
over 5 years	28,691	38,364
<b>Total</b>	<b>73,894</b>	<b>94,265</b>

For the 2017 reporting period, total costs of operating leases recognised in the Company's income statement amounted to EUR 11,279 thousand (2016: EUR 10,774 thousand) and are disclosed under costs of leasing lines and property, plant and equipment [[Note 7, Costs of services](#)].

### The Company as the lessor

Receivables from operating leases relate to the lease of property, plant and equipment and primarily relate to leasing lines, business premises and base stations. The bases for lease payments on the domestic and international segment are prepared under the same terms and conditions as when the Company acts as a lessee. Lease contracts are concluded for an indefinite or a definite period of time with the possibility of prolongation based on new negotiations.

Lease agreements for business premises and equipment are for the most part concluded for an indefinite period of time (one major agreement concluded for a definite period of 5 years). The period of notice varies between 2 to 12 months.

Payable in - EUR thousand	2017	2016
up to 1 year	10,536	11,763
from 1 to including 5 years	35,937	39,450
over 5 years	33,085	40,464
<b>Total</b>	<b>79,558</b>	<b>91,677</b>

In the 2017 reporting period, revenue from leases recognised in the income statement amounted to EUR 10,352 thousand (2016: EUR 11,221 thousand) and the Company discloses it under revenue from sale of services on the domestic and international market [Note 5, Net sales revenue].

### Amounts of legal claims

EUR thousand	2017	2016
Amounts of legal claims	188,458	259,463

As at the reporting date, 41 pending legal actions (2016: 56 legal actions) were brought against the Company, whereof the largest refer to T-2 (EUR 129,557 thousand) and SKY NET (EUR 30,047 thousand).

Based on the agreement concluded in February 2017, the exposure of Telekom Slovenije arising from legal actions will decrease by EUR 87,392 thousand [Note 41, Events after the reporting date].

The relevant cases are at various stages as follows:

- In the commercial dispute filed by T-2 against Telekom Slovenije, the Supreme Court of the Republic of Slovenia annulled the ruling by the courts of first and second instance and returned the case to the court of first instance for retrial.
- In the commercial dispute filed by SKY NET against Telekom Slovenije due to payment of damages in the amount of EUR 25,960 thousand, the primary claim of SKY NET was finally rejected. The District Court will decide in another trial also on the subordinate claim, i.e. fulfilment of contract. The same court merged also the case of SKY NET against Telekom Slovenije relating to the fulfilment of contract of EUR 7,087 thousand with the mentioned commercial dispute. The court has not yet decided on the subordinate claim, i.e. fulfilment of contract.
- Based on the put option contract from 2017, the company Antenna Slovenia B.V. Amsterdam delivered to Telekom Slovenije in 2017 the statement on exercising the option. Telekom Slovenije argues the put option was not exercised properly and has thus refused to pay the proceeds demanded. The dispute will be resolved through the arbitration procedure before the International Court of Arbitration in Zürich.

Based on the obtained legal opinions and the estimate of the management, the Company formed provisions for legal actions in the amount of EUR 34,000 thousand [Note 26, Provisions]. At the date of the balance sheet, contingent liabilities amount to EUR 25,855 thousand (2016: 16,167).

Given the proceedings' progress, it is difficult to provide an estimate of the completion of individual matters with a sufficient degree of certainty.

### Guarantees issued

EUR thousand	2017	2016
Performance bonds and guarantees for repairs	6,446	5,878
Performance guarantees	2,083	2,453
Other securities	502	268
<b>Total guarantees issued</b>	<b>9,031</b>	<b>8,599</b>

Guarantees issued in the amount of EUR 2,083 thousand represent the guarantees of Telekom Slovenije to banks for securing the liabilities of subsidiaries. Telekom Slovenije charges to subsidiaries a fee of 1.0% p.a. of the guarantee amount and recognises it under revenue from sale of services on the domestic and international market [Note 5, Net sales revenue].

None of the stated liabilities meets the terms for recognition among balance sheet items. Thus, no related material consequences are expected for the Company in this respect.

## SUPPORTING LETTER GIVEN

The company Telekom Slovenije issued as the sole shareholder of TSmedia and majority owner of IPKO and Antenna TV SL supporting letters to these companies, in which it ensures that it has no intention of terminating operations nor decreasing them significantly and that it will provide sufficient funds to these companies in the 12 months following the signing of the letter, so that they can settle their liabilities regularly.

## 36. RELATED PARTY TRANSACTIONS

Related entities are individuals or companies that are related to Telekom Slovenije.

### TRANSACTIONS WITH INDIVIDUALS

Natural persons or individuals (the President and members of the Management Board, Deputy Vice-president and members of the Supervisory Board) hold a total of 448 shares on the Company with the designation TLSG, representing an equity holding of 0.00687%. Other members of management and supervisory bodies did not own any shares of the Company.

No loans were extended to related individuals in 2017.

### Data on groups of persons in 2017

EUR thousand	Total gross receipts	Receipts as profit pay-outs based on the resolution of the Shareholders' Meeting	Loans	
			Unpaid portion at 31 Dec 2017	Repayments in 2017
<i>Total Management Board members</i>	824	-	-	-
<i>Members of the Supervisory Board</i>	263	-	-	-
<i>Members of the Supervisory Board commissions</i>	20	-	-	-
<i>Other managerial staff employed under contracts that are not subject to the tariff part of the collective agreement</i>	5,442	-	10	6

### Data on groups of persons in 2016

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
<i>Total Management Board members</i>	713	-	-	-
<i>Members of the Supervisory Board</i>	254	-	-	-
<i>Members of the Supervisory Board commissions</i>	23	-	-	-
<i>Other managerial staff employed under contracts that are not subject to the tariff part of the collective agreement</i>	5,039	-	16	6

Loans to other managerial employees in the Company under contracts that are not subject to the tariff part of the collective agreement were approved at interest rates ranging from 4.01% to 4.13% p.a. They were approved in the total amount of EUR 67 thousand and with a repayment period up to 15 years.

The Company has not granted any advances or guarantees or recorded any write-offs or remitted amounts to the respective groups of persons and has no liabilities to these persons.

## Remuneration of the members of the Management Board in 2017 - breakdown

in EUR	Salary	Variable pay*	Reimbursement of costs	Holiday allowance	Insurance premiums	Benefits	PDPZ	Total gross**	Total net***
Rudolf Skobe (1 Jan - 31 Dec)	145,222	15,864	1,710	1,158	697	6,690	2,819	174,160	76,623
Tomaž Seljak (1 Jan - 31 Dec)	145,222	15,864	2,305	1,158	697	5,182	2,819	173,247	78,137
Aleš Aberšek (1 Jan - 31 Dec)	145,222	12,816	1,439	1,158	12,452	8,050	2,819	183,956	67,079
Ranko Jelača (1 Jan - 31 Dec)	145,222	12,829	1,772	1,158	827	8,612	2,819	173,239	77,745
Vesna Lednik (1 Jan - 31 Dec)	101,658	7,403	1,298	1,158	697	4,638	2,819	119,671	55,924
<b>Total</b>	<b>682,546</b>	<b>64,776</b>	<b>8,524</b>	<b>5,790</b>	<b>15,370</b>	<b>33,172</b>	<b>14,095</b>	<b>824,273</b>	<b>355,508</b>

\* Variable pay refers to the performance bonus for 2016.

\*\* The total gross amount is the sum of all types of labour costs, including net receipts (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 net earnings of Management Board members, and exclusive of PDPZ, which is remitted to the pension company and not to the members personally.

## Remuneration of the members of the Management Board in 2016 - breakdown

in EUR	Salary	Variable pay*	Reimbursement of costs	Holiday allowance	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 March - 31 Dec)	106,063	0	1,228	825	2,742	6,900	2,114	119,872	48,164
Ranko Jelača (15 March - 31 Dec)	112,068	0	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	0	61	169	89	14,336	6,519
<b>Total</b>	<b>603,386</b>	<b>43,138</b>	<b>8,323</b>	<b>4,950</b>	<b>5,643</b>	<b>34,701</b>	<b>12,774</b>	<b>712,915</b>	<b>305,159</b>

\* Variable pay refers to the performance bonus 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 is the sum of all types of labour costs, including net receipts (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 net earnings of Management Board members, and exclusive of PDPZ, which is remitted to the pension company and not to the members personally.

Members of the Management Board did not receive any shares in profit, options, commissions or other earnings. All benefits of the Management Board members, except PDPZ, are short-term receipts.

## Liabilities of Telekom Slovenije

The company Telekom Slovenije records liabilities to related parties arising from earnings that have not yet been paid out and amount as follows:

### Liabilities of Telekom Slovenije Group

EUR thousand	Total amount of all liabilities 2017	Total amount of all liabilities 2016
Total Management Board members	227	11
Other managerial staff employed under contracts that are not subject to the tariff part of the collective agreement	440	0

### Remuneration of the Supervisory Board members in 2017 (breakdown)

in EUR	Attendance fees	Basic pay for performing the function	Commissions	Travel expenses	Liability insurance	Total gross*	Total net**
<b>External members</b>							
Borut Jamnik (1 Jan - 27 Apr)	1,100	10,821	2,420	0	0	14,341	10,430
Tomaž Berločnik (1 Jan - 27 Apr)	825	6,417	220	0	0	7,462	5,427
Adolf Zupan (1 Jan - 27 Apr)	1,100	8,633	660	458	0	10,851	7,892
Bernarda Babič (1 Jan - 31 Dec)	3,700	20,183	3,300	2,018	290	29,491	21,165
Marko Hočevnar (1 Jan - 27 Apr)	1,100	7,000	1,276	0	0	9,376	6,819
Dimitrij Marjanović (1 Jan - 31 Dec)	3,355	21,000	3,645	0	290	28,290	20,292
Lidija Glavina (27 Apr - 31 Dec)	3,025	18,667	1,100	0	290	23,082	16,504
Barbara Gorjup (27 Apr - 31 Dec)	2,530	14,000	2,137	0	290	18,957	13,504
Barbara Kúrner Čad (27 Apr - 31 Dec)	2,750	14,000	1,100	0	290	18,140	12,910
Ljubomir Rajšič (27 Apr - 31 Dec)	2,863	14,000	1,804	8,420	290	27,377	16,683
<b>Internal members</b>							
Primož Per (1 Jan - 31 Dec)	4,125	17,500	1,760	0	290	23,675	16,935
Samo Podgornik (1 Jan - 31 Dec)	3,850	17,500	660	0	290	22,300	15,935
Dean Žigon (1 Jan - 31 Dec)	3,905	22,400	3,095	0	290	29,690	21,310
<b>Total</b>	<b>34,228</b>	<b>192,121</b>	<b>23,177</b>	<b>10,896</b>	<b>2,610</b>	<b>263,032</b>	<b>185,806</b>

\* The total gross amount includes the sum of all attendance fees, basic salaries for performing the function and payments for participating in commissions, including net earnings (travel expenses) and liability insurance.

\*\* The total net amount represents the sum of net earnings, inclusive of liability insurance, which actually reduce net earnings, together with travel expenses.

## Remuneration of the Supervisory Board members in 2016 (breakdown)

in EUR	Attendance fees	Basic pay for performing the function	Commissions	Travel expenses	Liability insurance	Total gross*	Total net**
<b>External members</b>							
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 Marjanović (13 May - 31 Dec)	2,255	11,798	1,320	0	322	15,695	11,181
<b>Internal members</b>							
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
<b>Total</b>	<b>41,350</b>	<b>186,775</b>	<b>18,745</b>	<b>4,333</b>	<b>2,898</b>	<b>254,101</b>	<b>182,701</b>

\* The total gross amount includes the sum of all attendance fees, basic salaries for performing the function and payments for participating in commissions, including net earnings (travel expenses) and liability insurance.

\*\* The total net amount represents the sum of net earnings of Supervisory Board members, inclusive of liability insurance, which actually reduce net earnings, together with travel expenses.

Members of the Supervisory Board received no other payments.

## Remuneration of members of the Supervisory Board commissions in 2017 (breakdown)

in EUR	Attendance fees	Basic pay for performing the function	Commissions	Travel expenses	Liability insurance	Total gross*	Total net**
<b>External commission members</b>							
Barbara Nose (1 Jan - 27 Apr, 10 July - 31 Dec)	0	8,750	2,244	0	0	10,994	7,996
Slavko Ovčina (4 Oct - 31 Dec)	0	1,750	0	0	0	1,750	1,273
Miha Kerin (1 Jan - 12 Apr)	0	1,983	1,540	0	0	3,523	2,563
Alenka Stanič (1 Jan - 12 Apr)	0	1,983	1,540	0	0	3,523	2,563
<b>Total</b>	<b>0</b>	<b>14,466</b>	<b>5,324</b>	<b>0</b>	<b>0</b>	<b>19,790</b>	<b>14,395</b>

\* The total gross amount includes the sum of the basic salary for performing the function and payments for participating in commissions.

\*\* The total net amount refers to net earnings of the members of the Supervisory Board commissions.

## Remuneration of Members of the Supervisory Board Committees (breakdown)

in EUR	Attendance fees	Basic pay for performing the function	Commissions	Travel expenses	Liability insurance	Total gross*	Total net**
<b>External commission members</b>							
Barbara Nose [1 Jan - 31 Dec]	0	8,750	3,080	0	0	11,830	8,604
Mladen Kaliterna [1 April - 30 April]	0	583	660	0	0	1,243	904
Miha Kerin [1 July - 31 Dec]	0	3,500	660	0	0	4,160	3,026
Alenka Stanič [1 April - 30 April, 1 July - 31 Dec]	0	4,083	1,320	0	0	5,403	3,930
<b>Total</b>	<b>0</b>	<b>16,916</b>	<b>5,720</b>	<b>0</b>	<b>0</b>	<b>22,636</b>	<b>16,464</b>

\* The total gross amount includes the sum of the basic salary for performing the function and payments for participating in commissions.

\*\* The total net amount refers to net earnings of the members of the Supervisory Board commissions.

Transaction with related companies where the members of Supervisory Board or members of Management Board are owners or members of the key Management personnel:

EUR thousand	2017	2016
Receivables	637	87
Liabilities	1	1

EUR thousand	2017	2016
Net revenues	940	519
Purchase of material and services	13	12

## Transactions with companies in the Group

EUR thousand	31 Dec 2017	31 Dec 2016
<b>Receivables due from companies in the Group</b>	<b>8,953</b>	<b>14,631</b>
Subsidiaries	8,953	14,631
<b>Loans to companies in the Group</b>	<b>124,478</b>	<b>132,522</b>
Subsidiaries	124,478	132,522
<b>Liabilities to companies in the Group</b>	<b>23,500</b>	<b>21,386</b>
Subsidiaries	23,498	21,384
Joint ventures	2	2
Associated companies	0	0
<b>Net revenue in the Group</b>	<b>20,227</b>	<b>19,738</b>
Subsidiaries	20,227	18,572
Joint ventures	0	0
Associated companies	0	1,166
<b>Purchase of material and services in the Group</b>	<b>51,432</b>	<b>41,206</b>
Subsidiaries	51,424	39,932
Joint ventures	8	8
Associated companies	0	1,266

The Company generates revenue by selling material to the company GVO, by leasing business premises and property, plant and equipment, rendering telecommunications services and implementing the services of business support. Telekom Slovenije settles the costs of investment construction, maintenance and elimination of errors.

TSmedia pays for telecommunications services and call centre services, maintenance, development and purchase of multimedia platforms and contents, business support services and lease of outdoor digital screens and business premises. To the parent company it charges sale and management of multimedia services and contents, use of the BiziPro business application, services related to the universal directory enquiry and 1977 services as well as management of advertisements and sale of advertising space. It also receives revenue from telephone directory, Bizi.si business directory and services of call centre, which Telekom Slovenije charges to end users through a joint invoice.

The Company charges to the subsidiary Avtenta lease of business premises, communications services at the location and support activity services and pays to it the costs of ICT services.

Telekom Slovenije charges to the subsidiary IPKO international IP services, roaming services of its users, traffic transiting services and system lease services. The subsidiary charges to the parent company lease of lines and international telecommunications services as well as services related to user roaming.

Receivables of Telekom Slovenije due from the subsidiary Blicnet include international IP services and transit traffic services. The subsidiary charges to the parent company lease of lines and international telecommunications services.

Prices between companies are formed on the same basis as for other users.

As at the reporting date, the amount of performance guarantees issued by Telekom Slovenije to its subsidiaries equalled EUR 2,083 thousand (2016: EUR 2,543 thousand).

### Loans given to subsidiaries

EUR thousand	2017	2016
GVO	1,502	1,502
TSmedia	1,101	3,894
IPKO	107,288	112,788
SOLINE	1,165	3,164
SIOL Zagreb	71	131
BLICNET	3,321	4,471
SiOL Sarajevo	200	200
SIOL Skopje	300	520
SIOL Beograd	380	210
Antenna TV SL, d.o.o.	9,150	5,642
<b>Total for related companies</b>	<b>124,478</b>	<b>132,522</b>

The terms and conditions under which the parent company grants loans to subsidiaries are summarised in [Note 16, Other investments](#).

## TRANSACTIONS WITH OWNERS AND THEIR RELATED COMPANIES

The largest owner of Telekom Slovenije is the Republic of Slovenia, which holds together with Slovenski državni holding (SDH) 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 website of the 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	2017	2016
Outstanding operating receivables	3,649	1,615
Short-term accrued revenue	20,558	3,944
Outstanding operating liabilities	1,416	1,036

The increase in short-term accrued revenue arises from the e-tolls project.

### Revenue and expenses

EUR thousand	2017	2016
Operating revenue	31,183	11,018
Purchase costs of material and services	9,276	6,717

All related party transactions are carried out under market prices.

## 37. AUDITOR'S FEE

EUR thousand	2017	2016
Audit services	65	70
Other assurance engagements	6	5
Other non-audit services	0	4
<b>Total auditor's fees</b>	<b>71</b>	<b>79</b>

## 38. CATEGORIES OF FINANCIAL INSTRUMENTS

The Company classified financial instruments into groups as shown in the table below.

EUR thousand	2017	2016
<b>Financial assets</b>		
<b>Cash and cash equivalents</b>	<b>17,358</b>	<b>34,448</b>
<b>Bank deposits</b>	<b>77,283</b>	<b>299</b>
<b>Financial assets measured at fair value through profit or loss</b>	<b>0</b>	<b>122,565</b>
Derivative financial instruments	0	122,565
<b>Investments in loans and receivables</b>	<b>276,647</b>	<b>278,907</b>
Loans given	125,345	133,709
Operating and other receivables	151,302	145,198
<b>Available-for-sale financial assets</b>	<b>40,652</b>	<b>35,855</b>
Investments in shares and interests of companies	4,510	2,421
Investments in subsidiaries, joint ventures and associated companies	36,142	33,434
<b>Financial liabilities</b>		
<b>Derivative financial instruments</b>	<b>3,642</b>	<b>3,059</b>
Derivative financial instrument	3,059	3,059
Liabilities for interest rate swap	583	0
<b>Held to maturity</b>	<b>506,315</b>	<b>533,371</b>
Operating liabilities	121,195	125,937
Borrowings	283,985	306,316
Liabilities under bonds issued	100,951	100,910
Liabilities for dividends	184	208

The Company did not reclassify these instruments to other groups during the year.

## 39. FINANCIAL RISK MANAGEMENT

The key financial risks Telekom Slovenije, d. d. is exposed to are the credit risk, long-term and short-term liquidity risk and the interest rate risk. Exposure to individual types of financial risks and measures for their management are conducted and assessed on the basis of effects on cash flows and the income statement. Below are presented major financial risks, which the Company regularly assesses and verifies the adequacy of the measures for their management in compliance with the adopted policy.

### CREDIT RISK

Credit risk is the risk of the Company's financial loss if a client or party to an agreement does not settle its obligations in full or not at all.

The maximum exposure to credit risk equals the carrying amount of financial assets, which as at 31 December 2017 amount to:

### Credit risk exposure

EUR thousand	2017	2016
Loans given	125,345	133,709
Other investments	77,283	122,864
Operating and other receivables	151,302	145,198
- of which trade receivables	145,899	139,136
Cash and cash equivalents	17,358	34,448
<b>TOTAL</b>	<b>371,288</b>	<b>436,219</b>

The Company makes sure investments are properly diversified, so the concentration risk is low.

The credit risk or the counterparty risk refers mostly to non-payment of liabilities by customers (retail sale) and by operators (wholesale) and partially also to loans given. Trade receivables represent the maximum exposure to credit risk. As at 31 December 2017, these amounted to EUR 145,899 thousand and indicate a rise over 2016 of EUR 6,763 thousand.

Due to a large number of buyers, the risk is dispersed, which especially holds true for the retail segment. Receivables due from domestic buyers account for 89% of total receivables, whilst the remaining portion are receivables due from foreign buyers. Of these, foreign operators prevail. The maximum exposure to a single buyer in 2017 accounts for 4% of total credit risk exposure [2016: 2%].

Credit risk is mostly managed by regularly checking the credit rating of business partners and actively collecting receivables. We determine credit rating of business partners based on our own credit rating model, which mostly has the purpose of efficiently managing credit risk and also serves as an additional indicator for ensuring the best possible care for our subscribers in selling processes. The basic measure of credit risk management is continuous collection according to the schedule and final exclusion of non-payers. Additional measures for credit risk management include monitoring of high traffic and informing buyers about increased usage as well as prevention and early detection of fraud.

In compliance with the Rules on Receivable Management we demand from riskier business partners collateral for potential receivables, for operators bank guarantees and bills of exchange and for the retail segment bills of exchange and securities.

We implement pre-trial and court collection procedures in compliance with the adopted policy. The Company impairs receivables in line with the accounting policies, taking into account the criterion of receivable age. The Company forms allowances for receivables in line with the credit rating of individual buyers, experience from past years and expectations for the accounting period. Due to the procedures in place for receivable management, credit risk is manageable.

## Ageing analysis of receivables as at the reporting date

EUR thousand	2017			2016		
	Gross value	Allowances	Net value	Gross value	Allowances	Net value
<b>Total trade receivables</b>	<b>174,351</b>	<b>-28,452</b>	<b>145,899</b>	<b>175,345</b>	<b>-36,209</b>	<b>139,136</b>
Not past due trade receivables	123,590	0	123,590	121,606	-4	121,602
<b>Overdue</b>						
up to and including 30 days	11,492	-4	11,488	9,593	-6	9,587
31 to and including 60 days	4,363	-11	4,352	3,628	-5	3,623
61 to and including 90 days	1,645	-13	1,632	1,169	-7	1,162
91 to and including 120 days	992	-323	669	888	-548	340
121 days and more	32,269	-28,101	4,168	38,461	-35,639	2,822
<b>Total overdue trade receivables</b>	<b>50,761</b>	<b>-28,452</b>	<b>22,309</b>	<b>53,739</b>	<b>-36,205</b>	<b>17,534</b>
Other operating receivables	5,403	0	5,403	6,062	0	6,062
<b>Total receivables</b>	<b>179,754</b>	<b>-28,452</b>	<b>151,302</b>	<b>181,407</b>	<b>-36,209</b>	<b>145,198</b>

The Company monitors financial risks also on other segments of business operations. Bank balances are allocated by the principle of minimising risks and observing proper diversification of investments. The Company is also exposed to risk in relation to loans given to third parties and employees and investments in short-term deposits. Loan-related counterparty risk is managed by means of diverse insurance instruments in loan contracts, such as right of lien on real properties and assets, assignment of existing and future claims, pledges on equity interests, guarantee statements and other adequate forms of insurance. The Company monitors regularly and supervises the operations of subsidiaries, thus additionally mitigating the related risks. For investments, risk are mitigated by adequate diversification of investments and monitoring of credit rating and capital adequacy of individual banks.

## Maturity profile of loans given

EUR thousand	2017	2016
Overdue	286	70
<b>Due in:</b>	<b>125,059</b>	<b>133,639</b>
• less than 3 months	16,688	1,214
• 3 to 12 months	27,474	8,378
• 1 to 2 years	14,706	12,138
• 2 to 5 years	57,409	37,352
• more than 5 years	8,782	74,557
<b>Total</b>	<b>125,345</b>	<b>133,709</b>

## Ageing analysis of loans given as at 31 December 2017

EUR thousand	Not yet due	Overdue				Total	
		Less than 3 months	3 to 12 months	1 to 2 years	2 to 5 years		More than 5 years
Loans given	125,059	257	0	0	29	0	125,345

## Ageing analysis of loans given as at 31 December 2016

EUR thousand	Not yet due	Overdue				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

## SHORT-TERM LIQUIDITY RISK

The Company mitigates successfully its exposure to liquidity risk. Cash flows are stable and predictable, which adds to more efficient balancing of the liquidity position. The latter is monitored on a daily basis and a great deal of attention is mostly paid to cash flow planning, thus enabling the optimum balancing of any short-term deficit or surplus liquid assets. The Company's short-term liquidity risk is materially decreased by the liquidity reserve in the form of short-term revolving lines with banks and subsidiaries. In 2017, we also obtained long-term credit lines, which ensure the Company a high liquidity level. The total liquidity reserve in the form of short-term and long-term lines with banks amounted as at 31 December 2017 to EUR 170 million [as at 31 December 2016, EUR 96.5 million]. Liquidity risk has thus been assessed as low.

## Maturity profile of liabilities of Telekom Slovenije as at 31 December 2017 and 31 December 2016 based on contractual, undiscounted payments

EUR thousand	Overdue	On demand	3 months or less	3 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	Total
<b>31 Dec 2017</b>								
Loans and borrowings	0	0	100,000	15,385	15,385	146,153	7,692	284,615
Anticipated interest on loans	0	0	404	3,091	2,816	3,891	32	10,234
Other financial liabilities	3,243	0	0	1,095	0	100,337	245	104,920
Anticipated interest on bonds	0	0	0	1,950	3,900	1,950	0	7,800
Trade payables and other operating liabilities	1,222	2,875	101,083	16,015	14,146	2,212	0	137,553
<b>Total</b>	<b>4,465</b>	<b>2,875</b>	<b>201,487</b>	<b>37,536</b>	<b>36,247</b>	<b>254,543</b>	<b>7,969</b>	<b>545,122</b>

EUR thousand	Overdue	On demand	3 months or less	3 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	Total
<b>31 Dec 2016</b>								
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 payables and other operating liabilities	7,067	1,294	105,459	12,117	6,632	4,769	0	137,338
<b>Total</b>	<b>10,334</b>	<b>1,294</b>	<b>105,460</b>	<b>327,491</b>	<b>6,632</b>	<b>104,769</b>	<b>0</b>	<b>555,980</b>

## LIQUIDITY RISK AND CAPITAL MANAGEMENT

The Company discloses a relatively low level of indebtedness. Total financial liabilities of the Company at the end of 2017 stood at EUR 388.8 million and dropped by EUR 21.7 million as compared to the end of 2016, mostly due to repayment of long-term loans. The major part of the Company's financial liabilities relates to the issue of 5-year bonds of EUR 100 million and long-term syndicated loan of EUR 284.6 million. The first tranche of the loan in the amount of EUR 100 million is due in March 2018.

The key objectives of the Company's capital management are capital adequacy and financial stability. The Company monitors changes in equity by using a debt-to-equity ratio and equity-to-total assets ratio. The Company's net financial liabilities include borrowings and other financial liabilities less current investments and cash. The Company observes also financial covenants under loan contracts when adopting decisions relating to capital management.

EUR thousand	2017	2016
Borrowings and other financial liabilities	388,762	410,493
Less short-term investments and cash with short-term deposits	-139,089	-166,974
<b>Net liabilities</b>	<b>249,673</b>	<b>243,519</b>
Equity	694,355	726,055
Total assets	<b>1,337,559</b>	<b>1,364,427</b>
<b>Debt/equity ratio</b>	<b>36.0%</b>	<b>33.5%</b>
<b>Equity/total assets ratio</b>	<b>51.9%</b>	<b>53.2%</b>

## INTEREST RATE RISK

Interest rate risk is a risk of the negative influence of the change in market interest rates on the operations of the Company. As at 31 December 2017, the interest rate exposure arises from the possible increase in the Euribor reference interest rate as the interest structure of financial assets and financial liabilities is not aligned and the Company records more interest sensitive liabilities than investments.

In the structure of the Company's interest-bearing financial liabilities, the liabilities relating to borrowings, which bear variable interest rates linked to 6-month Euribor, account for a share of 74% as at 31 December 2017. The remaining liabilities arise from bonds issued, which have a fixed interest rate.

In February 2017, interest rate swap was concluded to hedge interest exposure arising from long-term syndicated loan, which became effective on 30 June 2017. The amount of hedged principal as at 31 December 2017 was EUR 92.3 million. The principal is hedged for the growth in reference interest rate should it equal zero or more. At the level of the Company, it has a fixed or hedged interest rate of 50% of interest-bearing financial debt.

## EXPOSURE TO INTEREST RATE RISK

EUR thousand	2017	2016
<b>Financial instruments with variable interest rate</b>		
Financial receivables*	19,395	6,173
Financial liabilities	192,308	305,387
<b>Net financial liabilities</b>	<b>172,913</b>	<b>299,214</b>

\* 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 a fixed interest rate, as they are not exposed to interest rate risk. It also does not include financial liabilities with hedged interest rate for Euribor growth.

## SENSITIVITY ANALYSIS

The following table illustrates the sensitivity analysis of the changed interest rate as at the reporting date on the Company's profit, whereby all other variables are constant.

### Interest rate risk table

	Interest rate increase/decrease	Effect on profit before tax in EUR thousand
<b>2017</b>		
EURO	+100 bps	-1,009
EURO	-100 bps	-927
	Interest rate increase/decrease	Effect on profit before tax in EUR thousand
<b>2016</b>		
EURO	+100 bps	-2,330
EURO	-100 bps	-6

### EURIBOR interest rate values in 2017

EURIBOR	Value at 31 Dec 2016	Value at 31 Dec 2017	Change in percentage
6-month	-0.221	-0.271	-22.62

## 40. GENERAL AUTHORISATION AND THE RIGHT TO USE RADIO FREQUENCY AND BLOCK NUMBERS

### FIXED-LINE AND MOBILE PHONE SERVICES

The company Telekom Slovenije has a general authorisation for providing the electronic communications network or electronic communication services. Prior to the commencement of or change to 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 a local administrative authority before exercising the rights stemming from the authorisation.

The company Telekom Slovenije is obliged to pay an annual compensation in the amount of EUR 591 thousand [2016: EUR 545 thousand] in connection with the following electronic communications services:

- publicly available telephone services on a fixed location;
- services in the public mobile network;
- inter-operator services and transit;
- data-related services and internet access;
- lease of public communications network; and
- provisions of public communications networks.

The amount of the fee paid is defined by the law and the tariff in the general act of the Agency.

Telekom Slovenije must also pay on an annual basis right-of-use fees for radio frequencies and numbers. The fee for radio frequencies amounts to EUR 593 thousand [2016: EUR 474 thousand], whilst the fee for telephony numbering space for the same period amounts to EUR 266 thousand [2016: EUR 260 thousand]. The amount of fees is defined by a tariff in a general act of the Agency.

The costs of fees are included in the income statement under costs of services in the last item, Costs of other services [Note 7].

### Mobile phone services

Concession agreement	Date of authorisation	Period	Fee
Concession agreement for use of the radio frequency spectrum for services UMTS/IMT-2000	27 November 2001	20 years	Concession fee of EUR 91,804 thousand
Decision on allocating the radio frequencies for LTE 800 MHz, UMTS 2100 MHz	26 May 2014	31 May 2014 to 31 May 2029	Concession fee of EUR 26,835 thousand
Decision on allocating the radio frequencies for GSM 900 and 1800 MHz, LTE 2600 MHz	26 May 2014	4 January 2016 to 4 January 2031	Concession fee of EUR 37,705 thousand

## 41. EVENTS AFTER THE REPORTING DATE

### JANUARY

On 5 January 2018, the credit rating agency S&P Global Ratings confirmed credit rating of BB+ for Telekom Slovenije and assessed the future prospects as stable. The stable assessment of future prospects reflects the expectation of S&P for Telekom Slovenije to keep its leading position on the Slovenian market for both mobile and fixed segment despite the strong competition. S&P expects at the same time that Telekom Slovenije will successfully conclude the planned upgrading and expansion of the network and successfully keep revenue and EBITDA levels through new services.

The Supervisory Board of Telekom Slovenije was familiarised with the resignation statement of the member of the Supervisory Board, Dean Žigon, employee representative. Dean Žigon resigns from his position as employee representative in the Supervisory Board as of 22 January 2018.

GVO and the sole shareholder of the company INFRATEL, telekomunikacijska infrastruktura, d. o. o. agreed on purchase of 100% interest in the mentioned company by GVO. Following the fulfilment of suspensive conditions defined in the Agreement on Sale and Purchase of an Interest, procedures for the transfer of business interests were initiated, so that on 24 January 2018 change in the ownership of the company was entered in the Companies Register.

### FEBRUARY

The Council of Workers of Telekom Slovenije appointed at its meeting held on 14 February 2018 Urban Škrjanc as the new employee representative in the Supervisory Board of Telekom Slovenije.

Based on the Agreement on the Sale and Purchase of Interests, concluded on 15 December 2009 between the minority owners of the Kosovan company IPKO Telecommunications LLC and Telekom Slovenije, d. d. and which defined exit of minority owners from the company, Telekom Slovenije, d. d. concluded the agreement on purchase of 6.89-percent interest in the mentioned company on 16 February 2018. The Company paid consideration of EUR 2.98 million for the 6.89-percent interest.

On 16 February 2018, Telekom Slovenije received from the Administrative Court of the Republic of Slovenia judgment in which the mentioned court judged that the action of the plaintiff Slovenian Competition Protection Agency (AVK) be partially upheld, namely in the part in which Telekom Slovenije is accused of abuse of dominant position on the wholesale market of bit stream broadband access in the Republic of Slovenia, making its wholesale service of bit stream broadband access in the period from 1 July 2005 to 22 September 2008 conditional on acceptance of additional obligations, i.e. the obligation to lease telephone connections by the end user or operator. In this part, the decision of the AVK is set aside and the matter is returned to the same authority for repeated procedure. In the remaining part, the Administrative Court of the Republic of Slovenia dismissed the action of the plaintiff.

### MARCH

The Supervisory Board of Telekom Slovenije appointed Dean Žigon to the position of a member of the Management Board – Workers Director. The appointment was carried out on proposal of the Works Council in compliance with the Worker Participation in Management Act and will start his four-year term of office on 24 April 2018, after the expiration of the current member of the Management Board – Workers Director term of office.

On 5 March 2018, Telekom Slovenije received the order of the Ljubljana Higher Court concerning the commercial dispute between the plaintiff Telekom Slovenije and the defendants Bojan Dremelj, Dušan Mitič, Filip Ogris Martič, Željko Puljić and Darja Senica due to the payment of EUR 7,635,500.00 with related amounts. The Higher Court decided that the appeal of Telekom Slovenije be upheld, the contested judgment be annulled and the matter be returned to the court of first instance for retrial.

On 12 March 2018, Telekom Slovenije increased the capital of IPKO Telecommunications LLC by EUR 15 million.

### 3.3.3. INDEPENDENT AUDITOR'S REPORT FOR TELEKOM SLOVENIJE, D. D.

# Deloitte.

Deloitte Revizija d.o.o.,  
Dunajska cesta 165  
1000 Ljubljana  
Slovenija

Tel: + 386 (0)1 3072 800  
Fax: + 386 (0)1 3072 900  
www.deloitte.si

## INDEPENDENT AUDITOR'S REPORT to the owners of Telekom Slovenije d.d.

### Opinion

We have audited the financial statements of Telekom Slovenije d.d. (hereinafter 'the Company'), which comprise the balance sheet as at 31 December 2017, and the income statement, statement of other comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2017, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU (hereinafter 'IFRSs').

### 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 Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and other ethical requirements that are relevant to our audit of the financial statements in Slovenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How our audit addressed the key audit matter
<b>Valuation of Investments in Subsidiaries and Loans to Subsidiaries</b>	
Investments in subsidiaries and loans to subsidiaries make up 12% of the company's total assets. Investments in subsidiaries are valued at cost less the value of impairment, and loans to subsidiaries are valued at amortized cost. The management of the Company annually assesses the impairment indicators of the investments and loans to subsidiaries, and, where needed, commissions	We evaluated the management's consideration of impairment indicators for the investments. Our audit procedures included, among others, using a auditor's expert to assist us in evaluating external appraisers' reports, in particular: <ul style="list-style-type: none"><li>• mathematical calculations of valuations,</li><li>• correctness of the valuation methods,</li></ul>

Ime Deloitte se nanaša na Deloitte Touche Tohmatsu Limited, pravno osebo, ustanovljeno v skladu z zakonodajo Združenega kraljestva Velike Britanije in Severne Irske (v izvirniku »UK private company limited by guarantee«), in mrežo njenih članic, od katerih je vsaka ločena in samostojna pravna oseba. Podroben opis pravne organiziranosti združenja Deloitte Touche Tohmatsu Limited in njenih družb članic je na voljo na <http://www2.deloitte.com/si/en/pages/about-deloitte/articles/about-deloitte.html>

Družba članica Deloitte Touche Tohmatsu Limited.

Deloitte Revizija d.o.o. - Družba vpisana pri Okrožnem sodišču v Ljubljani - Matična številka: 1647105000 - ID št. za DDV: S62560085 - Osnovni kapital: 74.214,30 EUR

<p>a valuation of the recoverable amount of an investment from an external appraiser. Management judgement is significant in this process.</p>	<ul style="list-style-type: none"> <li>• evaluating the assumptions used to calculate the discount rates,</li> <li>• analysis of projected future cash flows used by the Company to carry out impairment tests,</li> <li>• comparison of the projected cash flows, including the assumptions relating to revenue growth rates and operating margins, against historical performance to test the accuracy of the Management's projections.</li> </ul> <p>For loans to subsidiaries we evaluated:</p> <ul style="list-style-type: none"> <li>• whether the balances recorded as at 31 December 2017 were in accordance with the confirmations by subsidiaries.</li> <li>• the concordance of loans repayments with loan agreements during the year,</li> <li>• the management's assessment of recoverability and related impairments.</li> </ul> <p>We have also evaluated whether the disclosures regarding investments and loans given to subsidiaries were appropriate. Accounting for investments in subsidiaries and loans to subsidiaries is disclosed in Notes 15 and 16.</p>
<p><b>Provisions for Lawsuits</b></p>	
<p>Telekom Slovenije, d.d. is involved in legal and regulatory proceedings regarding its operations and had claims amounting to EUR 188,458 thousand as at 31 December 2017. The Company has a balance of EUR 34,000 thousand of provisions for lawsuits recorded. The final impact of these proceedings to the financial statements is uncertain and depends on the final outcome of the proceedings. Consequently, the estimated provisions for lawsuits are subject to great uncertainty and require significant judgement of the management regarding probability and amounts of the claims.</p>	<p>Our audit procedures focused on the evaluation of judgments used to record provisions. Among others, our audit procedures included:</p> <ul style="list-style-type: none"> <li>• We have evaluated and tested the design and implementation of key internal controls regarding the recognition of provisions for lawsuits.</li> <li>• We have obtained and reviewed the Supervisory Board, the Audit Committee and the Management Board minutes, and correspondence with the regulators.</li> <li>• We have obtained and reviewed the confirmations of the Company's legal representatives and experts on the probable outcomes and significance of the Company's exposure to the respective disputes and claims.</li> <li>• We have reviewed the appropriateness of estimates and assumptions used by the Company regarding the recognition of provisions for lawsuits.</li> </ul> <p>We have also evaluated whether the disclosures regarding provisions for lawsuits were appropriate. Accounting for provisions for lawsuits is disclosed in Notes 26 and 35.</p>

### **Other Information**

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. We obtained the other information before the auditor's report date except for the report from the the Supervisory Board, which will be made available subsequently. Management is responsible for the other information.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, assess whether the other information is materially inconsistent with the financial statements, legal requirements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law or regulation, in particular, whether the other information complies with law or regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the financial statements is, in all material respects, consistent with the financial statements; and
- The other information is prepared in compliance with applicable law or regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Company obtained in the audit, on whether the other information contains any material misstatement of fact. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement of fact.

### **Responsibilities of Management, the Supervisory Board and the Audit Committee for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the 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 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 and the Audit Committee are responsible for overseeing the Company's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the 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 controls.
- 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 auditor's report to the related disclosures in the 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 auditor's 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 financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

With the Supervisory Board and the Audit Committee we communicate the planned scope and timing of the audit and significant findings from the audit, including significant deficiencies in internal control we have identified during our audit.

We also provide the Supervisory Board and the Audit Committee with the statement of compliance with relevant ethical requirements regarding independence, and we communicate with them all relationships and other matters for which it may reasonably be thought to bear on independence, and, if appropriate, all the related safeguards.

Among the matters we communicate with the Supervisory Board and the Audit Committee, we From the matters communicated with the Supervisory Board and the Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period, and are therefore the key audit matters. We describe these matters in our auditor's 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.

#### **Other reporting obligations as required by EU Regulation No. 537/2014 of the European Parliament and the Council**

In compliance with the Article 10(2) of EU Regulation No. 537/2014 of the European Parliament and the Council, we provide the following information in our independent auditor's report, which is required in addition to the requirements of International Standards on Auditing:

##### Appointment of the Auditor and the Period of Engagement

We were appointed as the statutory auditor of the Company for the first time by the shareholders on the General Shareholders' Meeting held on 21 April 2017 for the financial years 2017, 2018 and 2019.

##### Consistence with the Additional Report to the Audit Committee

We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report issued to the Audit Committee of the Company on 4 April 2018 in accordance with the Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services

Apart from a minor inconsistency regarding the valuation services performed for the audited company indirectly by another member of the Deloitte network, we have not performed any prohibited non-audit services referred to in the Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council. We declare that our audit was performed independently.

There are no services, in addition to the statutory audit, which we provided to the Company, and which have not been disclosed in the Annual Report.

DELOITTE REVIZIJA d.o.o.

Barbara Žibret Kralj  
Certified auditor

*For signature please refer to the original  
Slovenian version.*

**Deloitte.**  
DELOITTE REVIZIJA D.O.O.  
Ljubljana, Slovenija

Ljubljana, 4 April 2018

**TRANSLATION ONLY – SLOVENIAN ORIGINAL PREVAILS**

## 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 ulica 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:	<a href="http://www.telekom.si">http://www.telekom.si</a>
Email:	<a href="mailto:info@telekom.si">info@telekom.si</a>
Twitter:	@TelekomSlo
Facebook:	<a href="https://sl-si.facebook.com/TelekomSlovenije">https://sl-si.facebook.com/TelekomSlovenije</a>
LinkedIn:	<a href="https://www.linkedin.com/c">https://www.linkedin.com/c</a>
Instagram	Telekom_Slovenije

#### Odvisne družbe v skupini in skupni podjetji

##### Družbe v Sloveniji



---

Company:	GVO, gradnja in vzdrževanje telekomunikacijskih omrežij, d. o. o.
Registered office:	Ljubljana
Address:	Cigaletova ulica 10, 1000 Ljubljana
Telephone:	+386 1 234 1950
Website:	<a href="http://www.gvo.si">www.gvo.si</a>
Email:	<a href="mailto:gvo@telekom.si">gvo@telekom.si</a>

Company:	GVO Telekommunikation GmbH
Registered office:	DE 48683 Ahaus, Germany
Address:	Schorlemer Straße 48

Company:	OPTIC.TEL, d. o. o.
Registered office:	Ljubljana
Address:	Cigaletova 10, Ljubljana

Company:	INFRA TEL, d. o. o.
Registered office:	Sežana
Address:	Partizanska ce

## avtenta.

---

Company:	Avtenta, napredne poslovne rešitve, d. o. o.
Registered office:	Ljubljana
Address:	Stegne 19, 1000 Ljubljana
Telephone:	+386 1 583 68 00
Website:	<a href="http://www.avtenta.si">www.avtenta.si</a>
Email:	<a href="mailto:prodaja@avtenta.si">prodaja@avtenta.si</a> , <a href="mailto:marketing@avtenta.si">marketing@avtenta.si</a>

## TSmedia

---

Company:	TSmedia, medijske vsebine in storitve, d. o. o.
Registered office:	Ljubljana
Address:	Stegne 19, 1000 Ljubljana
Telephone:	+386 1 473 00 10
Website:	<a href="http://www.tsmedia.si">www.tsmedia.si</a>
Email:	<a href="mailto:info@tsmedia.si">info@tsmedia.si</a>

## Antenna TV

---

Company:	Antenna SL, televizijska dejavnost, d. o. o.
Registered office:	Ljubljana
Address:	Stegne 19
Telephone:	+386 1 473 00 00
Website:	<a href="http://www.planet-tv.si">www.planet-tv.si</a>
Email:	<a href="mailto:info@planet-tv.si">info@planet-tv.si</a>



---

Company:	Soline Pridelava soli, d. o. o.
Registered office:	Portorož
Address:	Seča 115, 6320 Portorož/Portorose
Telephone:	+386 5 672 13 43
Website:	<a href="http://www.soline.si">www.soline.si</a>
Email:	<a href="mailto:info@soline.si">info@soline.si</a>

## M-PAY

---

Company:	M-PAY, Družba za mobilno plačevanje, storitve in trgovino, d. o. o.
Registered office:	Maribor
Address:	Vita Kraigherja 3, 2000 Maribor
Website:	<a href="https://www.nkbm.si/M-PAY">https://www.nkbm.si/M-PAY</a>

## TSinpo

---

Company:	TSinpo, storitveno in invalidsko podjetje, d. o. o.
Registered office:	Ljubljana
Address:	Litostrojska cesta 58A, 1000 Ljubljana

## Companies abroad



---

Company:	IPKO Telecommunications LLC
Registered office:	Prishtina, Kosovo
Address:	Lagija Ulpiana Rruga Zija Shemsiu Nr. 34, Prishtina
Telephone:	+381 38 700 700
Website:	<a href="http://www.ipko.com">www.ipko.com</a>
Email:	<a href="mailto:info@ipko.com">info@ipko.com</a>



---

Company:	Blicnet, d. o. o. Banja Luka
Registered office:	Banja Luka, Bosnia and Herzegovina
Address:	Majke Jugovića 25
Telephone:	+387 51 921 000
Website:	<a href="http://www.blic.net">www.blic.net</a>
Email:	<a href="mailto:office@blicnet.ba">office@blicnet.ba</a>



---

Company:	SiOL, d. o. o.
Registered office:	Zagreb, Croatia
Address:	Margaretska 3
Website:	<a href="http://www.siol.com/">http://www.siol.com/</a>



---

Company:	SiOL, d. o. o., Sarajevo
Registered office:	Sarajevo, Bosnia and Herzegovina
Address:	Fra Anđela 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
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
GDP		Gross domestic product
	Big data	Velepodatki
-	Billing	Sistem za zaračunavanje
	Bundle [packet]	Skupek v paket povezanih storitev
BSS	Business support system	Sistem za podporo poslovanju
BSS/OSS	Business support system/ operational support system	Sistem za podporo poslovnega procesa / sistemi za operativni podporni proces
-	BusinessConnect	Sodobna rešitev za upravljanje z dokumentarnim gradivom
CAGR	Compound annual growth rate	Povprečni letni prirast
CAPEX	Capital expenditure	Vrednost investicij
CATV	Cable Television	Kabelska televizija
CSCC	Cyber security control centre	Nadzorni center za kibernetško varnost
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
FARS	Financial Administration of the Republic of Slovenia	Finančna uprava RS
DCaaS	Data centre as a service	Podatkovni center kot storitev
-	Data offload	Razbremenjevanje mobilnih podatkovnih omrežij na druge tehnologije
DDOS	Distributed denial of service	Porazdeljena zavrnitev storitve
DTV	Digital television	Digitalna televizija
DVB-x/IP	Digital Video Broadcasting – 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 and taxes	Dobiček iz poslovanja pred obrestmi in davki
EBITDA	Earnings before interest, taxes, depreciation and amortisation	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
EU	European Union	Evropska unija

Abbreviation	English term	Slovene translation
FC	Fibre channel	Optični kanal
FTTH	Fibre to the home	Optično vlakno do hiše/stanovanja
FTTH/B/N	Fibre to the home/business/node	Optika do hiše/podjetja/vozlišča
FTTx	Fibre to the exchange	Optika do X
	Flagship	Vodilna [referenčna] trgovina
GDPR	General Data Protection Regulation	Splošna uredba o varstvu osebnih podatkov
COBN	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
HFC	Hybrid fibre coaxial	Hibridno optično koaksialno omrežje
IaaS	Infrastructure as a service	Infrastruktura kot storitev
IFRS/MSRP	International Financial Reporting Standards	Mednarodni standardi računovodskega poročanja
IoT	Internet of things	Internet stvari
ICT	Information and communication technologies	Informacijsko-komunikacijske tehnologije
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
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	International Monetary Fund World Economic Outlook	
IPTV	IP television	Televizija prek internetnega protokola
KFI	Key financial indicators	Ključni finančni indikatorji poslovanja
KPI	Key performance indicators	Ključni kazalniki poslovanja
SSNP	Sečovlje 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
MMDS	Multichannel Multipoint Distribution Service	Večpredstavnostni večtočkovni distribucijski sistemi
MMS	Multimedia Messaging Service	Multimedijski sporočilni sistem
MVNO	Mobile Virtual Network Operator	Mobilni operater navideznega omrežja
MPLS	Multiprotocol Label Switching	Tehnologija za posredovanje, usmerjanje in preklapljanje prometnih tokov skozi omrežje
MPLS VPN	MPLS virtual private network	Navidežno zasebno omrežje
NOC	Network operations centre	
NGA	Next generation access	Hitro dostopovno omrežje
NGN	Next generation networks	Širokopasovna omrežja
NFV	Network functions virtualisation	
NPS	Net Promotor Score	Metric for monitoring the user experience, which in one point combines the indicator of a user's willingness to recommend a company/product/service, user satisfaction, perception of user experience excellence and an expression of the user's loyalty to a provider.

Abbreviation	English term	Slovene translation
OMS	Order management system	Sistem upravljanja naročil
OPEX	Operational expenditure	Stroški poslovanja brez amortizacije
OSS	Operational support system	Sistem za podporo delovanja
OBN	Open broadband network	Odprta širokopasovna omrežja
OTT	Over-the-top content	Storitve, ki delujejo neodvisno od omrežja - distribucija video- in avdio vsebin prek interneta
P2P	Point-to-point	Povezava točka-točka [medtočkovna povezava]
P2MP	Point-to-multiple point	Povezava točka-več točk
PaaS	Platform as a service	Platforma kot storitev
PLM	Product lifecycle management	Upravljanje življenjskega cikla produkta
POP	Point of presence	Dostopovno vozlišče
RAK/CRA	Communication Regulatory Agency of Bosnia and Herzegovina	Regulatorna agencija za komunikacije Bosne in Hercegovine
RAN	Radio access network	Radijsko mobilno dostopovno omrežje
RAS	Revenue assurance system	Sistem za preprečevanje odtekanja prihodkov
-	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
RON	Regional optical network	Regionalno optično omrežje
ACN	Access cable network	Razvodno naročniško omrežje
SaaS	Software as a service	Programska oprema kot storitev
SDV/VAS	Value-added services	Storitve z dodano vrednostjo
SeKV		Section for Cyber Security
SOC	Service operations centre	
SDN/NFV	Software defined network / network functions virtualisation	
SME / SOHO	Small and medium-sized enterprises / Small office/home office	Mala in srednja podjetja
SMS	Short Message Service	Storitev kratkih sporočil
SMB	Small and medium-sized business users	Mali in srednje veliki poslovni uporabniki
SLA	Service level agreement	Sporazum o ravni zagotavljanja storitve
	Up-sale	Nadgradnja storitev
SORS	Statistical Office of the Republic of Slovenia	Statistični urad Republike Slovenije
TDM	Time division multiplexing	Časovni multipleks, sistem s porazdeljevanjem časa
COPO		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
IMAD		Institute of Macroeconomic Analysis and Development
USO	Universal Service Obligation	Obveznost zagotavljanja univerzalnih storitev
VULA	Virtual Unbundled Local Access	Virtualna lokalna razvezana zanka
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
Wi-Fi	Wireless Fidelity	Brezžično omrežje po standardih IEEE 802.11
WFM	Workforce management	Sistem za optimizacijo terenskega dela
XaaS	Anything as a service	Ponudba celostne palete storitev v oblaku



Publisher: Telekom Slovenije, d. d., Cigaletova 15, 1000 Ljubljana  
Text and editing: Skupina Telekom Slovenije and Studio Kernel d.o.o.  
Translation: Amidas d.o.o.  
Creative idea and graphic layout: Pristop, Ljubljana, d. o. o.  
Photography: Telekom Slovenije, d. d.  
Website: [www.telekom.si](http://www.telekom.si)  
Ljubljana, April 2018



Telekom Slovenije