



IN CONSTANT SEARCH

O F N E W
W O R L D S

ANNUAL REPORT FOR 2018

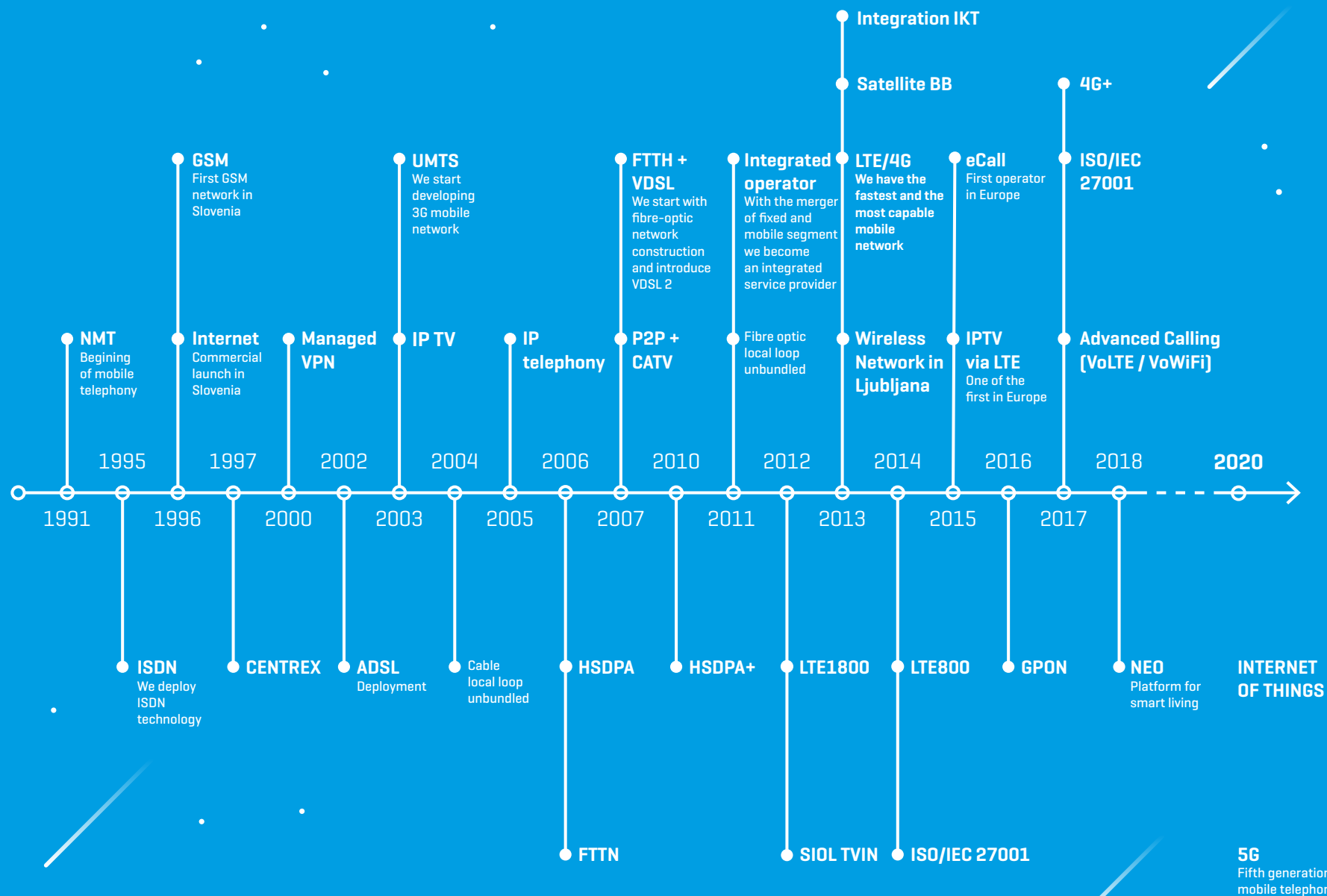
Telekom Slovenije Group and Telekom Slovenije, d. d.

TelekomSlovenije





DEPLOYMENT OF TELEKOM SLOVENIJE NETWORK & SERVICES

THE TELEKOM
SLOVENIJE GROUPBUSINESS
REPORTMARKETING
AND SALESNETWORK,
TECHNOLOGIES AND ITSUSTAINABLE
DEVELOPMENTFINANCIAL
REPORT

THERE ARE MOMENTS THAT CHANGE EVERYTHING

Steps in the right direction. Once taken, you'll never want to return. When you listen to those who expect the most of you. When the expectations of your users are completely clear, it is no longer enough to travel paths well-travelled. Instead, you draw new paths on the map of technological progress. At that moment, you make a decisive step forward and present a new world created according to your own vision.

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THE TELEKOM SLOVENIJE GROUP IN 2018

A WORLD OF OPPORTUNITIES

The world in which we live inspires us to continuously set new milestones. In order to simplify the lives of our users and open endless opportunities for them. In order to provide a sense of security that is based on trust.



1 THE TELEKOM SLOVENIJE GROUP IN 2018

1.1 ABOUT THE TELEKOM SLOVENIJE GROUP¹

Telekom Slovenije, d. d. [hereinafter: Telekom Slovenije] is the leading Slovenian provider of the most advanced ICT solutions. It is distinguished by its focus on development and the continuous introduction of innovations to link new generations of mobile and fixed communications, system integration, multimedia content and advanced ICT services. Its solutions simplify the lives of users and provide them security.

Together with its subsidiaries, Telekom Slovenije is considered one of the most comprehensive providers of communication services in South-Eastern Europe, specifically in Slovenia and Kosovo, while it also operates in Bosnia and Herzegovina, Croatia, Serbia, Montenegro and North 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 Sečovlje 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

Twitter: @TelekomSlo

Facebook: <https://sl-si.facebook.com/TelekomSlovenije>

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

Instagram: [Telekom_Slovenije](https://www.instagram.com/Telekom_Slovenije)

The shares of Telekom Slovenije, d. d. are listed on the prime securities market of the Ljubljana Stock Exchange. See section [1.13 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](#) for more information.

Contacts for investors, shareholders and other interested users

- ir@telekom.si, skupscina@telekom.si and dividenda@telekom.si

Contact for information regarding the annual report and sustainable development report²

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

Public Relations: pr@telekom.si

¹ GRI GS 102-1, GS 102-3

² GRI GS 102-53

BRANDS OF TELEKOM SLOVENIJE GROUP COMPANIES

Name of company	Description
	Telekom Slovenije is a corporate brand that covers services on the B2C and B2B markets, the network, connections and associated services. The Company manages the following brands: • NEO is the brand associated with a platform for smart living that links the best solutions for home and entertainment in one place. The brand covers both the B2C and B2B markets. • IZI is a brand that offers a modern portfolio of products and services for less demanding users. The brand covers the B2C market. • NekiNeki is a YouTube channel intended for young people. • Moneta covers cashless payment services with mobile phones.
	TSmedia is a corporate brand. The Company manages the following brands: • The company manages the following brands: • Siol.net, the leading Slovenian digital media. • Najdi.si, an access point to the Slovenian web. • TIS, the Slovenian telephone directory • 1188, value-added call centre services. • ADsolution, a brand covering production services. • Plac, a portal for young people. • Bizi.si, a business directory. • Dajmedol, a video-on-demand brand.
	Antenna TV SL has its own brands, as follows: • Planet, a general commercial television station. • Planet 2, a television station with mostly sports content. • Planet PLUS, a classic film channel. The brand covers both the B2C and B2B markets.
	Avtenta is a corporate brand that combines advanced and verified business solutions for the optimisation and improvement of the efficiency of companies, organisations and public administration.
	GVO is a corporate brand that combines comprehensive services in the area of designing, constructing and maintaining telecommunication and electricity networks.
	Piranske soline is a corporate brand. The Company manages the following brands: • Solnce, a food line. • Lepa Vida, representing a cosmetic line and the Thalasso Spa of the same name. • Sečovelje Salina Nature Park (SSNP) is the name of the park and logo used in association with eco-tourism, including on park souvenirs.
	TSinpo is the corporate brand of a service and disabled workers' company.
	Blicnet is a corporate brand in Bosnia and Herzegovina. • It covers fixed, mobile and convergent services.
	IPKO is a corporate brand in Kosovo. It covers fixed, mobile, convergent and ICT services. The Company manages the following brands: • Hejl, an independent brand for young people that covers traditional services and an entertainment platform.



1.2 HIGHLIGHTS OF THE TELEKOM SLOVENIJE GROUP IN 2018³

FINANCIAL INDICATORS

in EUR thousand and %	2018	2017	2016	Index 18/17
Net sales revenue	715,051	716,174	701,748	100
Other operating revenues	16,169	9,867	9,433	164
Total operating revenues	731,220	726,041	711,181	101
EBITDA	185,524	168,740	199,264	110
EBITDA margin = EBITDA / net sales revenue	25.9%	23.6%	28.4%	110
EBIT	17,932	4,561	36,122	393
Return on sales = EBIT / net sales revenue	2.5%	0.6%	5.1%	394
Net profit	33,322	9,023	39,940	369
Assets	1,232,719	1,351,994	1,367,419	91
Equity	619,628	680,865	705,862	91
Return on assets (ROA)	2.6%	0.7%	3.0%	389
Return on equity (ROE)	5.1%	1.3%	5.7%	394
Equity ratio	50.3%	50.4%	51.6%	100
Net financial debt	352,484	281,785	246,501	125
NFD / EBITDA	1.9	1.7	1.2	114
Investment in property, plant and equipment (CAPEX)	133,864	158,935	147,737	84
EBITDA – CAPEX	51,660	9,805	51,527	527
Ratio of (EBITDA – CAPEX) to EBITDA (cash margin)	27.8%	5.8%	25.9%	479
No. of employees according to the situation as at the final day of the period	3,530	3,673	3,665	96
CAPEX as a proportion of operating revenues	18.3%	21.9%	20.8%	84

OTHER ECONOMIC PERFORMANCE INDICATORS

in EUR thousand and %	2018	2017	2016	Index 18/17
Distributed economic value	638,145	597,086	550,516	107
Value added	153,837	128,991	169,317	119
Value added per employee [in EUR]	42,715	35,157	45,345	121
Gross value added per employee [in EUR]	82,798	78,415	84,445	106
Labour costs	112,672	118,964	116,053	95
Corporate income tax	-579	7,258	6,072	-
Payments to owners – dividends	93,028	32,527	32,527	286

SOCIAL INDICATORS – EMPLOYEES

	2018	2017	2016	Index 18/17
No. of employees as at the final day of the period	3,530	3,673	3,665	96
Turnover rate in %	8.2%	5.7%	7.3%	146
Number of training hours per employee	26.1	25.1	26.1	104
Direct training costs in EUR thousand	1,748	1,600	1,611	109

SOCIAL INDICATORS – COMMUNITY

Connections/users	2018	2017	2016	Index 18/17
Mobile telephony	1,772,042	1,809,808	1,769,385	98
Fixed voice telephony	550,397	556,265	558,233	99
Retail broadband	362,333	365,285	346,238	99
Funds earmarked for sponsorships and donations as a proportion of operating revenues	0.4%	0.3%	0.3%	111

ENERGY INDICATORS (TELEKOM SLOVENIJE)

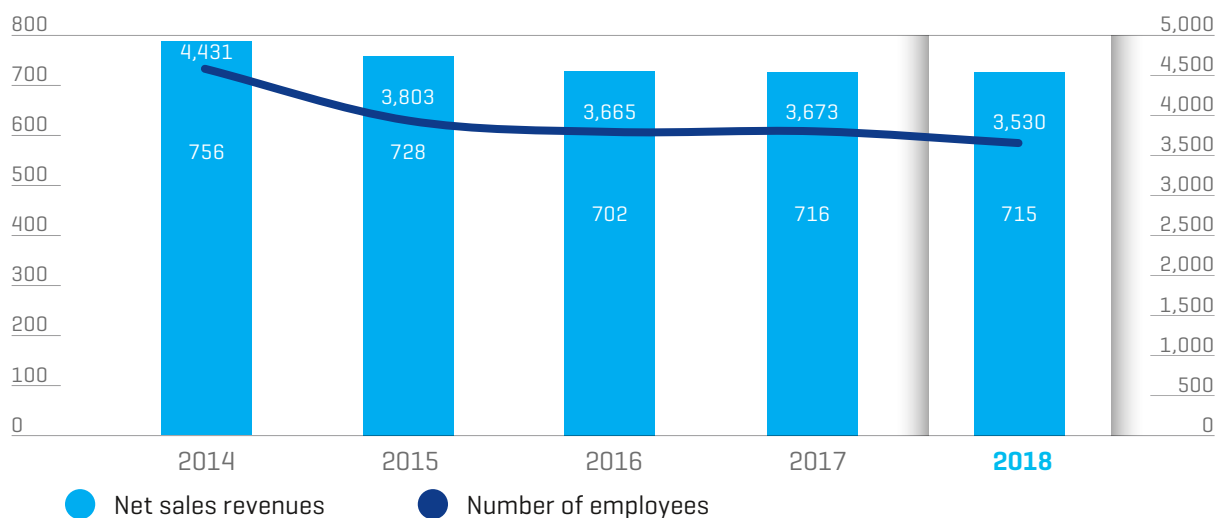
	2018	2017	2016	Index 18/17
Electricity consumption [in million kWh]	75.0	76.5	77.3	98
Direct energy costs [in EUR million]	9.4	8.6	8.8	109



Net sales revenue and number of employees of the Telekom Slovenije Group

Net sales revenue in EUR million

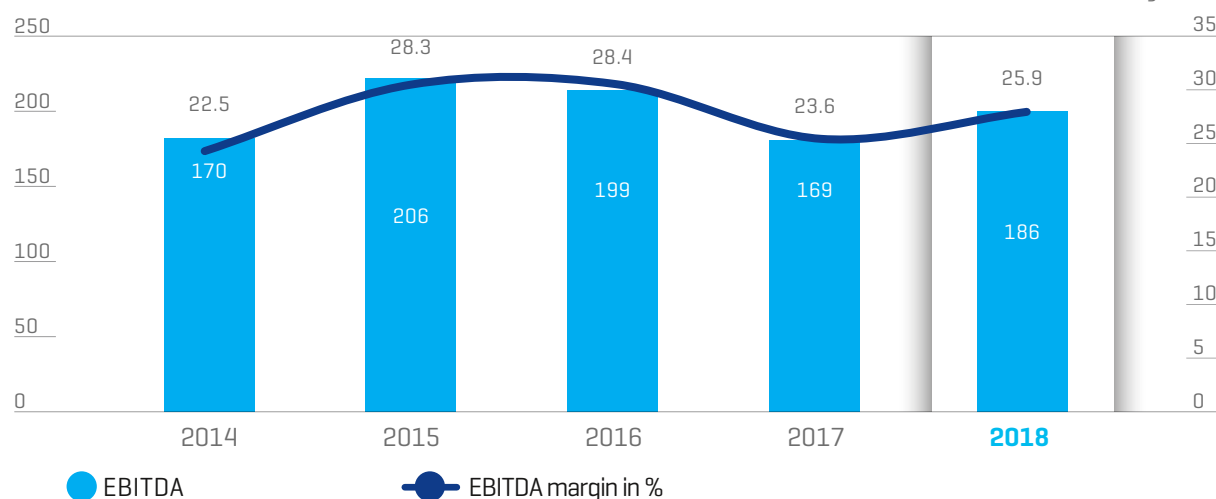
Number of employees



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

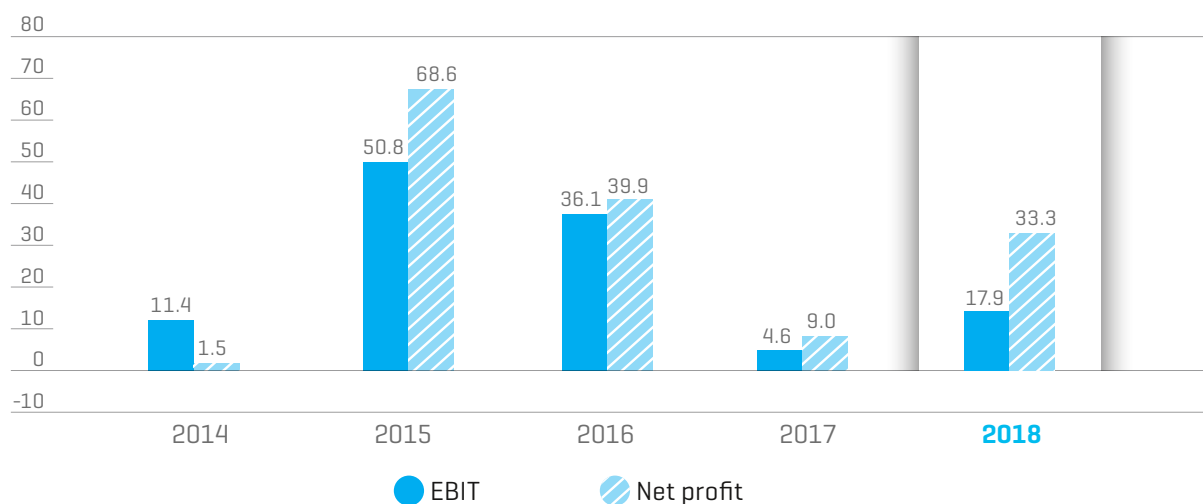
EBITDA in EUR million

EBITDA margin in %

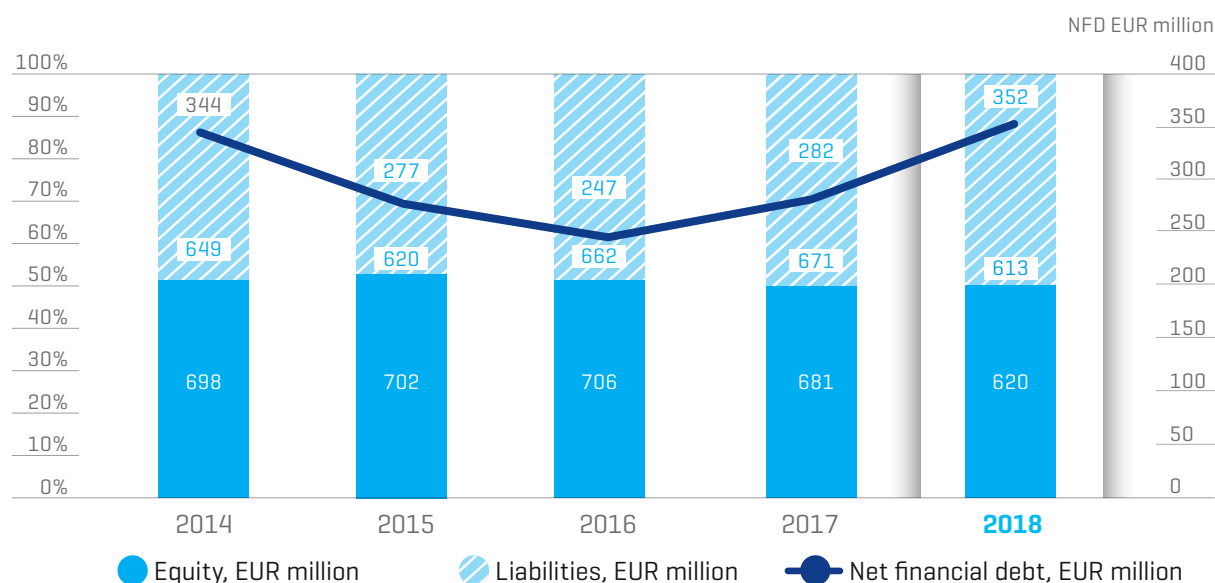


EBIT and net profit of the Telekom Slovenije Group

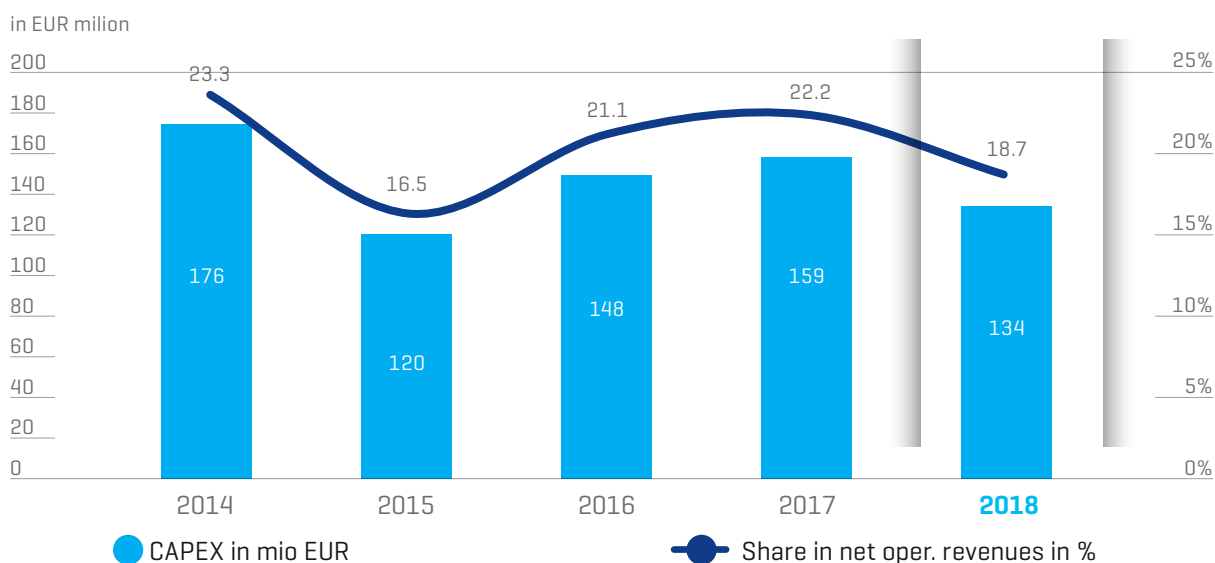
in EUR million



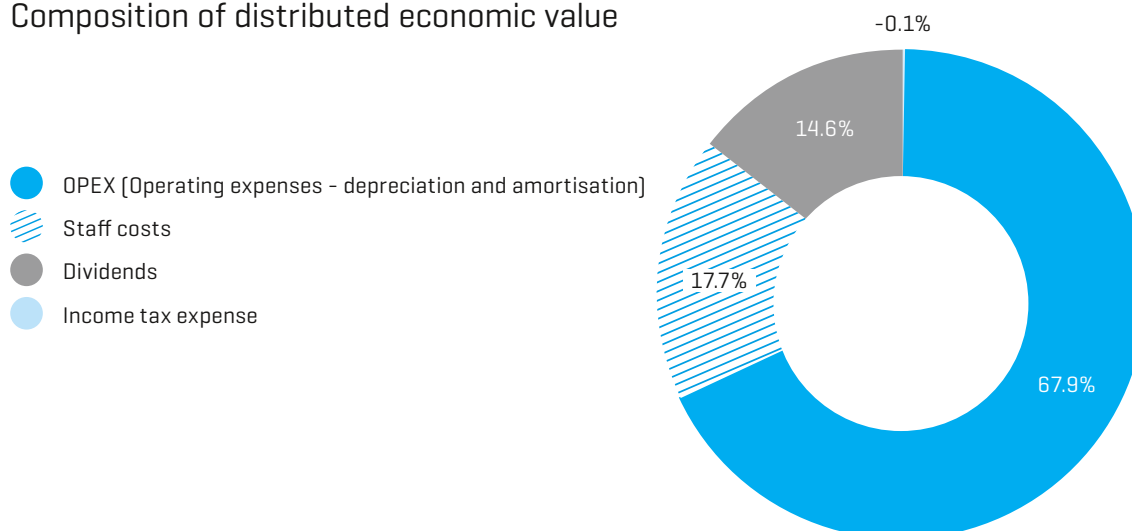
Structure of the Telekom Slovenije Group's equity and liabilities, and net financial debt



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



Composition of distributed economic value





1.3 LETTER FROM THE PRESIDENT OF THE MANAGEMENT BOARD⁴

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

The world in which we live encourages us within the Telekom Slovenije Group to continuously set new milestones. In order to simplify the lives of our users and open endless opportunities for them. In order to ensure a sense of security, which is the basis of trust.

Following the completion of the initial phase of the implementation of our five-year transformation strategy, in which we focused on bringing innovations to our core activity, Telekom Slovenije began the second phase of activities in 2018. Our primary focus during the year was on creating value through digitalisation for a simple, comfortable and pleasant user experience. We continue to develop services outside of the core activity and enter areas that are important to our users. We also dedicate a great deal of attention to activities to ensure the excellence of the user experience at all contact points.

In 2018 we took the next step in the development of a smart infrastructure and are thus establishing the basis for the future of the telecommunications activity. Together with several municipalities, we are implementing activities for the development of smart cities and are actively preparing for the introduction of the fifth generation of mobile telephony, which will bring numerous opportunities for the development of new services. We have also set up the Cyber Security Operation Centre, which serves as the core of operational capacities for Telekom Slovenije and other organisations, public institutions and companies. We are developing advanced financial services, upgrading insurance



and eCare services, and implementing pilot projects in the area of eHealth.

At the end of the year, we became one of the first in the world to make it possible for users to voice-manage content accessible through the TV and other screens, and smart home devices, in Slovenia in one place. The NEO platform for smart living is the result of our own development activities, which provides us flexibility and allows us to continuously introduce innovations in accordance with the needs of users.

After signing an agreement with DARS in September 2016 on the deployment and operation of a multi-lane free-flow electronic toll collection system on motorways and dual carriageways in a consortium with Q-Free, we successfully completed a portion of activities in the production environment in 2018. An electronic toll collection system for freight vehicles weighing in excess of 3.5 tonnes has thus been in place in Slovenia since April. The establishment of that system was

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

an exceptionally demanding project in terms of organisation, logistics and human resources. More than 200 Telekom Slovenije employees and around 100 GVO employees participated in the project for a year and half.

Through the activities described above and numerous other activities, we are implementing our five-year strategic business plan. According to that plan, we continued with consolidation activities in 2018 on the markets where the Telekom Slovenije Group is present. We thus became the sole owner of IPKO in Kosovo and signed an agreement in October 2018 on the sale of our 100% participating interest in Blicnet in Bosnia and Herzegovina, while GVO strengthened its position in south-west Slovenia.

The Telekom Slovenije Group generated total net sales revenue of EUR 715.1 million in 2018, similar to the level achieved a year earlier. Revenues from fixed and IT services were up by 8% relative to 2017, while we are also increasing revenues in the areas of energy, and insurance and financial services. We generated a total of EUR 731.2 million in operating revenues, an increase of 1% relative to 2017, but 3% less than planned, as certain consolidation activities on the Slovenian market have not yet been completed. The Telekom Slovenije Group generated a net profit of EUR 33.3 million and EBITDA of EUR 185.5 million in 2018. Both of those financial indicators were improvements relative to 2017. We concluded a court-brokered settlement with T-2 in 2018, and thus put in order open mutual relations and significantly reduced the Telekom Slovenije Group's exposure to lawsuits. The aforementioned settlement affected planned EBITDA and net profit.

The Telekom Slovenije Group earmarked EUR 133.9 million for investments in 2018. The majority of investments were for the expansion of the fibre optic access network, the further modernisation of our radio network [which in the scope of preparations for the fifth mobile telephony generation requires constant modernisation and upgrades] and the development of services. We

thus pursue the strategy of providing the most advanced communication technologies and services to our users.

Telekom Slovenije maintained its leading position on the Slovenian market for mobile and fixed services. At 44.4%, IPKO maintained its leading share of the fixed broadband connection market in Kosovo, while its market share of the mobile segment was up by 3 percentage points to stand at 39.2%.

The Telekom Slovenije Group is planning operating revenue of EUR 711.9 million, EBITDA of EUR 216.0 million and a net profit of EUR 30.3 million in 2019. We will earmark EUR 211.9 million for investments.

Qualified and motivated employees are crucial on our path of transformation. Strategic activities thus include a change in the organisation culture. Through the activities we implement, we encourage innovation, mutual cooperation, flexibility in the face of changes, the assumption of responsibility and the development of competences amongst employees. In order to empower employees, we are implementing an advanced development-training programme that includes the development of knowledge and behaviour, through which we aim to further improve the excellence of the user experience. The proportion of employees included in education and training was up by two percentage points at the Telekom Slovenije Group and by one percentage point at Telekom Slovenije. A number of activities in the scope of Family Friendly Company Certificate are aimed at improving employee satisfaction and motivation.

Quality is and will remain the primary comparative advantage of the services provided to users by Telekom Slovenije Group companies. We will continue to provide 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 consistent implementation of initiatives to ensure an excellent user experience. At the Group level in 2018, we successfully passed all certification



assessments of compliance with SIST EN ISO/IEC standards, while Telekom Slovenije expanded its international ISO 27001 certificate to include cyber security, and the control of the network and services. The management of processes in accordance with the aforementioned standards brings users the highest-quality of services possible, as well as an environmental benefit. With the ISO 50001 standard and through energy management, we improve energy efficiency and ensure energy savings. Electricity consumption, which we have been reducing continuously for several years, was reduced by 2% in 2018 in the context of rising electricity prices.

The electromagnetic radiation produced by base stations is considered one of the most significant potential environmental impacts of our operations. A total of 264 additional comprehensive measurements of environmental impacts due to the upgrade of the fourth generation mobile network were carried out in 2018. The measurements indicate that all of our base stations remain environmentally acceptable and within the limits established by Slovenian law, which in some respects is even stricter than European law.

As the leading national operator, and as a development and future-oriented Group, we are aware of our social responsibility, which is one of our strategic policies. Sustainability principles are thus as much a part of our operations as the development of services. In that respect, we actively support sporting, cultural, educational and humanitarian organisations. We provide disabled persons tailored services, and we carefully plan work processes for employees with

a disability status. TSinpo became fully functional in 2018. Within the Telekom Slovenije Group, the aforementioned company provides jobs adapted to the abilities of disabled persons and other difficult-to-employ individuals and trains them for inclusion in support processes.

Our operations follow the highest standards of corporate governance, which apply to all Group companies. We strive for the systematic implementation of activities and the establishment of a system that ensures the compliance of our operations with the law, regulations and internal acts. Risk management and the system of internal controls are likewise an integral element of corporate governance.

The activities presented, which are carried out in conjunction with co-workers in the scope of the established Strategic Business Plan, are development-oriented and ensure that the Telekom Slovenije Group will be well-prepared for challenges in the future.

I would like to thank all stakeholders for their past cooperation and trust

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 2018, 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 2018 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

Dr. Vida Žurga,
Member of the
Management Board

Ranko Jelača,
Member of the
Management Board

Dean Žigon,
Member of the
Management
Board and Workers'
Director

1.5 REPORT OF THE SUPERVISORY BOARD

The Company's Supervisory Board comprises nine members, who in 2018 complemented each other in terms of their expertise, competences, experience, age, gender, work method and other aspects, which facilitated the effective exchange of opinions and views at sessions.

In 2018 the Supervisory Board was briefed on the letter of resignation of member of the Supervisory Board and 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. In September 2018 the Works Council recalled Samo Podgornik, Primož Per and Urban Škrjanc from their positions on the Supervisory Board as employee representatives, and appointed Drago Kijevčanin, Dušan Pišek and Jana Žižek Kuhar as new employee representatives. Their term of office began on 19 September 2018. They were appointed for the remainder of the previous term of office, which expires on 14 November 2021.



The Supervisory Board met at 12 sessions in 2018. Six sessions were held as correspondence sessions. During the course of 2018, it ensured the responsible and high-quality supervision of the operations of the Company and the Telekom Slovenije Group. The Supervisory Board discussed different aspects of operations and monitored the implementation of plans. Specific topics were discussed in advance by the Supervisory Board's committees. Based on the findings, proposals and careful assessment of committees, the Supervisory Board adopted the appropriate decisions and continuously informed interested parties following sessions.

In accordance with the Slovenian Corporate Governance Code, the Supervisory Board hereby declares that all costs in connection with its work are disclosed in this annual report.

MOST IMPORTANT TOPICS OF SESSIONS OF THE SUPERVISORY BOARD IN 2018

The most important topics at sessions of the Supervisory Board in 2018 were linked to the monitoring of the ordinary operations and development of the Company. The Supervisory Board and Management Board focused on defining the strategy, and on identifying and managing business risks, which is important for the successful future operations of the Company and the Telekom Slovenije Group.

Within the scope of its competences, the Supervisory Board made the following responsible decisions in 2018:

- it adopted the Strategic Business Plan of the Telekom Slovenije Group for the period 2019 to 2023;
- it adopted the audited annual report of the Telekom Slovenije Group for 2017;
- it adopted the Internal Audit Service's work plan for 2019;

- it gave its consent to the appointment of managing directors of subsidiaries;
- it gave its consent to the sale of Blicnet; and
- it gave its consent to the court-brokered settlement with T-2.

With respect to supervision of the management of the Company's operations, the Supervisory Board was briefed regularly on the following in 2018:

- 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, d. d., the Telekom Slovenije Group and subsidiaries.

The Supervisory Board continuously resolved conflicts of interest [statements according to the reference code are published on the Company's website]. During the course of the 2018 financial year, certain members of the Supervisory Board informed the latter of specific facts that could affect their independence. No instances of the dependence of any member of the Supervisory Board were identified in 2018, as no conflicts of interest were identified.

The Supervisory Board did not perform any in-depth assessment of its work in 2018; only a self-assessment of the work of the Audit Committee was performed.

WORK OF SUPERVISORY BOARD COMMITTEES

The Supervisory Board had four committees in 2018: Audit Committee, HR Committee, Technical Committee and Strategy Committee. 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.

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 the section Corporate governance in the business report section of the annual report.

ASSESSMENT OF THE WORK OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

The work of members of the Supervisory Board, including their work on committees, was professional and focused on the effective performance of their functions. All members of the Supervisory Board regularly attended sessions, were well-prepared for topics of discussion and put forth constructive proposals. The Supervisory Board and Management Board have built mutual trust through open dialogue and cooperation. The Supervisory Board adopted competent decisions in accordance with its rules of procedure, the Company's internal acts and legally prescribed powers on the basis of professionally prepared, comprehensive written and oral information provided by the Management Board. The work

of the Supervisory Board was effectively complemented, in terms of content, by the proposals made by its committees.

On the basis of the aforementioned continuous monitoring and supervision of the operations and management of Telekom Slovenije and Group companies during the 2018 financial year, and based on the consolidated annual report of the Telekom Slovenije Group for 2018, compiled and submitted by the Management Board, the Supervisory Board assesses that the annual report and disclosures contained therein reflect the actual situation and position of the Telekom Slovenije Group.

The Supervisory Board assesses that the Management Board of Telekom Slovenije successfully managed the Company's transactions during the 2018 financial year and achieved established objectives.

APPROVAL OF THE ANNUAL REPORT AND THE PROPOSED USE OF THE DISTRIBUTABLE PROFIT FOR 2018

The Supervisory Board discussed the annual report of the Telekom Slovenije Group for 2018 at its session on 27 March 2019. Based on its review of the annual report and financial statements [including the notes thereto], and its review of the Management Board's proposal on the use of distributable profit and the certified auditor's report, the Supervisory Board confirmed the audited annual report of the Telekom Slovenije Group and Telekom Slovenije, d. d. for 2018.

When adopting the annual report, the Supervisory Board also took a position with regard to the corporate governance statement and statement of compliance with the reference code, which are included in the business report section of the annual report of the Telekom Slovenije Group and Telekom Slovenije, d. d. for 2018, and assessed that they are a reflection of the actual governance of the Company in 2018.



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

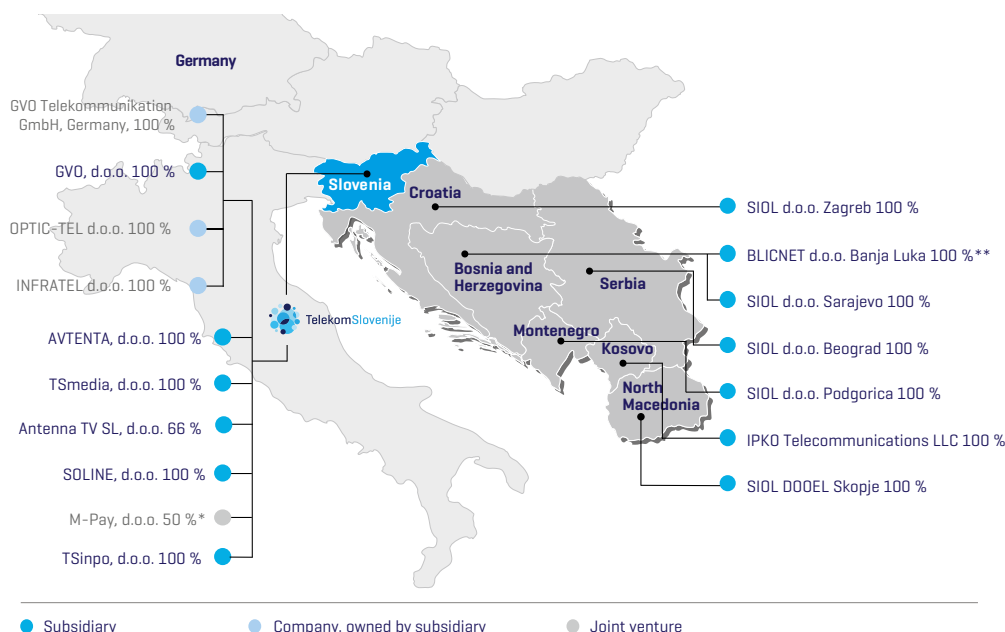
1.6 MARKETS AND COMPANIES OF THE TELEKOM SLOVENIJE GROUP⁵

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

SITUATION AS AT 31 DECEMBER 2018

The detailed composition of the Telekom Slovenije Group is presented on the website <https://www.telekom.si/o-podjetju/skupina-telekom-slovenije/odvisne-druzbe>.

CHANGES IN THE COMPOSITION OF THE GROUP⁶



- GVO, d. o. o. purchased a 100% participating interest in INFRATEL, telekomunikacijska infrastruktura, d. o. o. from VAHTA d. o. o. The change in ownership was entered in the companies register on 24 January 2018. By purchasing that company, GVO, d. o. o. 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, by which it became that company's sole owner [100% participating interest].
- * As owners of M-Pay, Telekom Slovenije and NKBM signed an agreement on 13 December 2018 on the winding up of the aforementioned company according to the fast-track procedure, without liquidation. Based on the registry court's decision on the entry of the decision on the winding-up of the company according to the fast-track procedure of 19 December 2018, the investment was excluded from consolidation and the company deleted from the companies register on 1 February 2019.
- ** On 2 October 2018 Telekom Slovenije and the company Telekomunikacije Republike Srpske akcionarsko društvo Banja Luka signed an agreement on the sale of a 100% participating interest in Blicnet. The sale of Blicnet is in line with the adopted Business Plan of the Telekom Slovenije Group for 2018 and the Strategic Business Plan of the Telekom Slovenije Group for the period 2018 to 2022.

5 GRI GS 102-4, 102-6

6 GRI GS 102-10

MANAGEMENT AND GOVERNANCE OF SUBSIDIARIES

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.

Rules, criteria and mechanisms for managing and supervising Group companies are defined

in the Telekom Slovenije Group's Corporate Governance Rules, which 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 in the form of 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].

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

SLOVENIA

GVO, d. o. o.	Managing Director: Borut Radi
AVTENTA, d. o. o.	Managing Director: Miha Praunseis
TSmedia, d. o. o.	Managing Director: Tina Česen, MSc
SOLINE, d. o. o.	Managing Director: Klavdij Godnič
ANTENNA TV SL d. o. o.	General Manager: Tina Česen, MSc Managing Director: Petra Šušteršič Vladan Anđelković also served as Managing Director until 15 October 2018.
TSinpo d. o. o.	Managing Director: Danilo Tomšič, MSc, procurator: Vesna Lednik Dejan Jordan served as Managing Director until 28 February 2018. Boštjan Hren served as procurator until 22 April 2018.

OTHER COUNTRIES

IPKO Telecommunications LLC, Kosovo	Board of Directors: Rudolf Skobe, MSc [President], Bujar Musa and Robert Erzin, MSc CEO: Robert Erzin, MSc
Blicnet d. o. o. Banja Luka, Bosnia and Herzegovina	Managing Director until 31 January 2019: Simon Furlan, MSc
SIOL d. o. o., Croatia	Managing Director: Matjaž Pogačnik, MBA Igor Rojs, MSc served as Managing Director until 14 December 2018
SIOL d. o. o. Podgorica, Montenegro	Managing Director: Matjaž Pogačnik, MBA Igor Rojs, MSc served as Managing Director until 20 December 2018.
SIOL d. o. o. Sarajevo, Bosnia and Herzegovina	Managing Director: Matjaž Pogačnik, MBA Igor Rojs, MSc served as Managing Director until 15 January 2019.
SIOL DOOEL Skopje, North Macedonia	Managing Director: Matjaž Pogačnik, MBA Igor Rojs, MSc served as Managing Director until 13 January 2019.
SIOL DOO BEOGRAD, Serbia	Managing Director: Matjaž Pogačnik, MBA Igor Rojs, MSc served as Managing Director until 2 January 2019.

At its session on 2 November 2018, the Management Board appointed Matjaž Pogačnik, MBA to replace Igor Rojs as Managing Director of the subsidiaries SIOL DOO Belgrade, SIOL, d. o. o. Podgorica, SIOL, d. o. o. Sarajevo, SIOL DOOEL Skopje and SIOL, d. o. o. Zagreb. The Supervisory Board gave its consent to that appointment on 10 December 2018, while Mr Pogačnik assumed his role as Managing Director of an individual subsidiary in accordance with the decision issued by the competent authority in the country where that company is registered.

1.7 COMMITMENTS AND MEMBERSHIP IN ASSOCIATIONS⁷

Through its membership in numerous professional organisations and associations, the Telekom Slovenije Group builds successful business links, creates development opportunities and ensures professional positioning. 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:

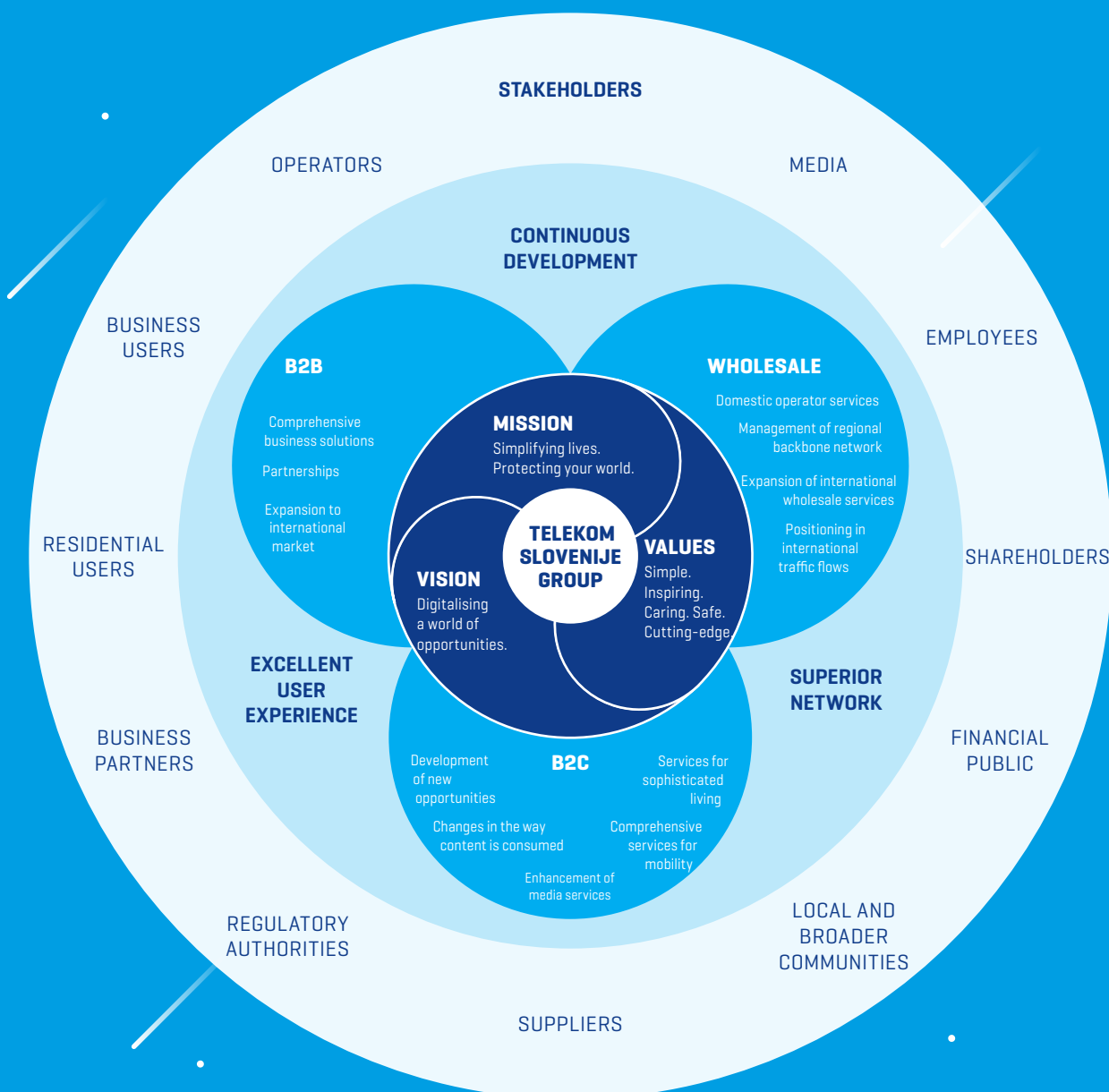
Slovenia – Telekom Slovenije	Membership in international organisations – Telekom Slovenije
- Marketing Society of Slovenia (also TSmedia and Avtenta): annual partners of the society, - Electrotechnical Association of Slovenia, - European Institute for Compliance and Ethics (EICE), - Slovenian Chamber of Commerce and Industry: participant in the general meeting and member of the management board of the Information Technology and Telecommunications Association, - INIS – Institute for Non-Ionising Radiation: participant in the Forum EMS project, - Institute for Corporate Security Studies, - Institute of Labour at the Faculty of Law in Ljubljana,	- American Chamber of Commerce (also TSmedia and Avtenta), - Broadband Forum, - European Telecommunications Network Operators' Association (ETNO), - GSM Association, - Institute of Electrical and Electronics Engineers (IEEE, Slovenian Section), - TM Forum – association of ICT service providers, their suppliers, integrators and manufacturers, and - Search and Information Industry Association (SIINDA) – TSmedia.

Slovenija – Telekom Slovenije	Social, environmental and economic initiatives in which Telekom Slovenije and Group companies are included:
• Institute for Labour Relations and Social Security at the Faculty of Law in Maribor, • Commercial Law Institute, • Slovenian Chamber of Engineers (also GVO), • Slovenian Chamber of Crafts (also GVO), • Slovenian Advertising Chamber (also TSmedia and Antenna TV SL): 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 Advertising Association (functioning under the auspices of the Slovenian Advertising Chamber), • Slovenian Institute for Standardisation: chair of the expert council and member of working groups, • Slovenian Public Relations Association, • Slovenian Project Management Association, • Slovenian Association of Risk Management and Insurance Management: membership on the board of directors, • Smart cities and communities strategic development-innovation partnership (SRIP PMiS), • Interactive Advertising Bureau – IAB (also TSmedia), • IPv6 Institute – go6, • Chamber for the Development of Slovenian Private Security, • Association of Employers of Slovenia (also GVO), • Cable Operators Association of Slovenia, • Purchasing Association of Slovenia, • Slovenian Directors' Association • Managers' Association of Slovenia, • Association of Slovenian Digital Television Operators, and • Slovenian Association of Works Councils.	• Family-Friendly Company certificate, • signatories of the European Framework for Safer Mobile Use by Younger Teenagers and Children, • support of activities for safer internet use – SAFE.SI (also TSmedia), • a code for regulating hate speech on websites (Siol.net digital media), • Sinergija – network of socio-commercial benefit, and • Natura 2000, a European network of special protection areas (Soline), • Alliance of Companies Employing Disabled People of Slovenia (TSinpo, as founding member of interest association), and • signatories of the Slovenian corporate integrity guidelines.
Bosnia and Herzegovina – Blicnet	Kosovo – IPKO
• AKOP BIH – cable operators association, • KTO – association of competing telecommunications operators, • FIC – Foreign Investors Council, • Chamber of Commerce of Republika Srpska, and • Institute for standardisation: telecommunications committee.	• 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.

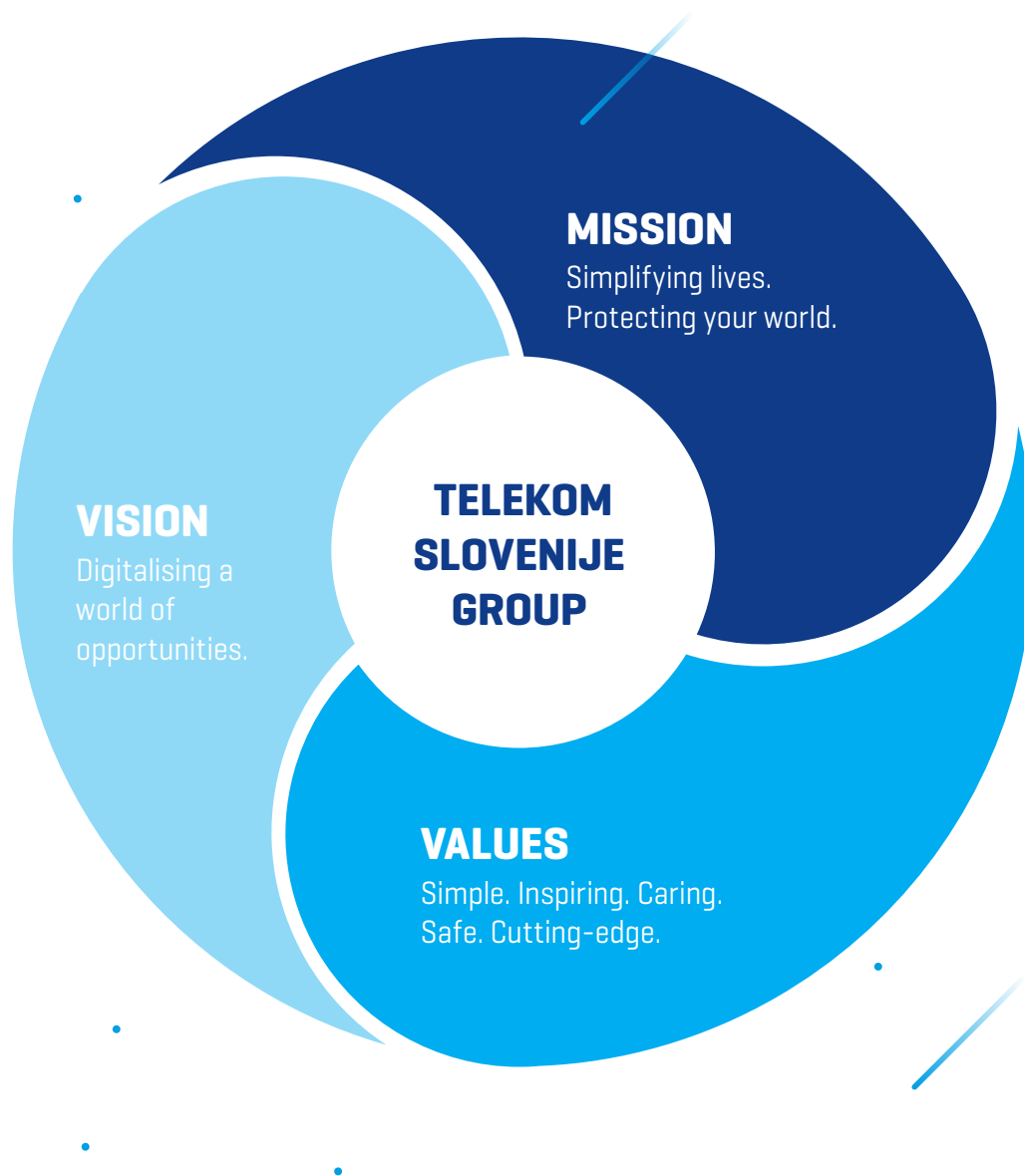
USERS:

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 VALUES⁸



The key strategic policies of the Telekom Slovenije Group for the period 2019 to 2023 are presented below in section [1.8.3. Strategic Business Plan of the Telekom Slovenije Group for the period 2019 to 2023](#).



1.8.2 ACHIEVEMENT OF PLANNED OBJECTIVES BY THE TELEKOM SLOVENIJE GROUP IN 2018

The Telekom Slovenije Group actively and successfully achieved the objectives for 2018 set out in the Strategic Business Plan for the period 2018 to 2022.

STRATEGIC OBJECTIVES FROM THE STRATEGIC BUSINESS PLAN AND THEIR REALISATION IN 2018

Strategic objective	Achieved in 2018
Consolidation on individual markets Monitor activities on the domestic and foreign markets, and continue consolidation in the future, either through expansion or divestment on specific markets.	- In Bosnia and Herzegovina, we signed an agreement with the company Telekomunikacije Republike Srpske on the sale of a 100% participating interest in Blicnet. - By purchasing INFRATEL, 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.
Expansion of the fibre optic access network - Facilitate high-speed internet access and access to broadband content through the expansion of the network. - Modernise and upgrade the fibre optic access network where the highest penetration rate is expected.	We built 27,782 new fibre optic connections in 2018, and thus facilitate connections to the fibre optic network by more than 282,000 households in Slovenia.
Growth in the number of broadband and IPTV connections Increase the number of users and share of the broadband and IPTV connection market through the accelerated construction of fibre optic access networks.	- We maintain the highest market share in both the fixed and mobile services segments in Slovenia. - We maintained the number of fixed broadband connections in Slovenia at the same level recorded at the end of last year, while our market share was down by 0.7 percentage points (data for the third quarter of 2018). - The number of IPTV connections was up by 4.4% (data for the third quarter of 2018), while our market share was down by 0.1 percentage points (also data for the third quarter of 2018). - At 44.4%, IPKO in Kosovo maintained its leading share of the fixed broadband connection market (data for the third quarter of 2018), and thus remained the leading provider of fixed services.
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.	- Through an information security management and business continuity management (ISM/BCM) system, we ensure the continuous and secure functioning of ICT systems as a comparative advantage of our offer, both internally and primarily for users. - 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. - As a sponsor or donator, we have supported the following for many years: humanitarian organisations such as ZPM Ljubljana Moste-Polje and RKS – Debeli Rtič, projects for youth [e.g. the Reading Badge and Happy School projects], cultural institutions and events [e.g. LIFFe, the Ljubljana Puppet Theatre and the Slovenian National Theatre in Maribor], numerous sporting associations and athletes, and the needs of individuals via humanitarian organisations. We earmarked a total of EUR 2.8 million or 0.4% of the Telekom Slovenije Group's operating revenues for socially responsible activities.

Strategic objective	Achieved in 2018
Simplification of processes and IT infrastructure Transform into a lean and agile company through the optimisation of business processes and the IT infrastructure	- By upgrading business support systems (BSS), we ensured a higher level of adaptability to changes and improved operational efficiency [e.g. the automation of processes for delivering services, and the simplification of processes and the product portfolio], while providing support for new business opportunities on the ICT services market. - We simplified online purchases by updating the Online Shop.
Restructuring of personnel - Optimise the employee structure and labour costs. - Develop employee competences.	- The number of employees was down by 4% at the Group level and by 6% at Telekom Slovenije. - The Group's labour costs were down by 5%. - A total of 8.9% of Telekom Slovenije's employees were recognised as key and perspective personnel with development potential. - The proportion of employees included in education and training reached 93.1% at the Group level, an increase of 2 percentage points in 2018, while that proportion was up by 1 percentage point at Telekom Slovenije. Every employee in group received an average of 26,1 hours of training and 36.1 hours in Telekom Slovenije.
New revenue sources - Develop new services and expand Telekom Slovenije's portfolio to new areas that will generate new revenue sources (electricity, eCare, etc.). - Provide the most advanced ICT solutions and services. - Projects with ICT solutions and infrastructure. - Provide the most advanced IT solutions and services.	- Revenues from the sale of IT solutions and services were up by 47% in Slovenia in 2018. - A remote treatment pilot project (in the scope of the EkoSmart programme) already includes patients from several healthcare institutions throughout Slovenia. Those patients are enrolled in one of four telemedicine treatment programmes (COPD, asthma, heart failure, hypertension and type 2 diabetes). - The Safe and Connected at Home project (in the scope of the eCare service) was joined by several dozen Slovenian municipalities that subsidise services for their citizens. - We have developed NEO, a platform for smart living, through which we became one of the first in the world to make it possible for users to voice-manage content accessible through the TV and other screens, and smart home devices, in Slovene in one place. - We established and completed the first phase of a pilot project for the implementation of Internet of Things scenarios for smart cities (City of Novo Mesto). A solution is ready for the effective establishment of the basic conditions to begin providing smart city services using a central point, where communications equipment, sensors for environmental indicators and parking space management, an interactive portal for communicating with visitors and an electric vehicle charger are combined in a single infrastructure. - We established a Cyber Security Operation Centre, through which we will become one of the key players in cyber security in Slovenia in the coming years. We entered into agreements with our first subscribers in 2018. - A service is in place for the video identification of individuals and the creation of digital identities, as well as the remote conclusion of agreements, representing the first step in the full digitalisation of operations with business users. - We introduced the SD-WAN service, which is intended to link the remote locations of a subscriber in a single private network.

FULFILMENT OF THE BUSINESS EXPECTATIONS OF THE TELEKOM SLOVENIJE GROUP FOR 2018*

	Planned in 2018	Achieved in 2018
Operating revenues	EUR 755.3 million	EUR 730.7 million
EBITDA	EUR 209.8 million	EUR 186.0 million
Net profit	EUR 40.9 million	EUR 33.8 million
Investments	EUR 158.0 million	EUR 133.9 million

*Because the plan was drafted in accordance with IFRS 18, the fulfilment of business expectations is also presented in accordance with IFRS 18. For more information, see section [Financial report 3.2.2 Notes to the consolidated financial statements](#).



1.8.3 STRATEGIC BUSINESS PLAN OF THE TELEKOM SLOVENIJE GROUP FOR THE PERIOD 2019 TO 2023⁹

The key strategic policies of the Telekom Slovenije Group are set out in the Strategic Business Plan for the period 2016 to 2020, and are also based on the transformation strategy. The Group's strategy is updated every year for the next five-year period. In 2018 we thus adopted a strategy and plan for 2019 with projections for the period 2020 to 2023. Defined in that core corporate document through its mission, vision, values, objectives and strategy are the Group's future development and strategic policies, which pursue the objectives of the UN's declaration on sustainable development [Agenda 2030 for Sustainable Development].

Since 2016 Telekom Slovenije has been implementing its established strategy in three phases, each of which means a step forward in its operations. During the first phase, we focused on the innovation of Telekom Slovenije's core activity. The intensified focus of the second phase is on digitalisation, while we will focus on generating value from the first two phases during the third phase.

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

EXCEED customer expectations	MASTER digital company	DIVERSIFY beyond core	TRANSFORM to agile operations
CUSTOMER RULE. Delighting our customers is our highest priority.	BRIDGE DIGITAL DIVIDE. We enable all Slovenes to interact digitally independent on location and access technology.	INCREASE RELEVANCE TO CUSTOMERS. We leverage our assets to strengthen our core & venture in new businesses relevant to our customers.	OUR PEOPLE ARE OUR TREASURE. We invest in our people and foster competency build-up to enable the transformation.
DO WHAT WE DO GREAT. Our people thrive for excellence in any action they do.	DIGITALIZE FRONTEND. We are leading the take-off for digital customer interactions and customer convenience.	PIONEER THE HOME. We are the leader of the households and we develop the Digital Home ecosystem and increase our share of wallet.	SIMPLIFY AND AUTOMATE. We ruthlessly streamline any process, procedure and guideline to make Telekom Slovenije more agile.
COMPANION OF CHOICE. We are a true companion of our customers and put long term impact over short term financial gains.	GO DIGITAL. Into our Digital is fully integrated people mindset and approach - any customers, any channel, anything.	PARTNER OF CHOICE FOR BUSINESS. We understand our role as enabler - therefore we need to continuously challenge our value chain positioning.	EFFICIENT INFRASTRUCTURE. We opt for most efficient delivery model for any part of our infrastructure.

KEY STRATEGIC POLICIES OF THE TELEKOM SLOVENIJE GROUP IN THE PERIOD 2019 TO 2023

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

We will maintain our share of the mobile services market and achieve growth in the number of fixed broadband and TV connections through a portfolio of comprehensive services for smart living, and through the development of a unique experience tailored to the user, which will be based on a simple user experience and superior network, inspiring services, cutting-edge solutions and a caring approach to users.

2. New revenue sources

We will strengthen our core activity and increase our share of household and corporate budgets, and strengthen user loyalty by expanding to other areas that are important to users.

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

3. Maintaining a superior network

Through planned investments in reliable, secure and high-quality technologies, we will maintain our position as the leading provider of the most advanced technologies and next-generation networks, and communication, security, information, multimedia and advertising services.

4. Consolidation on individual markets

We are carrying out consolidation activities where this is in line with our established strategic objectives. The strategy for the period 2019 to 2023 envisages the possibility of further consolidation, either through expansion or divestment on the markets where we operate.

5. Simplification of processes, products and platforms

The Telekom Slovenije Group continues to optimise business processes, and restructure its products, portfolio and information systems with the aim of enhancing its ability to adapt dynamically to the demands of users through understandable and simple-to-use solutions.

6. Optimal staffing structure

Activities to implement the objectives set out in the Strategic Business Plan are 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 employees' competences.

7. Financial stability

Telekom Slovenije will implement activities that will facilitate the effective management of liquidity and ensure a high level of financial security. We will ensure the optimal level of debt over the long term, at which the value of the Company is highest.

8. Quality

Quality is and will remain the primary comparative advantage of our services. We will continue to provide users the most advanced and highest-quality ICT solutions and other services. The key tools to ensuring consistent quality are well-maintained quality management systems, verified business excellence models and the consistent implementation of initiatives to ensure an excellent user experience.

9. Social responsibility

We actively identify opportunities where we can contribute to the development of the social and economic environment in which we operate through our expertise, and financial and other resources. As the leading national operator, and as a development and future-oriented company, we are well aware of our social responsibility. The principles of sustainable development are therefore built into our operations, products, services and content, while we also responsibly manage the economic, social and environmental impacts of our operations.

KEY OBJECTIVES OF THE TELEKOM SLOVENIJE GROUP FOR 2019¹⁰

Operating revenues
EUR
711.9
million

CAPEX
EUR
211.9
million

EBITDA
EUR
216.0
million

Net operating
profit
EUR
30.3
million

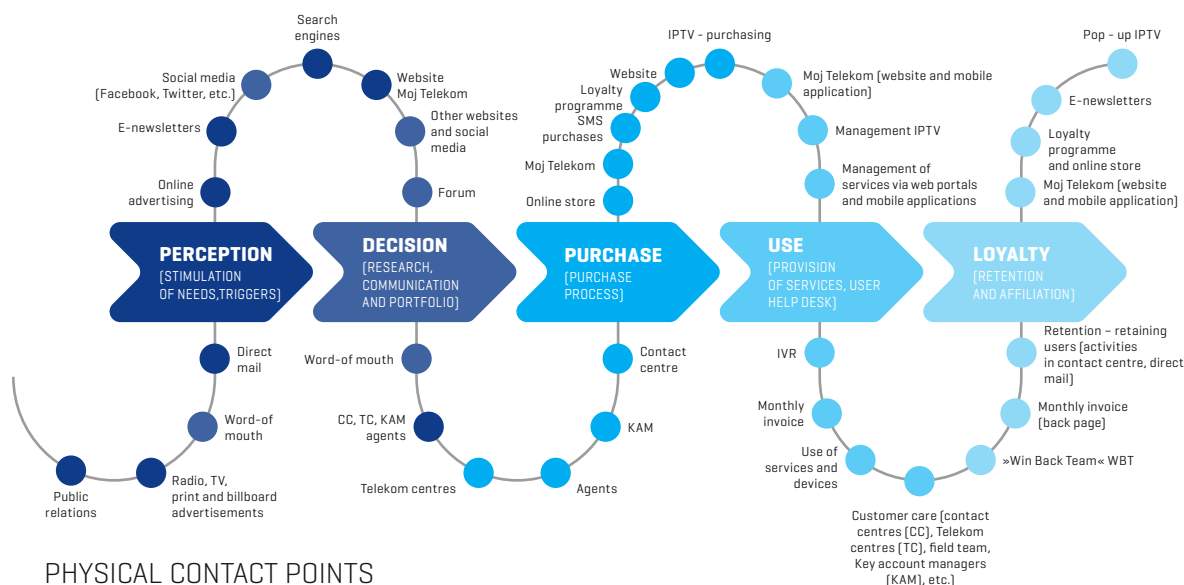
¹⁰ In accordance with IFRS 15 and IFRS 16.

1.8.4 SIGNIFICANT PROJECTS

EXCELLENCE OF THE USER EXPERIENCE

Through a project to ensure excellence, we set new, higher standards of excellence. We wish to bring ourselves even closer to users so that they will feel safe with us, while we also wish to inspire them with our services. In 2018 we completed the first phase of the implementation of activities, in which we defined the main contact points where users come in contact with us and received concrete responses from them. Based on their experiences, we have begun the second phase of the project, in which our focus is on the optimisation and standardisation of activities at the main contact points with users..

DIGITAL CONTACT POINTS



PHYSICAL CONTACT POINTS

NEO: A PLATFORM FOR SMART LIVING

In December we presented a new **platform for smart living: NEO**.

Part of the platform is upgraded IPTV, which provides the user several unlimited opportunities for watching television, such as voice management in Slovene, NEO content [4K content, children's park, etc.] and significantly reduced time to search content. NEO is not just television, as it offers access to entertainment [games] and shopping in one place. It facilitates connectivity with external devices and thus the functionality of a smart home. NEO is the result of the development and knowledge of Telekom Slovenije's experts. New solutions will be developed and added in the future. The platform represents a comparative advantage of our services on the Slovenian market and an opportunity to attract new subscribers.



SMART INFRASTRUCTURE¹¹

Telekom Slovenije continued with the intensive upgrading and expansion of the fibre optic access network, and is thus laying the infrastructure foundations for the future of the telecommunications activity, as the sector is undergoing intensive change. We facilitated the connection of an additional 27,782 Slovenian households to the fibre optic infrastructure in 2018, bringing the total number of potential household connections to more than 282,000. Our fibre optic access network provides users high-speed internet access and a superior user experience in terms of broadband content.

We are actively preparing for the introduction of **5G technology**, whose main feature will be the support of the widest range of communication devices and services, meaning everything from traditional forms of communication we already know to forms of communication that are critical in terms of time and security, and a large number of dispersed sensors (Internet of Things). We are the only Slovenian operator participating in several pan-European research projects, the results of which we presented in 2018. We have thus already completed or are still involved in the following projects: CHARISMA, iCIRRUS, NEXES, I_HeERO, 5G Security. See section [2.8.1 Research and development services](#) for more information.

NEW REVENUE SOURCES

Our key strategic policies also include the development of new services outside of the core telecommunications activity. These services are or will be important to our subscribers in the future, and will allow us to generate new revenue sources.

We continued with the introduction of additional **advanced financial services** that link the financial and telecommunications sectors through innovative approaches. Through the Moneta service, which has facilitated handy and safe cashless payments using a mobile phone since 2001, we are also developing a new smart wallet ecosystem that will link rapid payments with

mobile devices, advanced POS devices, service providers and an extensive user database. We will provide end-users a comprehensive system in which they will be able to complete other mobile transactions in addition to mobile payments. One of the major implementation phases of the platform will include connected single user cards for payments and the identification of smart services in municipalities throughout Slovenia.

As part of the development of **smart cities**, we are working with several municipalities in which a system has been set up for smart parking, the monitoring of environmental parameters

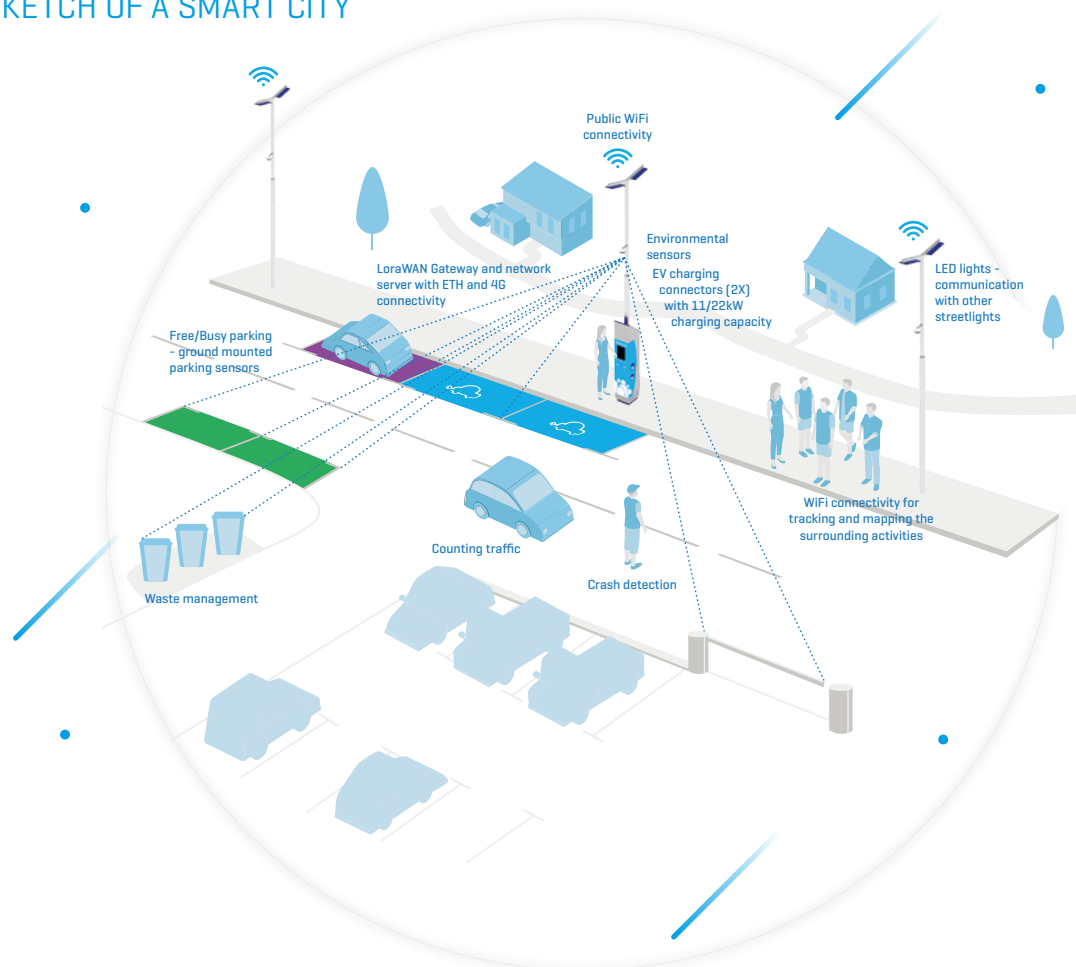


and a single payment point for services. In 2018 we completed the first phase of the implementation of key scenarios from a selection of solutions of smart cities in Novo Mesto. We have also prepared a solution for the effective establishment of the basic conditions to begin providing smart city services using a central point, where communications equipment, sensors for environmental indicators and parking space management, an interactive portal for communicating with the public and an electric vehicle charger are combined in a single infrastructure.

¹¹ GRI GS 103-1, 103-2, 103-3



SKETCH OF A SMART CITY



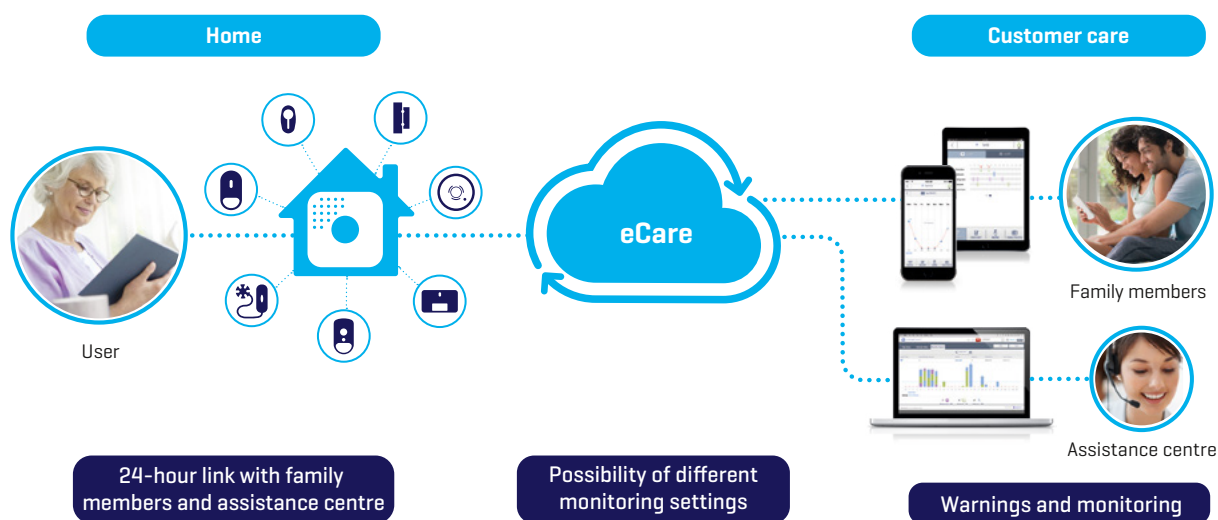
Insurance is a new service that we are marketing successfully. We upgraded this product in 2018 with higher limits and additional coverage, and offered coverage even in the event of the loss of a mobile phone due to pick-pocketing, making it even more attractive to users. Every third subscriber opts for insurance when they purchase a mobile phone.

In the area of **eHealth**, we began implementing the EkoSmart project in the scope of smart specialisation. In addition to Telekom Slovenije, which has developed and set-up the technological infrastructure (e.g. a telemedicine platform and other ICT support), project participants include the Trebnje Health Centre, Ljubljana University Medical Centre, Golnik Clinic, National Institute of Public Health and Faculty of Medicine. Healthcare institutions are conducting clinical studies of the telemedical treatment of patients with chronic diseases [COPD, asthma, heart failure, hypertension and type 2 diabetes].



We upgraded eCare, which ensures that the elderly enjoy longer, independent and safe living at home. The Safe and Connected at Home project, in which Telekom Slovenije and municipalities involved in the project facilitate the co-financing and/or subsidisation of eCare for their citizens, includes several dozen municipalities. To that end, we are participating in the drafting of legislation and the establishment of billing models that will facilitate the provision of telemedicine services in the scope of compulsory health insurance and self-paid services.

HOW DOES ECARE WORK?



PROJECT TO DEPLOY AND MAINTAIN AN ELECTRONIC TOLL COLLECTION SYSTEM

In September 2016 a consortium of companies, including Telekom Slovenije and Q-Free ASA, signed an agreement with the Motorway Company of the Republic of Slovenia (DARS) on the deployment and operation of a multi-lane free-flow electronic toll collection system on motorways and dual carriageways. The total value of contractual works is EUR 90.6 million (excluding VAT), and includes the deployment of an electronic toll collection system for freight vehicles and the technical functioning of the deployed system for a period of ten years.

Following a two-month trial run, the system began operating in the production environment on 1 April 2018. Since that day, an electronic toll collection system has been deployed in Slovenia for freight vehicles weighing in excess of 3.5 tonnes.

As part of the project, we set-up two mutually linked data centres that serve as the heart of the system. The deployed infrastructure thus ensures a high-capacity and available environment in which electronic toll services and processes are provided and performed. All components are redundant to ensure a high level of availability, and thus ensure continuous functioning, even in the event of possible faults. Several control systems have been set-up to control equipment and the functioning of the system. Those systems are linked to a central point in the control and operations centre.

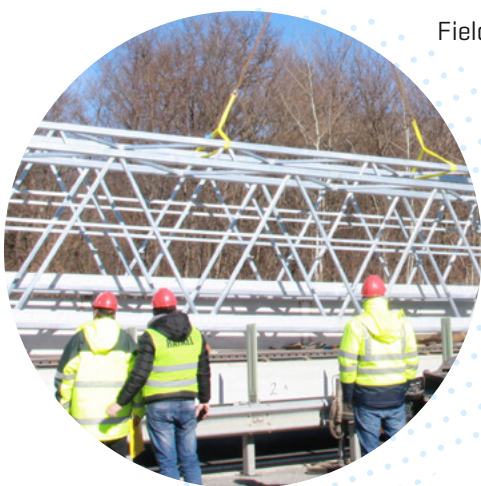
To that end and to assist users, we also established a state-of-the-art call centre, while the application level of the system functions on a virtual platform and in a distributed disk array, where information systems are set-up on servers for the management of users, services and systems for the sale and billing of services. The system also links road toll user points for the sale of DarsGo devices, a web portal for user registration, motorway control portals and mobile control units. Service and change management processes have been established.





Within central systems, we ensured the requisite communications and server infrastructure, the call centre infrastructure and application systems for sales at user points. We also provided for a user web portal, CRM system, document system, billing system, toll control system, including back-end and mobile control, systems for controlling and managing the functioning of the system as a whole, business continuity and information security systems and processes, and integration with the contracting authority's existing business information system.

The deployment of the electronic toll collection system was thus an extremely demanding project in terms of organisation, logistics and human resources. More than 200 Telekom Slovenije employees and around 100 GVO employees participated in the project for a year and half. GVO was responsible for the implementation of constructions works.



Field work was extensive: from the manufacture and installation of metal structures to the construction of a low-voltage fibre optic network and assembly works at portals. We set-up a total of 15 control and 113 toll collection portals to cover the Slovenian motorway network. This means that it was necessary to bring electricity and a fibre optic connection to an agreed point at 128 locations, and then house all of that in a metal structure that crossed all motorway lanes. We also dug around 26 kilometres of ditches for the low-voltage network and 13 kilometres of excavations for the fibre optic network. We laid 35 kilometres of electrical cables, welded, galvanised, transported and installed around 1,000 tonnes of steel structures, and installed and programmed around 600 antennas.

On the day the system was deployed for full use, we began providing the system maintenance, control and management services required for continuous, secure and reliable functioning.

1.9 INCLUSION AND PARTICIPATION OF STAKEHOLDERS¹²

Telekom Slovenije strives for an inclusive and long-term relationship with 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 order to understand their most important interests and needs, we performed a stakeholder

analysis for the second consecutive year in 2018 in the form of an online questionnaire via the corporate website at www.telekom.si. We supplemented our overview of stakeholders and the content of the annual report on the basis of answers received. See section 2.10. [Content according to GRI Reporting Standards](#) for more information.

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

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
Shareholders, analysts and other financial publics	- Relevant, current and timely information regarding operations and TLSG shares. - Operations that facilitate the payment of dividends. - Effective corporate governance. - Long-term value on an investment.	- Regular responses to questions sent to the following contact emails: ir@telekom.si, skupscina@telekom.si, dividenda@telekom.si. - Quarterly contact through the publication of reports on operations and the issue of the electronic TLSG newsletter. - Once a year in conjunction with the publication of the annual report. - At General Meetings of Shareholders. - Periodic contact at investment conferences.	- Investor relations section of the Company's website. - Publications for shareholders. - Participation in investment conferences at home and abroad. - Participation at meetings organised by the Group and other institutions. - Via email (ir@telekom.si, skupscina@telekom.si and dividenda@telekom.si); - Publication of information in the Ljubljana Stock Exchange's SEDNet system.	- We communicated regularly, proactively and comprehensively with existing and potential shareholders regarding the operations of the Telekom Slovenije Group. - We paid shareholders gross dividends of EUR 14.30 per share in July 2018.
Users	- Superior quality networks and the development of services that meet their needs and expectations. - The best quality-to-price ratio for services. - The most state-of-the-art and innovative services. - Reliable, stable, secure and far-reaching networks. - Simple and prompt communication with the Group. - The prompt elimination of faults.	- Regular contacts – Telekom centres, 24/7 contact centre, possibility of communication via info@telekom.si and social networks. - Twice a year through migration analyses for the fixed and mobile segments. - Twice a year through research according to the mystery shopping principle. - Through annual user satisfaction research. - Regular contact through page view statistics. - Regular measurement of the NPS [Net Promoter Score] at contact points.	- Personal contact with professional employees. - Web services for users. - Advertising and communication of portfolio, services and innovations that are relevant for users in broad-reaching media and via social networks. - Regular communication regarding the portfolio, services and innovations in broad-reaching media and communication via other channels (invoices, direct mailing, catalogues, trade fairs, social networks, promotions at events, special events, etc.). - Communication via social networks. - Possibility of selecting a return call option to avoid extended waits for responses to calls to the contact centre.	- We presented new services, the portfolio and other relevant content to users at Telekom centres and authorised points of sale throughout Slovenia, through the use of advertisements and other communication activities. - We improved the availability and stability of the LTE/4G and LTE-A/4G+ network, with which we already cover 67% of the Slovenian population. We built 27,782 new connections for broadband fibre optic access to the internet. - We maintained a high level of satisfaction of the users of fixed and mobile services. - Our contact centres received 878,986 calls for general and sales information, and 741,000 calls for technical assistance. We made 43,720 successful promotional calls. We answered 108,260 user messages via the info@telekom.si email address.
Employees	- Career development opportunities. - Acquisition of additional knowledge. - Professional and effective management. - Information regarding the Company's operations and strategic plans, and regarding current developments at the Company and its activities.	- Regular information regarding the Company's operations and developments at the Company on internal portals. - Regular contracts between the Works Council and trade unions and senior management. - Appraisal-development interviews twice a year. - Every two years through the measurement of organisational vitality and the organisational culture.	- Briefing of employees on business events at Telekom Slovenije and within the Group via established channels (intranet, electronic screens, bulletin boards, email, the system of meetings, etc.). - Promotion of innovation in the scope of the Brihta programme. - Cooperation with the Works Council and trade unions. - Activities relating to employee health, in the scope of the <i>Modro jabolko</i> [Wise Apple] portal and the <i>Živjo, stres</i> [Hello, stress] project, and inclusion via the TSsport sports club. - Measurement of organisational vitality and the organisational culture, and appraisal-development interviews.	- We have created a culture of mutual trust, respect, continuous learning, and efficient and responsible work. - A total of 93.1% of Group employees were included in education and training in 2018, which is nearly 2 percentage points higher than the previous year. - In 2018 a total of 44 employees had contracts with the Group to obtain a higher level of education, an increase of 12 relative to 2017. We re-introduced company scholarships. Telekom Slovenije awarded seven company scholarships during the 2018/2019 school year. - We maintained dialogue with social partners [notifications, joint consultations, issuing of consents, etc.]. The Works Council met at 15 regular and six correspondence sessions in 2018, at which the Management Board briefed members of the Works Council on the Company's current activities.



Stakeholders	What is most important to them?	Frequency of contact	How are they included?	Activities
Suppliers and other business partners¹³	- Compliance with business agreements. - Consistent settlement of agreed liabilities. - Long-term cooperation. - Clear supplier selection criteria. - Responsiveness and approach of the ordering party. - Monitoring of the quality of operations. - Payment terms. - Consideration of the importance of the quality of suppliers' services. - Communication in several languages.	- Annual questionnaire. - Cooperation in the scope of procurement procedures.	- Compliance with the Rules on the Procurement of Goods and Services at Telekom Slovenije, and other internal acts. - The Management Board adopted the Code of Conduct for the Suppliers of the Telekom Slovenije Group in December 2018. - Establishment of long-term relationships with suppliers.	- We settled our liabilities by the agreed payment deadlines, and even before those deadlines in the event of surplus liquid funds. - We dedicated a great deal of attention to addressing challenges as they arise. - Based on an assessment of each supplier, we define a development strategy, possibilities for additional cooperation, or measures to mitigate/eliminate risks. - The transparent and equal treatment of potential suppliers is ensured through a standardised procurement procedure that defines clear selection criteria.
Regulatory and government bodies	- Compliance with regulations and decisions of the regulatory body. - Provision of high-quality access to telecommunication services.	- Periodic contact in the event of legislative changes. - Regular contact following inspections in connection with imposed obligations by the AKOS on regulated relevant markets.	- Expert responses to decisions of regulatory bodies. - Participation in the drafting of legislation, with expert comments.	- 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. - We responded by preparing comments to published analyses of relevant markets.
Local and wider community	- Sponsorship and donation activities in the areas of sport, culture, science and humanitarian causes. - Access to fixed and mobile services. - Limitation of environmental impacts. - Responsible expansion of the infrastructure (fixed and mobile network).	- Regular contact when signing donation and/or sponsorship agreements. - Regular cooperation in the scope of humanitarian and other activities. - Regular contact with local communities when upgrading and building networks.	- Support for sporting, cultural, education and humanitarian organisations and projects. - Selection of projects with an emphasis on social responsibility and the monitoring of associated effects. - Assessment of environmental impacts as an integral aspect of all development activities.	- Sponsorships and donations were earmarked for very broad groups at the national and regional levels. The Telekom Slovenije Group earmarked EUR 2.8 million for those purposes in 2018. - 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 67% of the population. We built 27,782 additional connections for broadband fibre optic access to the internet, and thus facilitate connections to the fibre optic network by more than 282,000 users. The LTE/4G network in Kosovo covers 87.8% of the population. - 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 264 measurements in Slovenia in 2018. The results of EMR measurements are accessible by local communities. - Through a special sales offer for a specific mobile phone model, Telekom Slovenije and Samsung earmarked a portion of proceeds to Europa Donna, the Slovenian Breast Cancer Association. With the free Breast Test application, we inform the public about the importance of preventive and regular breast self-exams.
Media	- Continuous and current information about the operations of the Telekom Slovenije Group. - Continuous communication about current activities within the Telekom Slovenije Group and the latest news regarding the development of services and the portfolio, and technological development.	- Daily responses to journalists' questions; ad-hoc press conferences and press releases. - Through semi-annual and annual media analyses.	- Management of media relations (press conferences, press releases, responses to journalists' questions and regular contact with journalists). - Communication about the latest corporate developments, and new services and products.	We responded to close to 300 questions from journalists in 2018 and sent 30 press releases, while more than 9,000 articles about the Company were published in the media.

COMMUNICATION WITH STAKEHOLDERS

We strengthen cooperation with and the trust of our stakeholders, and build the Company's reputation through long-term, consistent and planned communication. 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

Telekom Slovenije and its subsidiaries in Slovenia are bound to comply with requirements regarding access to information of a public nature in accordance with the Public Information Act [ZDIJZ]. 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 individual companies. We proactively published information and handled requests for access to information, and implemented support activities [e.g. employee training] in 2018.

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.

COMMUNICATION WITH THE MEDIA¹⁴

Media relations represent an important element of public relations management. Our communication with the public is proactive and reactive, while we communicate regularly with the media throughout the year about corporate and product-related topics, and about technological developments. To that end, the most frequently used communication tools are press releases, special events, the promotion of media coverage, the maintenance of regular contacts with journalists, and regular and continuous responses to journalists' questions.

The most attention in 2018 was given to the communication of business results, new products and/or services in the portfolio, technological development and the development of ICT services, ensuring cyber security, social responsibility, and the continued development of the network and activities linked to the introduction of the fifth mobile telephony generation. Telekom Slovenije and its services were mentioned in more than 9,000 articles in 2018. We answered more than 300 questions from journalists.

COMMUNICATION WITH REGULATORY AND GOVERNMENT BODIES¹⁵

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, we also play an active role in the drafting of legislation in the field of electronic communications.

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

14 GRI GS 102-43, 102-44

15 GRI GS 102-43, 102-44



1.10 ABOUT THE ANNUAL REPORT

PRINCIPLES OF REPORTING¹⁶

Reporting on the operations of the Telekom Slovenije Group and Telekom Slovenije is carried out in line with the requirements of the International Financial Reporting Standards and national legislation [ZGD-1J].

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 the GRI Guidelines since 2009. Since 2016 we have been reporting in accordance with the latest Global Standards, while taking into account previous generations of GRI recommendations for the ICT and IT sectors, 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.

DRAFTING OF THE REPORT AND SCOPE OF REPORTING¹⁷

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, TSinpo, 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 2017, was published on 4 April 2018. 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.

There were no 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, the content of and reasons for those changes are clarified in the accompanying comments.

VERIFICATION OF NON-FINANCIAL REPORTING¹⁸

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 [2.11](#) on page [172](#).

For the purpose of compiling the annual report, we performed a stakeholder analysis and supplemented the annual report on that basis again in 2018. Additional information is reported in section [2.10. Content according to GRI Reporting Standards](#) on page [161](#).

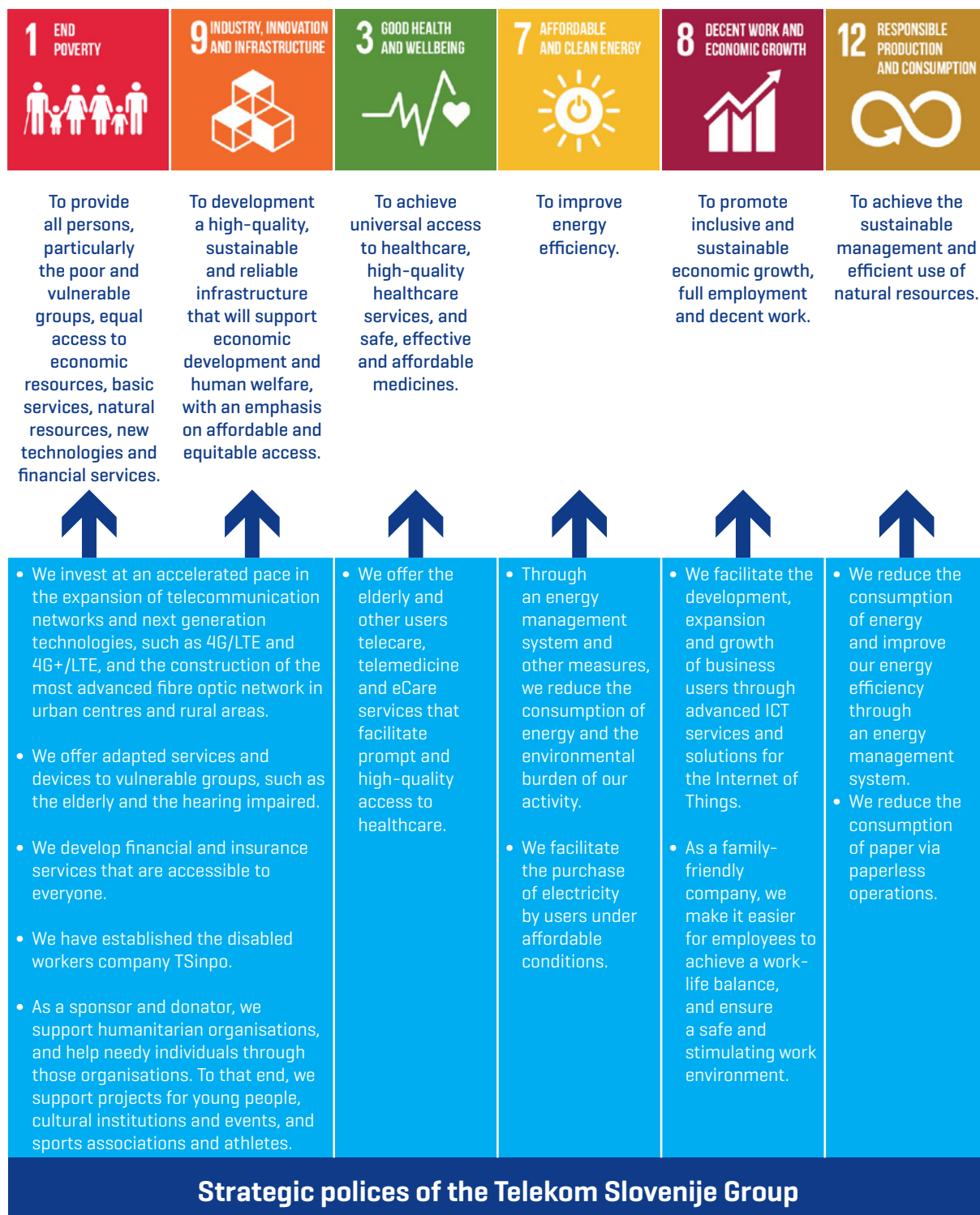
We strive to align our sustainable impacts as closely as possible with the United Nation's Sustainable Development Goals. We prepared an overview in 2017 and 2018 of how and in what areas we contribute to the realisation of those goals.

16 GRI GS 102-46

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

18 GRI GS 102-56

OVERVIEW OF THE REALISATION OF SUSTAINABLE DEVELOPMENT GOALS



1.11 SIGNIFICANT EVENTS AND ACHIEVEMENTS IN 2018

- Telekom Slovenije was the first Slovenian operator to receive the international MEF CE 2.0 certificate, which demonstrates the reliability and technological sophistication of the network, as well as compliance with international standards governing the quality of data services intended for business users and roaming between operators.
- Telekom Slovenije set up a test environment in Ljubljana and Maribor for testing Internet of Things solutions on the basis of Narrowband Internet of Things (NB-IoT) technology. The test environment is intended for companies, independent developers and educational institutions that wish to test their Internet of Things solutions in a real environment.
- Together with the Slovene Federation of Pensioners' Associations, Telekom Slovenije invited municipalities to participate in the Safe and Connected at Home project, with the aim of ensuring easier access to the remote social assistance service to as many interested parties as possible. That service is provided in the scope of the eCare service. Telekom Slovenije and municipalities involved in the project facilitate the co-financing and/or subsidisation of the service for citizens.
- At Telekom Slovenije's 29th General Meeting of Shareholders, shareholders supported the proposal that EUR 93,028,335.40 be earmarked for the payment of dividends, representing a gross dividend of EUR 14.30 per share, while the remainder in the amount of EUR 22,338,089.72 is brought forward to the next year. The General Meeting of Shareholders conferred official approval on the Management Board and Supervisory Board for the 2017 financial year.
- Telekom Slovenije presented the updated IZI brand. Through its new image, the Moj IZI mobile application and new IZI Vračilo packages, IZI is more user-friendly, simpler and more accessible.
- At the ZAUH (capturing, archiving, managing and storing data) conference, Avtenta presented to more than 300 participants an IT solution that will be used by all public administration bodies, as the Ministry of Public Administration decided to upgrade its existing system for managing documentary materials.
- Avtenta received the international ISO 9001:2015 certificate, which defines quality management system requirements, the management function, resource management, implementation of the core activity and control.
- Telekom Slovenije also expanded its international ISO 27001 certificate to include cyber security, and the control of the network and services.
- As part of a working visit to Slovenia, representatives of the Government of the Republic of Cyprus and the Nicosia Development Agency were briefed on the remote health and care services being developed by Telekom Slovenije and the possibility of bringing those services to their country. Telekom Slovenije has attracted the attention of several EU countries in the last year with its eCare service, which facilitates longer and safer living at home for the elderly, disabled persons and persons with chronic diseases.
- We signed an agreement with the mayors of the cities of Novo Mesto, Nova Gorica and Kranj on the implementation of a Smart City card system, which will allow the citizens of the aforementioned partner municipalities to use and pay for various services. Telekom Slovenije is joined in the project by the consortium partner Petrol, while the companies Imovation and mBills are involved in implementation.
- Telekom Slovenije became the first Slovenian operator to facilitate the use of voice services via the WiFi network, also known as VoWiFi (Voice over WiFi) services, by its subscribers who use the most advanced Samsung mobile phones. The aforementioned service brings subscribers the simultaneous use of voice and data transfer services, as well as the quicker establishment of calls, high-quality sound through the default use of HD voice, reduced battery usage, and the seamless transition between a WiFi connection and LTE/4G technology in the domestic network.
- Telekom Slovenije and T-2 reached a court-brokered settlement, under which mutual relations arising from the commercial dispute involving the payment of damages in the amount of EUR 129,556,756.00 and appertaining amounts, as well as other unsettled mutual relations, were put in order.

- At Telekom Slovenije, cyber security is deemed a strategic priority task. In 2018 we therefore established the Cyber Security Operation Centre, which serves as the core of operational capacities for Telekom Slovenije and other organisations, public institutions and companies.
- Telekom Slovenije developed a package of mobile services that is the first of its kind on the Slovenian market. The Vse dobro package no longer limits mobile data transfer to a monthly amount but rather provides users 2,019 GB of data transfer that can be used throughout the year. Also available in countries covered by the EU tariff is 9.1045 GB a month at no additional cost. The package also includes unlimited calls in Telekom Slovenije's mobile network, 2,019 units a month for calls and messages in Slovenia and countries covered by the EU tariff, and an internet speed of up to 150/50 Mbit/s in the LTE/4G+ network.
- At its 19th ordinary session, the Supervisory Board of Telekom Slovenije discussed and approved the Strategic Business Plan of the Telekom Slovenije Group for the period 2019 to 2023.
- With the NEO platform for smart living, Telekom Slovenije has set a new standard for viewing and searching for content. The Company became one of the first in the world to make it possible for users to voice-manage content accessible through the TV and other screens, and smart home devices, in Slovene in one place.

EVENTS AFTER THE BALANCE SHEET DATE

Significant events after the balance sheet date are presented in the financial report in points 47 and 45 Events after the balance sheet date.

RECOGNITIONS AND AWARDS RECEIVED IN 2018:

- **Trusted Brand 2018** – Telekom Slovenije was recognised as the most trustworthy brand in the mobile telephony category.
- **Employer Appeal 2018** – Telekom Slovenije ranked third amongst the 10 most appealing employers in Slovenia and first in the telecommunications sector.

- **HR&M project 2018** – Telekom Slovenije's advanced S.M.A.R.T. education and training programme was selected as the best project in the large company category.
- **Watchdog Slovenian Association of Journalists** – TSmedia received an award for exceptional journalistic achievements and an award for best media story for Plac.
- **WebSI 2018** – TSmedia captured second place in the Media category for its Winter Olympics project on Siol.net. Telekom Slovenije captured three third place awards as follows: in the Digital Tools category for its Greeting Card Generator, in the Video category for the #zanaše project and in the Business Website category for the Telekom Slovenije website.
- **Best annual report v** – Telekom Slovenije received an award for its 2017 annual report from the newspaper Finance in the latter's competition for best annual report in the Communications category.
- **Green Frog Award 2018** – Telekom Slovenije received an award for best annual sustainability report.
- **SAP Quality Award 2018** – Telekom Slovenije received the Silver SAP Quality Award 2018 for Central and Eastern Europe in the SAP Hybris Commerce category, covering e-commerce solutions.
- **Media Daily competition** – the digital media Siol.net captured second place in the first independent competition for the best online news portal in South-Eastern Europe.
- Telekom Slovenije received four international recognitions during the development of the **NEO platform for smart living**: the 'Honouree' award at one of the most important global events in the area of innovation [CES 2018] in the category 'Tech For A Better World product'; inclusion on the shortlist in the category 'Advanced TV Innovation of the year', as judged by the CIA [Content Innovation Awards]; and two recognitions at the CSI Awards 2018, as 'Highly Commended' service in the category 'Best IoT/ Smart home or 5G Technology' and shortlist candidate in the category 'Best TV everywhere or multi-screen video'.



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 2018. It relates to the period 1 January 2018 to 31 December 2018. 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 <https://www.telekom.si/en> and in the Ljubljana Stock Exchange's electronic information system at http://seonet.ljse.si/default_en.aspx?language=en.

During the 2018 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 a system for segregating responsibilities and competences between members of management and supervisory bodies, the role of Supervisory Board's committees and the protection of employees' interests. It also defines groups of stakeholders, a strategy for communication and cooperation with those groups, a policy governing links between the 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.

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 <https://www.telekom.si/en>. under: <https://www.telekom.si/aboutcompany/Corporate-Governance-Policy-of-Telekom-Slovenije-feb-2017.pdf>.

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 2018 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 on the website 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 March 2018 (both documents are published on the website www.sdh.si and
- the **Recommendations to Public Companies Regarding Notification** adopted by the Ljubljana Stock Exchange on 8 May 2017. Those recommendations are published on the website 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 <https://www.telekom.si/en>).

STATEMENT OF COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Telekom Slovenije explains below deviations from individual recommendations set out in the aforementioned 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 certain bodies 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 aforementioned code:

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.

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/subsidiaries in a 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 both Telekom Slovenije and the Telekom Slovenije Group. A summary of the strategy and plan of the Telekom Slovenije Group for 2019 with projections for the period 2020 to 2023 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/ subsidiaries in a group – point 2

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

Procurement of goods and services, and sponsorships and donations – point 3

Telekom Slovenije deviates in part from this recommendation. In accordance with Telekom

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

Optimisation of costs – point 4

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

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 MANAGEMENT AND SUPERVISORY BODIES

The governing bodies of Telekom Slovenije are the General Meeting of Shareholders, Supervisory Board and Management Board. The Company has a two-tier system of governance that comprises its Management Board and Supervisory Board.

GENERAL MEETING OF SHAREHOLDERS AND SHAREHOLDERS' RIGHTS

Telekom Slovenije ensures 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. This is ensured through the corporate governance system and the communication strategy for shareholders and other stakeholders.

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 the 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. Shareholders exercise their rights at the General Meeting of Shareholders in person or through authorised representatives.

The convening, 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 paragraph 1 of Article 305 of ZGD-1 at the General Meeting of Shareholders. Detailed information regarding shareholders' rights set out in paragraph 1 of Article 298, paragraph 1 of Article 300, Article 301 and Article 305 of ZGD-1 are available on the Company's website at <https://www.telekom.si/en/investor-relations/shareholders-meeting> following the publication of every convening of the General Meeting of Shareholders.

Shareholders who are entered in the central register of securities at 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 29th General Meeting of Shareholders was published on the website of the Agency of the Republic of Slovenia for Public Legal Records and Related Services, together with comprehensive materials on the Company's website at <https://www.telekom.si/Documents/Convocation%20of%20the%2029th%20General%20Meeting%20of%20Telekom%20Slovenije.pdf> and in 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 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 29th General Meeting of Shareholders held on 11 May 2018, where they:

- adopted the rules of procedure of the General Meeting of Shareholders;
- approved the proposed use of distributable profit for the 2017 financial year;
- conferred official approval on the Management Board and Supervisory Board for the 2017 financial year;
- were briefed on changes on the Supervisory Board with regard to employee representatives; and
- were briefed on the report on court proceedings filed against former members of the Management Board.

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 <https://www.telekom.si/en/investor-relations/financial-calendar>, the 30th General Meeting of Shareholders for 2019 is planned for 30 August 2019.

MANAGEMENT BOARD¹⁹

COMPOSITION OF THE MANAGEMENT BOARD

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

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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.

On 20 April 2018 member of Telekom Slovenije's Management Board Aleš Aberšek tendered his irrevocable resignation to the President of the Supervisory Board for personal reasons, with his term of office ending on the same day. The term of office of member of the Management Board and Workers' Director Vesna Lednik expired on 23 April 2018. Dean Žigon was appointed to assume that position on 24 April 2018.

Composition of the Management Board in 2018–2019:

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
Rudolf Skobe, MSc	President	Management Board Office, Human Resource Management, Internal Audit, Public Relations, Legal Affairs, Strategy and Regulation, Security, Product House and the subsidiary IPKO. Also the following areas following the expiration of the term of office of member of the Management Board Aleš Aberšek: Finance and Accounting, Controlling, Wholesale, Procurement, Real Estate, Logistics and General Affairs, and the subsidiaries TSmedia, Soline, Antenna TV SL and TSinpo.	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.
Tomaž Seljak, MSc	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.	
Ranko Jelača	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.
Dean Žigon	Member and Workers' Director	Responsibilities derive directly from the law.	24 April 2018	24 April 2023	Male	Slovenian	1971	General secondary education in the field of retail management.	
Dr Vida Žurga	Member	Finance and Accounting, Controlling and Regulation, Wholesale, Procurement, Real Estate and General Affairs, and the subsidiaries TSmedia and Antenna TV SL.	1 February 2019	1 February 2023	Female	Slovenian	1984	Holds a doctorate degree in science and a bachelor's degree in economics, and is an experienced internal auditor.	
Aleš Aberšek	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	20 April 2018	Male	Slovenian	1977	Holds a bachelor's degree in economics.	Member of the supervisory boards of Gorenjska banka and Skupna pokojninska družba until 30 August 2018; and Member of the Ljubljana Stock Exchange's board of issuers until 8 July 2018.
Vesna Lednik	Member of the Management Board and Workers' Director	Responsibilities derive directly from the law.	23 April 2014	23 April 2018	Female	Slovenian	1973	High school graduate / student of entrepreneurship and international business.	

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 63 regular and 23 correspondence sessions in 2018. It drew up the Strategic Business Plan of the Telekom Slovenije Group for the period 2019 to 2023, and carried out activities to achieve the objectives set out in the current strategic plan. It also adopted a decision to purchase a 6.89% participating interest in IPKO Telecommunications LLC, whereby Telekom Slovenije became 100% owner of the aforementioned company, and a decision to recapitalise IPKO, as well as a decision to sell the 100% participating interest in Blicnet, d. o. o., Banja Luka. 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 and the portfolio to new areas, in particular information security, eHealth and financial services;
- the introduction of new and upgraded services;
- improvement of the user experience;
- the upgrading of the comprehensive portfolio of ICT services;
- the expansion and upgrading of technologies and networks;
- accelerated digitalisation;
- optimisation of the staffing structure; and
- optimisation of processes and 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 bases for setting those objectives are 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 2018 are presented in point [42 of the financial report](#).

SUPERVISORY BOARD

COMPOSITION OF THE SUPERVISORY BOARD²⁰

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

The composition of the Supervisory Board is diverse in terms of knowledge, skills, experience, professional qualifications, age, gender, work methods and other aspects.

In 2018 the Supervisory Board was briefed on the letter of resignation of member of the Supervisory Board and 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. In September 2018 the Works Council recalled Samo Podgornik, Primož Per and Urban Škrjanc from their positions on the Supervisory Board as employee representatives, and appointed Drago Kijevčanin, Dušan Pišek and Jana Žižek Kuhar as new employee representatives. Their term of office began on 19 September 2018. They were appointed for the remainder of the previous term of office, which expires on 14 November 2021.

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The Supervisory Board comprised the following members in 2018

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
Shareholder representatives											
Lidija Glavina	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.
Bernarda Babič, MSc	Vice-President	27 April 2013	27 April 2021	Female	Slovenian	1966	Holds a master's degree in business policy and organisation, with a major in banking.	YES	NO	Terme Olimia, d. d., Abanka d.d. from 1.1. till 5. 7. 2018	Assistant to the Managing Director of Slovenske železnice, d. o. o.
Barbara Gorjup, MSc	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.
Barbara Kúrner Čad	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
Dimitrij Marjanovič	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.
Ljubomir Rajšić	Member	27 April 2017	27 April 2021	Male	Serbian	1949	Holds a bachelor's degree in electrical engineering.	YES	NO	NO	Retired
Employee representatives											
Drago Kijevčanin	Vice-President	19 September 2018	14 November 2021	Male	Slovenian	1964	Telecommunications engineer	YES	NO	NO	Telekom Slovenije, Core Network, ICT Infrastructure, President of the SELEKS trade union, member of the Works' Council.
Dušan Pišek	Member	19 September 2018	14 November 2021	Male	Slovenian	1964	Telecommunications engineer	YES	NO	NO	Telekom Slovenije, Core Network, Head of the ICT Services Team, President of the Works' Council.
Jana Žižek Kuhar	Member	19 September 2018	14 November 2021	Female	Slovenian	1974	Holds a degree in economics.	YES	NO	NO	Telekom Slovenije, Procurement, Real Estate, Logistics and General Affairs, member of the Works Council.
Dean Žigon	Vice-President	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 NEKS trade union and member of the Works Council.
Samo Podgornik	Member	15 May 2014	18 September 2018	Male	Slovenian	1965	General secondary education in the field of electrical and electronic engineering.	YES	NO	NO	Telekom Slovenije, Access Networks, President of the Nova Gorica chapter of Telekom Slovenije's trade union, and member of the Works Council.
Primož Per	Member	15 May 2014	18 September 2018	Male	Slovenian	1974	Holds a master's degree in technical security engineering.	YES	NO	NO	Telekom Slovenije, Human Resource Management and member of the Works Council.
Urban Škrjanc	Member	14 February 2018	18 September 2018	Male	Slovenian	1978	High school graduate.	YES	NO	NO	Telekom Slovenije, B2C, Field Sales

WORK OF THE SUPERVISORY BOARD

The Supervisory Board met at twelve sessions in 2018. Six sessions were held as correspondence sessions.

It ensured the responsible and high-quality supervision of the operations of the Company and the Telekom Slovenije Group in 2018. The Supervisory Board discussed different aspects of operations and monitored the implementation of plans. Specific topics were discussed in advance by the Supervisory Board's committees. Based on the findings, proposals and careful assessments of committees, the Supervisory Board adopted the appropriate decisions.

The Supervisory Board performed its work in accordance with the powers and competences prescribed by the law, the Company's Articles of Association and its own rules of procedure. Members are fully liable for the performance of their supervisory function and make their decisions independently. All members of the Supervisory Board submitted statements of compliance with the criteria of independence 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-vidnejse.pdf>].

COMPOSITION AND FUNCTIONING OF SUPERVISORY BOARD COMMITTEES

The Supervisory Board had four committees during the year: the Audit Committee, Technical Committee, HR Committee and Strategy Committee. The aforementioned committees discussed individual areas of expertise in accordance with their respective competences and tasks. The composition and most important tasks of individual committees in 2018 are described below:

The **Audit Committee** assists the Supervisory Board in its supervision of financial reporting, internal controls and risk management, and in cooperation with external and internal auditors. The Audit Committee's key tasks with respect to corporate governance are to function for the good of the Company and to protect the interests of its stakeholders. 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 48, while information regarding external members is presented in tables detailing the members of committees.

The Audit Committee met at eleven sessions in 2018. In addition, three sessions were held as correspondence sessions.

It performed the following tasks at sessions:

- it monitored and discussed financial reporting procedures, and monitored the progress of the external audit of the annual financial statements of the Telekom Slovenije Group and Telekom Slovenije;
- it discussed the annual report of the Telekom Slovenije Group and Telekom Slovenije;
- it discussed the Internal Audit Service's reports regarding specific audits and the implementation of issued recommendations;
- it discussed the annual report on the work of the Internal Audit Service for 2017 and the work plan for 2019, and discussed its own the independence in the absence of the Management Board;
- it periodically monitored the risk management system, the functioning of internal controls, compliance, reports on lawsuits and supervisory proceedings, and reports on notifications;
- in accordance with the Guidelines for Ensuring the Independence of the Auditor of the Financial Statements of the Telekom Slovenije Group, which defines the methods and procedures for monitoring the independence and impartiality of the auditor of financial statements and protective measures, it carried out the following tasks in connection with the selection of the auditor and procedures for non-audit services:
- it monitored and discussed all transactions with audit firms (total of nine agreements) and assessed the independence of the certified auditor of the financial statements; and
- it assessed the work of the certified auditor of the financial statements for 2017 and coordinated the content of the agreement with the auditor for 2018 [the Audit Committee selected the auditor in 2017 by collecting bids based on a prior call; selection criteria were defined in advance, with the quality of the audit team being the key criterion; the committee proposed a three-year appointment to the Supervisory Board];

- at four consecutive sessions during the final quarter of 2018, it discussed in detail wholesale transactions that were the subject of an inspection by the National Bureau of Investigation, with an emphasis on an assessment of the appropriateness of:
- the system of internal controls, and
- the system for monitoring transactions with related parties.

The Audit Committee invited the Director of the Internal Audit Service to all sessions. The certified auditor of the financial statements was also invited to sessions at which quarterly reports on the operations of the Company and the Telekom Slovenije Group were discussed.

With the aim of continuously improving the quality of its work, the Audit Committee performed a

self-assessment and adopted an action plan of improvements.

The Audit Committee's members were as follows as at 31 December 2018:

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

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 48, 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
Barbara Nose	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 at two sessions in 2018. It discussed the investment plan and strategic policies in the area of technology for the coming period.

The Technical Committee's members were as follows as at 31 December 2018:

- Ljubomir Rajšič [chairman],
- Barbara Gorjup, MSc,
- Dušan Pišek, 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 48, 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
Slavko Ovčina	Slovenian	Holds a bachelor's degree as an IT organiser-manager.	1978	IT	/

The **HR Committee** met at four sessions in 2018. Three sessions were held as correspondence sessions. Significant activities of the HR Committee included:

- the discussion of the proposal of the Works Council on the appointment of a Workers' Director

- the discussion of proposals of the Management Board on the appointment of managing directors at Telekom Slovenije Group subsidiaries; and
- the discussion of the objectives of Management Board members for 2018, and the methodology for calculating the performance factor and criteria in connection with the right of Management Board members to the variable component of wages for 2017 and 2018.

The HR Committee's members were as follows as at 31 December 2018:

- Barbara Kürner Čad [chairperson],
- Lidija Glavina,
- Dimitrij Marjanović, and
- Drago Kijevčanin.

The **Strategy Committee** met at three sessions in 2018. Special attention was given to discussing the points of departure for the drafting of the Telekom Slovenije Group's Strategic Business Plan for the period 2019 to 2023.

The Strategy Committee's members were as follows as at 31 December 2018:

- Lidija Glavina [chairperson],
- Barbara Kürner Čad,
- Ljubomir Rajšić, and
- Jana Žižek Kuhar.

Information regarding the members of the Strategy Committee is presented in the table detailing the members of the Supervisory Board on page 48.

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 <https://www.telekom.si/en/about-us/company/corporate-governance>.

DIVERSITY POLICY

On 6 December 2017 the Management Board and Supervisory Board adopted the Policy Governing the Diversity of the Management Board and Supervisory Board of Telekom Slovenije. The objective of the Policy is to ensure the increased effectiveness of the Management Board and Supervisory Board as whole bodies, which will contribute to the development of the Company's operations and its business reputation. Through this policy, the Management Board and Supervisory Board encourage the diversity of the members of both bodies. The Management Board and Supervisory Board can use the diversity of members in terms of knowledge, skills, experience, professional qualifications, age, gender, work methods and other aspects to the good of the Company. The Policy Governing the Diversity of the Management Board and Supervisory Board of Telekom Slovenije is published at www.telekom.si.

1.12.4 OTHER EXPLANATIONS IN ACCORDANCE WITH THE COMPANIES ACT (ZGD-1)

Pursuant to the fifth paragraph of Article 70 of the Companies Act [hereinafter: the 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

Risk management and the system of internal controls represent integral elements of corporate governance. The use of risk management methodologies and a system of internal controls represents the basis for assessing risks, responding in a timely manner and reducing exposure to risks.

In connection with the financial reporting process, the system of internal controls ensures the appropriate management of risks, and reliable, timely and transparent external and internal financial reporting that is in accordance with the law, the International Financial Reporting Standards and regulations, and the guidelines and policies adopted by the Management Board. Information support is provided for the accounting process. Internal controls are therefore linked with controls built into the IT infrastructure, which comprises controls over restrictions on access to data and applications, and controls over the accuracy and completeness of data capture and processing.

Internal accounting controls are an integral part of the Company's system of internal controls. Internal controls comprise a description and the objective of a specific control, and are regularly adapted to processes, organisational changes, findings from self-assessments and best practices. Those who implement internal controls are responsible for the consistent implementation of controls, the documentation of the functioning of internal controls and proposals for improvements. The self-assessment of internal controls is based on confirmation of the establishment and functioning of internal controls. Implementation is systematic, planned and structured, and is appropriately documented. Internal controls included on a previously drafted list of internal controls are the subject of self-assessment. Assessments of internal controls by sector serve as the basis for the drafting of an overall report on the effectiveness of the functioning of the internal control system at Telekom Slovenije.

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 2018. 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 its 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 1.13 [Share trading and ownership structure] of the 2018 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 2018: 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 2018.

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 SHARE TRADING AND OWNERSHIP STRUCTURE²¹

GENERAL INFORMATION REGARDING TELEKOM SLOVENIJE SHARES AS AT 31 DECEMBER 2018

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 2018	9,407

SHARE TRADING IN 2018

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 7.37% share of that index at the end of 2018.

Shares were down on average on the Ljubljana Stock Exchange in 2018. The SBITOP index lost 0.18% of its value and ended the year at 805.06 points. Total turnover on the stock exchange was also down in 2018, by 2.9% relative to the previous year, with investors generating total turnover of EUR 337.3 million.

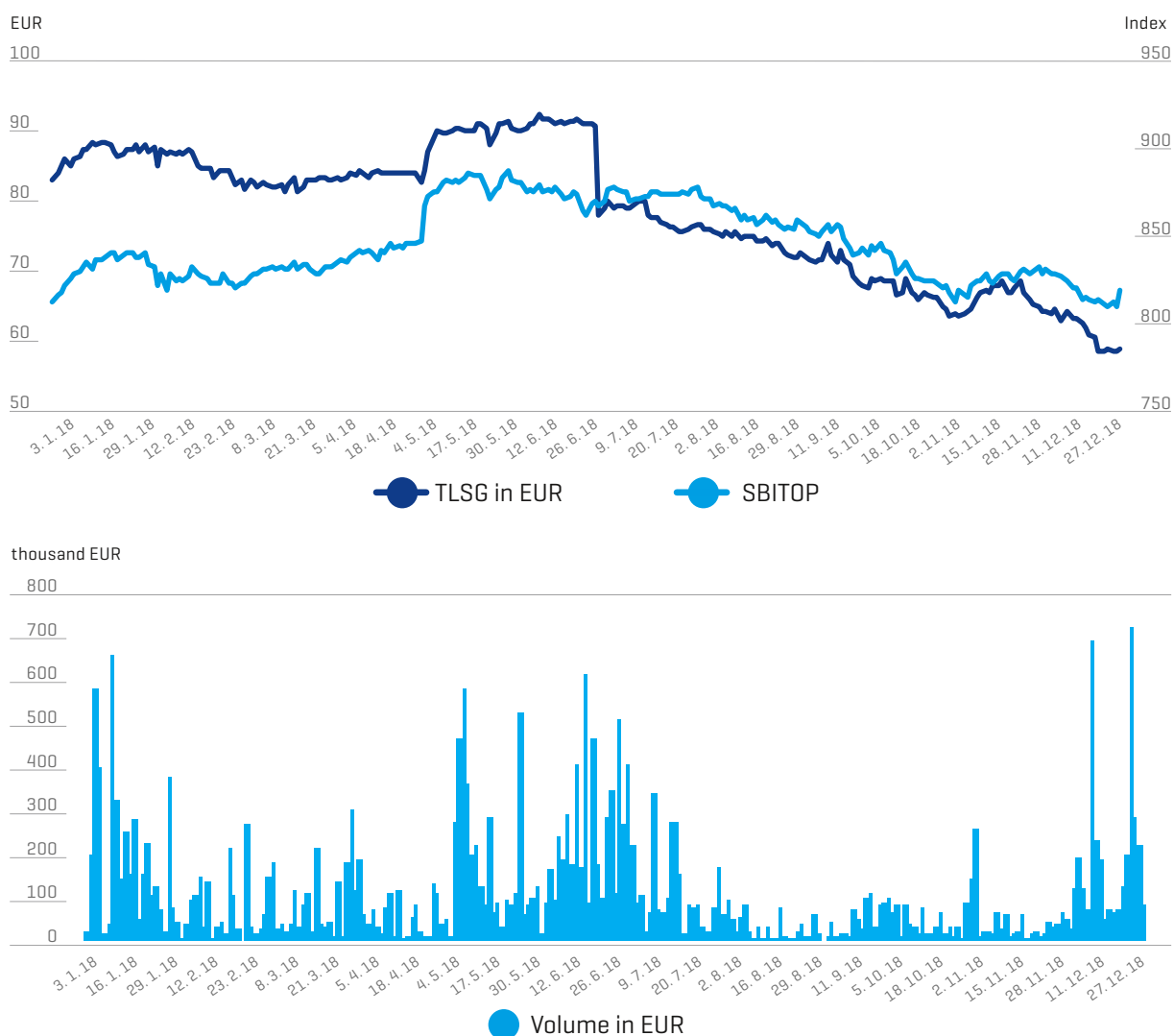
At EUR 27.2 million, turnover in Telekom Slovenije shares in 2018 was higher than the previous year, and accounted for 7.1% of total turnover on the stock exchange. The price of TLSG shares closed at EUR 59.00 on the last trading day of 2018, a year-on-year decrease in value of 28.8%. The highest share price of EUR 92.40 was achieved in June. The market capitalisation of Telekom Slovenije stood at EUR 385.6 million at the end of the year, and accounted for 6.1% of the market capitalisation of all shares on the stock exchange.

Trading statistics for TLSG shares on the Ljubljana Stock Exchange

Standard price in EUR	2018	2017
Highest daily price	92.40	88.00
Lowest daily price	58.60	71.01
Average daily price	78.56	83.07
Volume in EUR thousand		2017
Total volume for the year	27,215.12	23,839.50
Highest daily volume	730.51	1,253.18
Lowest daily volume	0.38	0.25
Average daily volume	112.00	97.70

21 GRI GS 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 2018	31 December 2017
Closing price [P] of one share on the last trading day of the period in EUR	59.00	82.88
Book value [BV] ¹ of one share in EUR	94.81	104.18
Earnings per share [EPS] ² in EUR	5.12	1.39
Market to book value ratio	0.62	0.80
Capital return per share during the period in % ³	-28.81	16.57
Dividend yield ⁴	24.24	6.03

Notes:

¹The 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.

²Net 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.

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

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

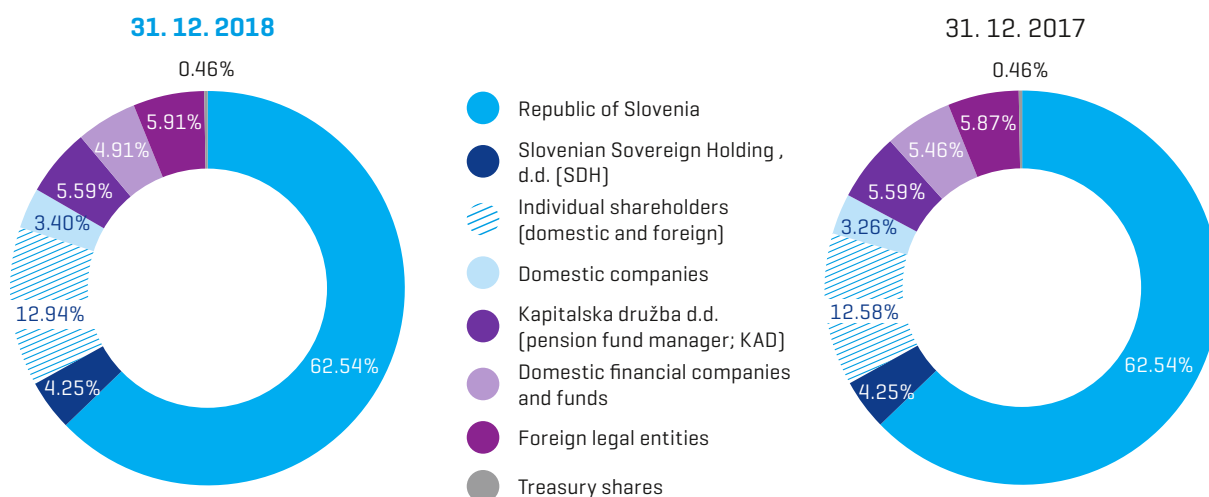
OWNERSHIP STRUCTURE AND LARGEST SHAREHOLDERS AT THE END OF 2018²²

Telekom Slovenije had 9,407 shareholders at the end of the year, a decrease of 192 on the end of 2017. The number of individual shareholders was down by 181.

With a total stake of 94% at the end of the year, domestic investors remain predominant in the Company's ownership structure. The Company's largest shareholder remained the Republic of Slovenia, together with Kapitalska družba, Slovenski državni holding, the First Pension Fund of Modra zavarovalnica and the latter's guarantee fund. Collectively, 73.46% 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 2018. Domestic and foreign corporates also increased their ownership stake, while domestic financial corporations and funds reduced their stake.

Comparison of the ownership structure

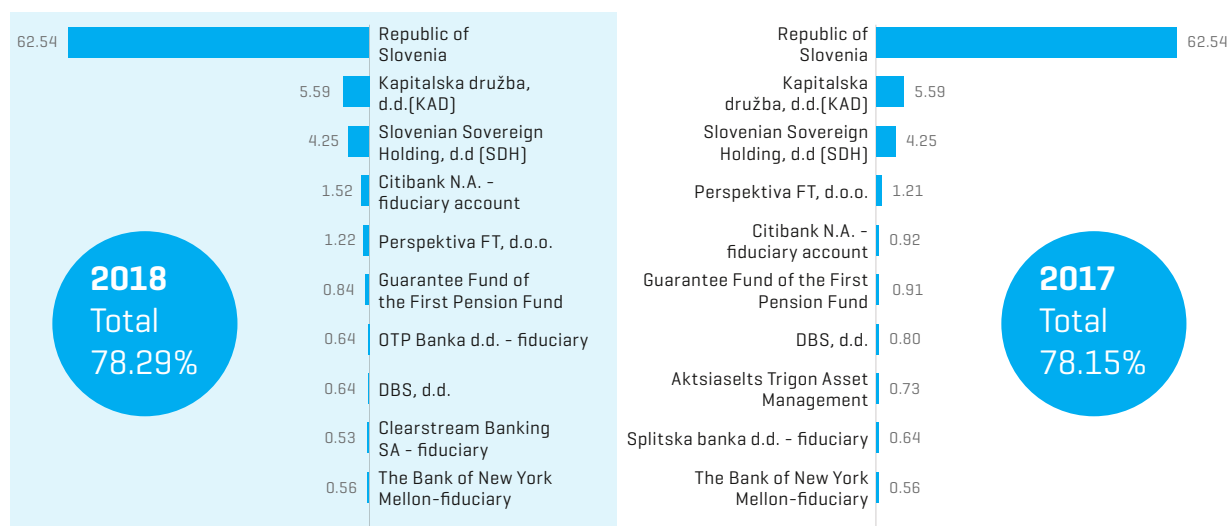


Changes in the ownership structure by shareholder category

Shareholder	% of ownership as at 31 December 2018	% of ownership as at 31 December 2017	Annual change in percentage points
Individual shareholders (domestic and foreign)	12.94	12.58	0.36
Slovenian corporate investors	3.40	3.26	0.14
Slovenian financial corporations and funds	4.91	5.46	-0.54
Foreign corporate investors	5.91	5.87	0.04

TEN LARGEST SHAREHOLDERS

The concentration of ownership, as measured by the ownership stake held by the ten largest shareholders, stood at 78.29% at the end of the year, an increase of 0.14 percentage points in year-on-year terms. There was also a change in the structure of the ten largest shareholders. Re-entering the top ten were Clearstream Banking SA from Luxembourg and OTP banka from Croatia, the latter as the result of the absorption of Splitska banka.



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

Members of the Management Board and Supervisory Board held 553 TLSG shares as at 31 December 2018. The total number of shares held by the Management Board and Supervisory Board was up by 105 relative to the end of 2017, as the result of changes in the composition of the two aforementioned bodies.

Name	Office	Number of shares	% of equity
Management Board			
Rudolf Skobe, MSc	President of the Management Board	300	0.00459
Dean Žigon	Member of the Management Board and Workers' Director	1	0.00002
Supervisory board			
Drago Kijevčanin	Vice-President of the Supervisory Board	212	0.00324
Dušan Pišek	Member of the Supervisory Board	36	0.00055
Jana Žižek Kuhar	Member of the Supervisory Board	4	0.00006
Total Management Board and Supervisory Board		553	0.00846

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 Shares of Telekom Slovenije.



INVESTOR RELATIONS²³

The Telekom Slovenije Group communicates regularly and comprehensively with existing and potential shareholders, and other interested parties. To that end, we adhere to the principle of ensuring equal treatment, transparency, timeliness and the accuracy of information. The transparency of 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 conference calls and email [ir@telekom.si, skupscina@telekom.si in dividenda@telekom.si].

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

We carried out the following activities in 2018 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 provided 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.

We regularly publish price-sensitive and other important information on the Company's website in the Investor relations section and in the Ljubljana Stock Exchange's SEOnet system. A total of 29 press releases were issued in 2018, with simultaneous publication in Slovene and English.

FINANCIAL CALENDAR

The financial calendar for 2018 was published in the Ljubljana Stock Exchange's SEOnet system, and is also accessible on the Company's website at <https://www.telekom.si/en/investor-relations/financial-calendar>, where any changes to the financial calendar are also published.

DIVIDEND POLICY

Telekom Slovenije has a long-term stable dividend policy that pursues a balance between profits for owners and the use of free cash flow for the financing of investments, with the aim of ensuring long-term growth and thus the maximisation of value for owners.

At the 29th General Meeting of Shareholders held on 11 May 2018, shareholders adopted a resolution on the use of distributable profit for the 2017 financial year. Dividends in the gross amount of EUR 14.30 per share were paid in July 2018. With the entry into force of the Common European Standards for Corporate Actions, which cover the payment of dividends, dividend payments are carried out via KDD and its members, brokerage firms and banks.

TREASURY SHARES

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 2018, representing 0.46% of equity.





BUSINESS REPORT

A WORLD OF SIMPLICITY

We believe in technological progress and digitalisation for all. Simplicity is thus our guiding principle, as we transform seemingly complex services into friendly and understandable solutions that impress and inspire our users.





2 BUSINESS REPORT

2.1 FINANCIAL RESULTS

INCOME STATEMENT ANALYSIS

The Telekom Slovenije Group generated EUR 731.2 million in **operating revenues** in 2018, an increase of 1% relative to the previous year. Net sales revenue amounted to EUR 715.1 million and was at the level achieved in 2017. We achieved higher revenues in the fixed segment of the end market, primarily due to growth in revenues from broadband and IT services. Through the aforementioned revenues and new revenue sources [energy, insurance and financial services], we are offsetting lower revenues from mobile subscribers, who are migrating to new, more affordable packages, and the expected drop in revenues from traditional fixed voice telephony services, which are being replaced by mobile and IP telephony. Lower revenues on the wholesale market are the result of lower revenues from transit traffic. Lower revenues abroad were the result of lower revenues from incoming calls in Kosovo due to the increasing use of free online voice applications.

The **operating expenses** of the Telekom Slovenije Group amounted to EUR 713.3 million, a decrease of 1% relative to 2017. The historical costs of goods sold and costs of materials were up by 35% and 2%, respectively, as the result of higher sales. Depreciation and amortisation costs were up by 2%, while other expenses were lower compared with the previous year.

Earnings before interest, taxes, amortisation and depreciation (EBITDA) amounted to EUR 185.5 million, an increase of 10% relative to 2017, and accounted for 25.9% of net sales revenue, an increase of 10% or 2.3 percentage points relative to the previous year.

Earnings before interest and taxes (EBIT) reached EUR 17.9 million, an increase of EUR 13.4 million relative to 2017, when provisions were created to ensure stable and development-oriented operations in the future.

Disclosed in **finance income** is the effect of the withdrawal from the market of Bosnia and Herzegovina and the related sale of Blicnet. Finance income totalled EUR 23.2 million. Finance costs in the amount of EUR 7.3 million were down 12% relative to 2017. Interest expense was lower due to the reduced balance of loans raised and the fact that better terms and conditions were achieved than planned.

Following the calculation of income tax (including deferred taxes), the Telekom Slovenije Group generated a **net profit** of EUR 33.3 million in 2018, compared with EUR 9.0 million in 2017.

ANALYSIS OF THE STATEMENT OF FINANCIAL POSITION

Total assets amounted to EUR 1,232.7 million as at 31 December 2018, a decrease of 9% or EUR 119.3 million on the balance at the end of 2017.

Non-current assets totalled EUR 950.9 million, a decrease of 4% or EUR 39.1 million relative to the end of 2017. The proportion of the Group's total assets accounted for by non-current assets was 77.1% [2017: 73.2%]. Intangible assets were down by EUR 25.4 million, while other non-current assets were up by EUR 5.0 million, primarily due to higher non-current operating receivables from instalment payments. The balance of property, plant and equipment was down by EUR 23.6 million due to lower investments and the sale of Blicnet.

Current assets amounted to EUR 281.9 million, a decrease of 22% or EUR 80.2 million. Of that amount, current financial assets were down by EUR 77.9 million, while cash and cash equivalents were down by EUR 18.6 million. Operating and other receivables were up by EUR 32.8 million on the end of 2017.

Equity and reserves totalled EUR 619.6 million, a decrease of 9% or EUR 61.2 million relative to the end of 2017, and represented 50.3% of total assets [2017: 50.4%].

Non-current liabilities in the amount of EUR 364.6 million represented 29.6% of total assets. They were up by EUR 6.2 million on the end of 2017, primarily due to an increase in non-current financial liabilities (which were up by EUR 41.5 million), while provisions for lawsuits and severance pay as the result of personnel restructuring were down by the total amount of EUR 35.7 million in 2018.

Current liabilities amounted to EUR 248.4 million, a decrease of 21% on the end of 2017, and accounted for 20.2% of total assets, mainly on account of a decrease in short-term loans raised by EUR 64.4 million.

ANALYSIS OF THE STATEMENT OF CASH FLOWS

In addition to investments in fixed assets in the amount of EUR 133.9 million, major items **among outflows for investing activities** included the purchase of the subsidiary Infratel (EUR 3.5 million) and the purchase of a minority interest in IPKO (EUR 3.0 million).

The Group's **inflows from investing activities** in 2018 included EUR 77.0 million in called deposits placed for more than three months, the repayment of loans granted in the amount of EUR 381.5 thousand, dividends from investments in shares in the amount of EUR 170 thousand and proceeds from the sale of fixed assets in the amount of EUR 1.3 million.

The Group's **outflows from financing activities** included the repayment of the short-term portion of long-term loans in the amount of EUR 115.5 million (accounted for primarily by a syndicated loan), for which the Group paid EUR 6.4 million in interest, together with interest on issued bonds. Based on the dividends approved by the General Meeting of Shareholders, the total amount of EUR 93 million was paid to shareholders in July.

The Group's **inflows from financing activities** included EUR 65 million in long-term loans and the net amount of EUR 28 million in short-term revolving loans (comprising inflows in the amount of EUR 309 million netted against repayments of EUR 281 million).

More information can be found in the [financial report](#) beginning on page 178.

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 two segments: Slovenia and other countries. More details are provided in the Financial Report in [3.2.2 Notes to the consolidated financial statements](#), point 6. [Segment reporting](#).





KEY FINANCIAL INDICATORS FOR THE TELEKOM SLOVENIJE GROUP AND TELEKOM SLOVENIJE, D. D.²⁴

in EUR thousand and %	Telekom Slovenije Group			Telekom Slovenije		
	2018	2017	Index 18/17	2018	2017	Index 18/17
Net sales revenue	715,051	716,174	100	639,672	645,190	99
Other operating revenues	16,169	9,867	164	13,598	8,034	169
Total operating revenues	731,220	726,041	101	653,270	653,224	100
EBITDA	185,524	168,740	110	148,116	138,329	107
EBITDA margin = EBITDA / net sales revenue	25.9%	23.6%	110	23.2%	21.4%	108
EBIT	17,932	4,561	393	15,303	3,515	435
Return on sales = EBIT / net sales revenue	2.5%	0.6%	394	2.4%	0.5%	439
Net profit	33,322	9,023	369	34,027	1,720	-
Assets	1,232,719	1,351,994	91	1,223,526	1,337,559	91
Equity	619,628	680,865	91	634,196	694,355	91
Return on assets (ROA)	2.6%	0.7%	389	2.7%	0.1%	-
Return on equity (ROE)	5.1%	1.3%	394	5.1%	0.2%	-
Equity ratio	50.3%	50.4%	100	51.8%	51.9%	100
Net financial debt	352,484	281,785	125	350,395	249,673	140
NFD / EBITDA	1.9	1.7	114	2.4	1.8	131
Investment in property, plant and equipment [CAPEX]	133,864	158,935	84	110,774	141,383	78
EBITDA – CAPEX	51,660	9,805	527	37,342	-3,054	-
Ratio of [EBITDA – CAPEX] to EBITDA [cash margin]	27.8%	5.8%	479	25.2%	-2.2%	-
No. of employees according to the situation as at the final day of the period	3,530	3,673	96	2,196	2,338	94
CAPEX as a proportion of operating revenues	18.3%	21.9%	84	17.0%	21.6%	78

More information can be found in the [financial report](#) beginning on 178.

2.2 FINANCIAL MANAGEMENT AND PERFORMANCE

Through the Telekom Slovenije Group's financial policy, we ensure the financial stability of the entire Group. This is achieved primarily through successful operations, the active planning and management of cash flows, ensuring the appropriate maturities and the diversification of financial debt, financing within the Group, the optimisation of working capital and the management of financial risks.

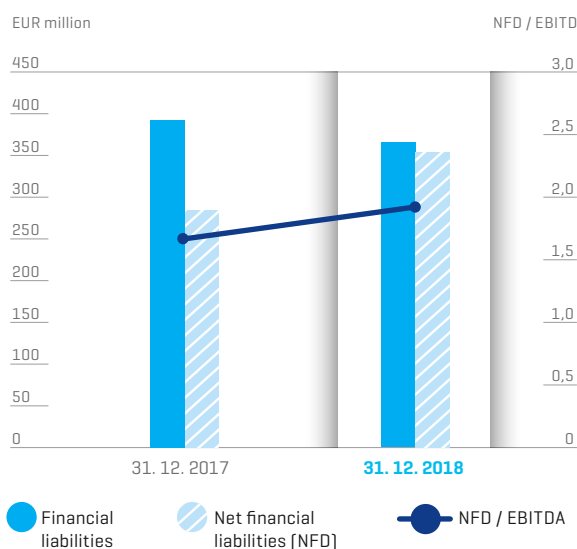
Indebtedness is relatively low at the Group level. The net financial debt to EBITDA ratio was 1.9 at the end of the year. The Group's total financial liabilities amounted to EUR 363.3 million at the end of 2018, and primarily comprised a long-term syndicated loan in the amount of EUR 234.2 million and five-year bond in the amount of EUR 100 million.

24 GRI GS 102-7, 102-10, 201-1

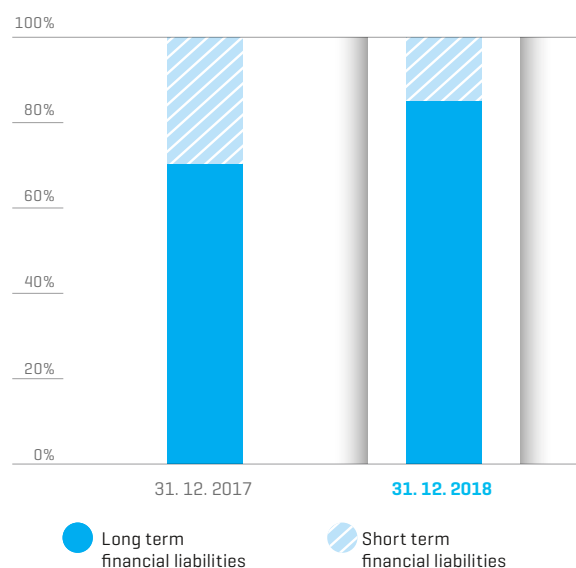
Net financial debt (NFD) of the Telekom Slovenije Group

The Group regularly settles its liabilities to creditors. A total of EUR 115.4 million in long-term loans was repaid in 2018.

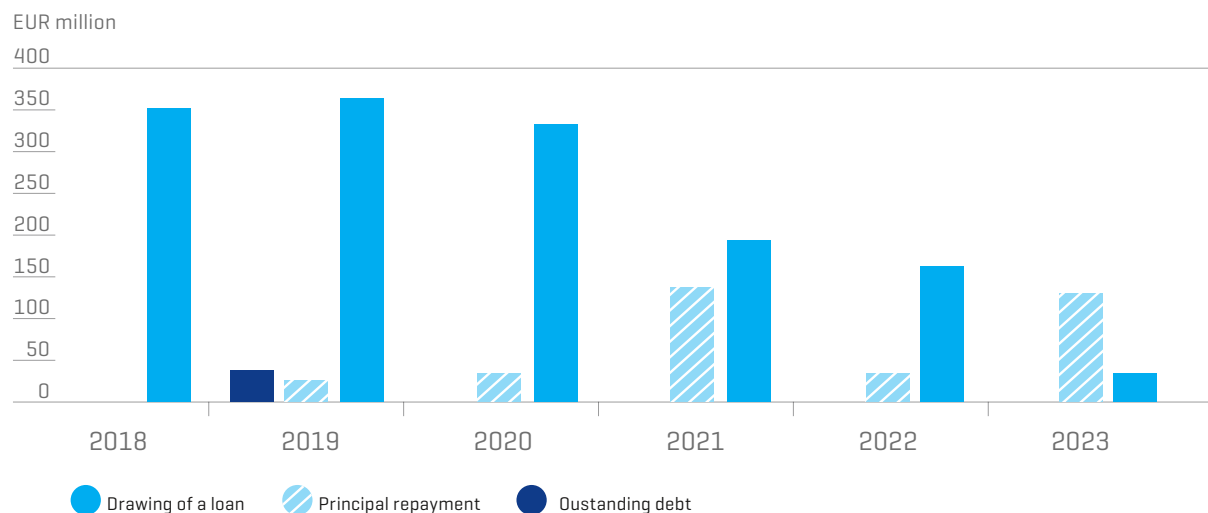
An annex was signed in December 2018 to an existing long-term syndicated loan agreement that was signed by Telekom Slovenije and a syndicate of banks in 2016. The Group further strengthened the stability of the maturity structure of financing through a new tranche of the long-term syndicated loan in the amount of EUR 100 million (which had not been drawn in full at the end of 2018) and the extension of the maturity of an existing tranche, likewise in the amount of EUR 100 million.



Maturity breakdown of financial liabilities



Repayment plan for existing long-term debt (loans and bonds)



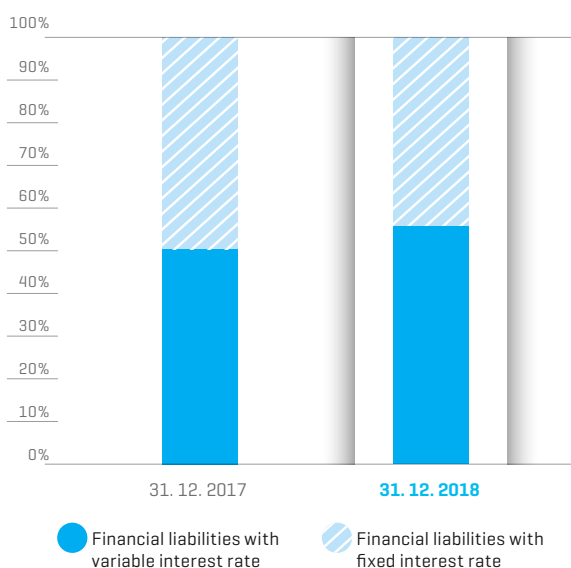


At 72.4%, loans raised account for the majority of external sources of financing, followed by issued bonds at 27.6%, while finance leases account for a negligible amount.

The majority of loans raised bear variable interest rates linked to the 3- and 6-month EURIBOR, while a previously drawn short-term revolving loan bears a fixed interest rate. 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 150 basis points at the end of 2018.

Fixed or hedged interest rates account for 54.5% of interest-bearing financial liabilities at the Group level.

Ratio of variable- to fixed-rate (or interest-rate hedged) sources of financing



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. Total liquidity reserves amounted to EUR 142 million at the end of 2018, and took the form of approved but undrawn long-term and short-term revolving credit lines.

FINANCIAL RISK MANAGEMENT

A detailed description of financial risk management is found in section [2.4 Risk management](#) and in the financial report in points [45](#) and [43 Financial risk management](#).

FULFILMENT OF FINANCIAL COMMITMENTS

Creditor banks require the maintenance of 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 2018.

CREDIT RATING

At the beginning of January 2018 the ratings agency S&P confirmed Telekom Slovenije's long-term rating of BB+ with a stable outlook, issued in 2017. In July 2018 the same ratings agency reconfirmed the rating of BB+, but placed the Company on the "watch list" (Credit Watch Negative). S&P decided for the aforementioned definition due to the payment of significantly higher dividends than expected and the resulting expectations of increased pressure on the Company's future liquidity. A rating reassessment was carried out in February 2019, in which the ratings agency confirmed the current rating of BB+, but issued a negative outlook, which it based on the increase in planned outflows for investments in connection with the Company's operations on a highly competitive market.

2.3 INVESTMENTS IN FIXED ASSETS

INVESTMENTS IN FIXED ASSETS²⁵

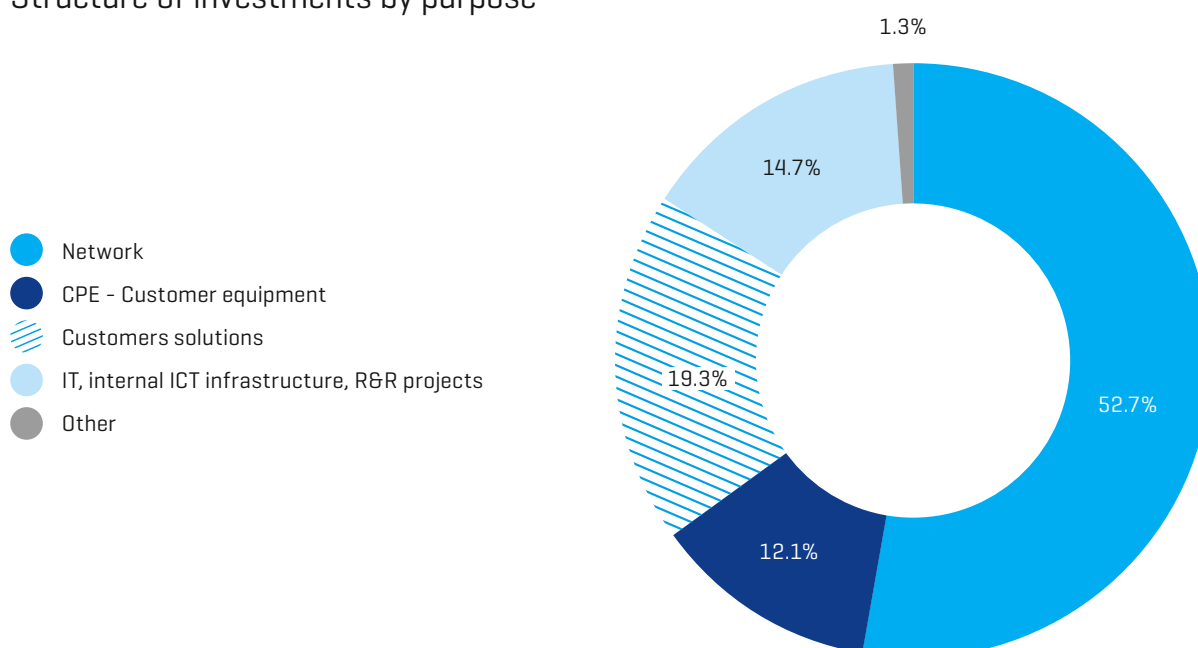
Through investments in the construction, modernisation and development of networks and services, we are creating a platform to attract new subscribers and secure new revenue sources. The majority of investments were earmarked for the expansion of the fibre optic access network, which will provide users 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 operations. For more details, see section [2.8 Network, technologies and IT](#).

The Telekom Slovenije Group earmarked EUR 133.9 million for investments in 2018, a decrease of 16% or EUR 25.1 million relative to 2017. Of the aforementioned amount, EUR 110.8 million was earmarked for investments by Telekom Slovenije, a decrease of 22% relative to the previous year, while the remainder was earmarked for investments in development by subsidiaries.

Investments by company

in EUR thousand	2018	2017	Index 18/17
Telekom Slovenije	110,774	141,383	78
Other companies in Slovenia	3,387	3,043	111
IPKO – Kosovo	16,148	11,100	145
Other companies abroad	10,725	5,077	211
Eliminations and adjustments	-7,170	-1,668	430
Telekom Slovenije Group	133,864	158,935	84

Structure of investments by purpose



²⁵ GRI GS 103-1, 103-2, 103-3, 203-1, GRI IO1

2.4 RISK MANAGEMENT

The risk management system is an integral part of our corporate governance. It facilitates the identification and assessment of risks, and the management of those risks through the appropriate measures and monitoring.

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. Risk management is comprehensively regulated by the Risk Management Policy, which is binding for all Group companies. The risk management system 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 that system. The Management Board is briefed continuously on risk assessments, the findings of internal audits and other reviews of operations. It responds to findings accordingly through a range of measures to manage risks and ensure compliance. It reports to the Supervisory Board and the latter's committees regularly with regard to significant findings and adopted measures.

Through the risk management framework, we have reasonable assurances that we will achieve business objectives and fulfil our obligations to stakeholders.

RISK MANAGEMENT APPROACH

Risk assessment is carried out quarterly within the Telekom Slovenije Group. Risk owners at the parent company assess the effect of risks according to previously adopted measures and established internal controls, as well as the frequency of events. Should extraordinary events occur, their effect is also assessed. That effect is calculated on the basis of various models.

Subsidiaries report material risks to the parent company. Risks are classified on the basis of their effect and the probability of an event.

The risk officer reports on risks to the **Risk Committee**, which meets quarterly or more frequently, as required.



7 sessions

The risk officer reports to the **Internal Controls Committee**, which meets three times a year, with regard to the system and functioning of internal controls.

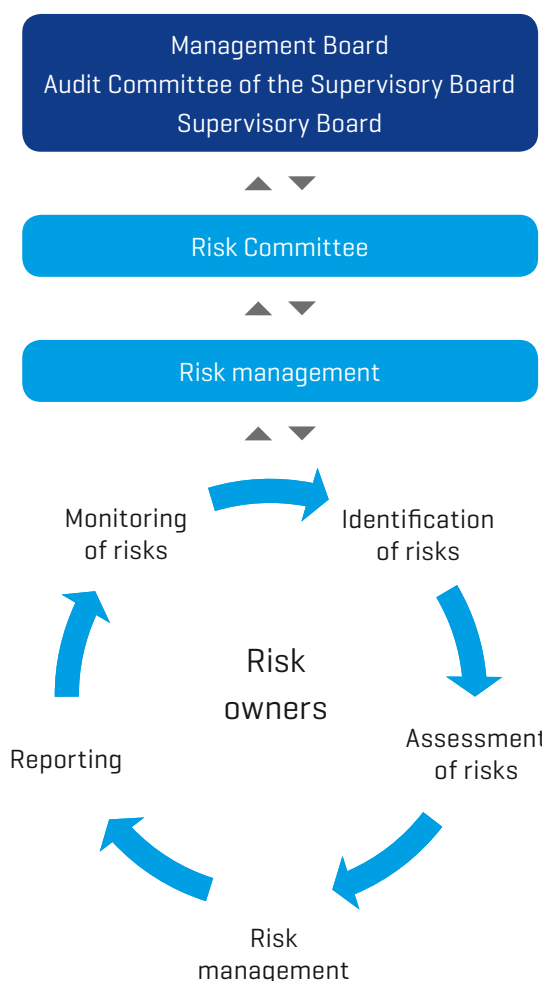


3 sessions

Risks are also reported quarterly to the Supervisory Board's **Audit Committee**.



4 sessions



IMPROVEMENTS TO THE RISK MANAGEMENT PROCESS

We continuously improve the risk management process, and actively work with risk owners and the Internal Audit Service.

Register of risks and internal controls

In 2018 Telekom Slovenije inventoried internal controls for all processes, and updated the register of risks and internal controls. Those responsible for business processes also assessed internal controls, and thus confirmed the establishment and functioning of those controls. A self-assessment of internal controls at subsidiaries will be completed in 2019. We will standardise the register of risks and internal controls at the Group level.

Expansion of the risk management framework

Risk owners at subsidiaries report on material risks, which they classify based on the effect and probability of an event. For the purpose of consolidating the quantified effects of risks,

we will introduce a standard risk assessment methodology at all subsidiaries based on the effect and frequency of events.

Quantification of risks

We have developed an internal risk assessment model based on the Monte Carlo simulation. For the purpose of consolidating the quantified effects of risks, we will introduce that methodology at all subsidiaries.

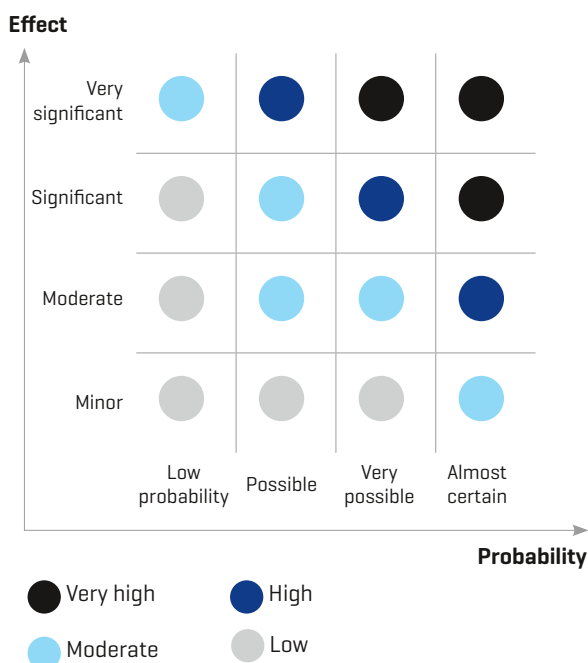
Development of the risk management culture

We place a great deal of emphasis on establishing the desired culture, conduct and awareness about risks. To that end, we organised several training events and workshops in cooperation with the Internal Audit Service and compliance officers. We also work closely with risks owners in the scope of quarterly assessments.

Monitoring of developments in the area of risks

The Company regularly monitors risks in the sector, risk trends and the latest developments in specialist fields.

RISKS WITHIN THE TELEKOM SLOVENIJE GROUP



The basic methodology is based on the COSO²⁶ ERM method and is in line with the ISO 31000:2018 standard.

Risks are classified in terms of materiality, taking into account the level of risk, which is calculated by multiplying the effect times the frequency or probability of an event.

Acceptable levels of risk depend on the associated objectives and the types of risk. We are not prepared to take up risks that harm Telekom Slovenije's reputation, risks that result in the loss of corporate integrity or risks in the area of occupational health and safety.

The tables below present key risks during the final quarter of 2018.

26 Committee of Sponsoring Organizations of the Treadway Commission [COSO].

TELEKOM SLOVENIJE

STRATEGIC 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, while 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.

Risk	What is the risk?	What is the effect?	How is the risk managed?
Diminishing profitability of subscribers and services – B2C  Level of risk	Aggressive competition in the development of services and package offers, reduction of the general level of prices of services, rapid changes to the portfolio and unlimited packages.	Loss of revenues.	Optimisation of the portfolio in terms of content and price, adaptation of products to target segments of users and innovative products.
Loss of subscribers – B2C  Level of risk	Loss of subscribers due to migrations between operators.	Loss of revenues.	Adaptation of the portfolio, introduction of new products, provision of high-quality services, promotional sales activities and improvement of the user experience.
Drop in revenues due to regulatory obligations – wholesale market  Level of risk	Risk of a drop in revenues due to new regulatory obligations on regulated markets – new models for setting wholesale prices.	Loss of revenues.	Active participation in the analysis of the market and supervisory proceedings, monitoring of market development, and adaptation of the wholesale portfolio in accordance with regulatory obligations and the needs of the market.
Loss of subscribers – B2B  Level of risk	Loss of subscribers due to changes on the market, new technologies, entry of new competitors and the new portfolios of the competition.	Loss of revenues.	Adaptation of the portfolio, introduction of new products, provision of high-quality services, promotional sales activities, management of subscriber relations and improvement of customer support processes.
Diminishing profitability of subscribers and services – B2B  Level of risk	Risk of loss as the result of the diminished profitability of services due to the provision of a wider range of services for the same price, and diminishing margins on services.	Loss of revenues.	Optimisation of the portfolio in terms of content and price, training in the area of project management and innovative products.

FINANCIAL RISKS

Telekom Slovenije actively monitors the dynamics of the financial environment, as that environment could have as a consequence various types of financial risks. We actively monitor liquidity, credit and interest-rate risks.

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

Credit risk is managed through the active monitoring of the operations of customers and their credit ratings, and by limiting maximum allowable exposures. We further hedge against

the risk of the deteriorating financial position of customers through credit insurance and by regularly monitoring the appropriateness thereof. Monitoring of the settlement of contractual obligations and the active recovery of past-due debt are also elements of the Telekom Slovenije's systematic credit risk management tool.

Liabilities linked to variable interest rates account for 68.81% of the Group's total interest-bearing financial liabilities. We hedge against interest-rate risk by concluding interest rate swaps. Fixed or hedged interest rates account for 54.53% of interest-bearing financial liabilities at the Group level.

Risk	What is the risk?	What is the effect?	How is the risk managed?
Subscriber credit risk  Level of risk	Risk of failure on the part of subscribers to fulfil their financial liabilities or failure to fulfil liabilities by the requisite deadlines.	Higher receivables.	Consideration of subscribers' credit ratings, debt recovery and collateralisation of potential claims.

REGULATORY AND COMPLIANCE-RELATED RISKS

Regulatory risks 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.

At the end of 2018 the Directive establishing the European Electronic Communications Code [EECC] was adopted. That directive includes measures for stimulating competition and investments in very high-capacity electronic communications networks and covers various areas of electronic communications. The deadline for the transposition of the aforementioned directive into national law is two years from its entry into force. The EU Council also adopted the BEREC regulation, the aim of which is to provide aid to Member States for the expansion of very high-capacity electronic communications networks, and for the continuous and consistent application of the regulatory measures set out in the aforementioned code. The regulation, which will be applied directly in Member States from 15 May 2019 on, also envisages limits on the retail prices of calls and SMS messages within the EU. Telekom Slovenije also takes into account sectoral and framework regulations when

introducing new services. The regulation governing geo-blocking also entered into force on 3 December 2018. New rules for electronic services, such as cloud services, data warehousing and website hosting, state that distinguishing between customers and setting different conditions or prices for customers from other EU countries will no longer be permitted.

The most significant risks in terms of compliance that could have a major impact on the Company's operations are risks associated with competition law and personal data protection.

Risks associated with competition law derive from the Telekom Slovenije's dominant position on several markets. Breaches of the rules of competition law (including the abuse of a dominant position) could have serious consequences for the Group and its employees: The Prevention of the Restriction of Competition Act [ZPOMK-1] envisages fines of up to 10% of a company's annual turnover. Claims for damages filed by third parties and the loss of reputation are also possible. We defined processes and established internal controls to manage such risks.

Due to the large volume and nature of personal data processed by the Company in the provision of services, risks associated with personal data protection are also very prominent. The General Data Protection Regulation entered into force on 25 May 2018.²⁷ Potential breaches of personal data protection could result in the loss of the Company's reputation and thus have an adverse effect on operations. The aforementioned regulation also carries high fines. Telekom Slovenije has adapted its operations to the requirements of the General Data Protection Regulation. Risks associated with personal data protection are managed through a system of internal controls that address such risks.

Risk	What is the risk?	What is the effect?	How is the risk managed?
Risk of regulatory pressures on the markets of fixed and mobile electronic communications  Level of risk	New models for setting prices and additional obligations for regulated services.	Higher costs and the loss of revenues.	Monitoring of market developments and conditions on other EU markets; active participation in the analysis of the market and briefing of the relevant EU institutions; use of available legal remedies; participation in the implementation of decisions issued by the regulator; and active participation in the process of adopting laws and other acts.
Compliance in the area of competition law  Level of risk	Loss of reputation and fines or claims for damage due to breaches of regulations governing competition.	Loss of reputation, payment of fines and claims for damage.	Implementation of Guidelines for Ensuring Compliance with Competition Law and the establishment of internal controls; employee training in the area of compliance.
Compliance in the area of personal data protection  Level of risk	Loss of reputation and trust of customers, and fines or claims for damage due to breaches of personal data protection.	Loss of reputation, loss of customers, payment of fines and claims for damage.	Implementation of legal requirements and internal acts, including internal controls in the area of personal data protection; provision of the relevant information to and ensuring the rights of individuals; and employee training in the area of personal data protection.

OPERATIONAL RISK

Operational risks are managed through established internal controls and various measures. We also dedicated a great deal of attention in 2018 to managing operational risks associated with ICT security and the functioning of systems. Given the rapidly changing market conditions, we dedicated the majority of attention to the management and development of staff in this area.

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, by improving operational efficiency and by supporting new business opportunities. Operations support systems [OSS] are and will continue to be a key differentiating factor between operators on the B2C, B2B and wholesale markets. One objective of the OSS strategy in the period until 2023 is to ensure that the Telekom Slovenije Group has one of the most effective, most responsive and most flexible OSS, including a high level of automation in operational processes that facilitate the shortening of time required for processes, a reduction in the number

²⁷ Regulation [EU] 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC [General Data Protection Regulation].

of participants in processes, a decrease in the number of errors in the flow of processes, and a reduction in the operational costs of processes.

In terms of business continuity, we ensure the necessary capacities of the ICT infrastructure and services, and of transmission, backbone and access segments. 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.

In the area of ICT security, we continuously develop systems for monitoring technologies and anomalies in the ICT infrastructure and services, and conduct internal and external penetration testing. Together with a team of cyber security experts and external partners, we established the Cyber Security Operation Centre (CSOC) and received the first market references. With the aim of managing risks, we are implementing

security policies, identifying security threats and vulnerabilities, and spreading the security culture to employees and the users of services.

We implement updates and increase capacities through redundancy in those network segments where we have identified increased functional and security-related risks. The risks associated with the malfunctioning of connections and services provided by other entities are managed by introducing processes to monitor and report on SLA indicators on leased networks, and by standardising requirements vis-à-vis network providers for newly leased networks. We have established continuous notification regarding planned works on the networks of operators.

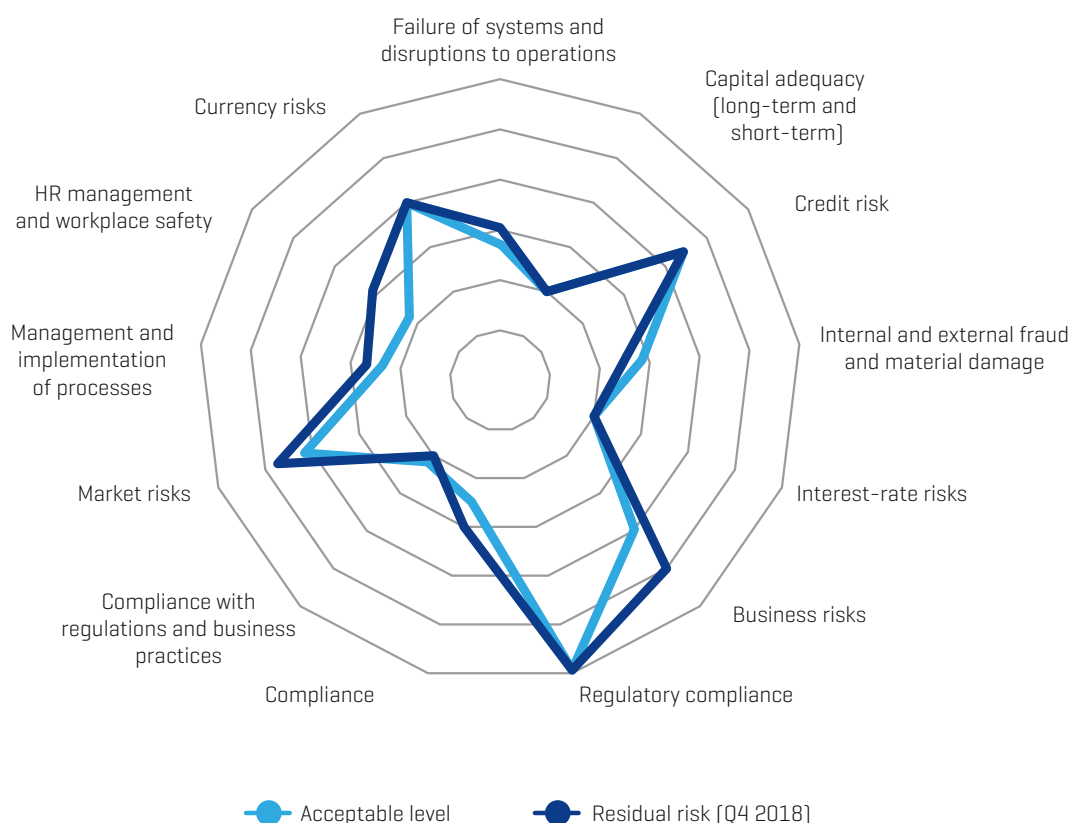
We also face human resource risks, as it is increasingly difficult to recruit and retain qualified employees due to market conditions and increased demand for professionally qualified personnel. With the aim of retaining employees, we are implementing systematic development and career planning, the transfer of knowledge and training, and thus ensure a motivational remuneration system.

Risk	What is the risk?	What is the effect?	How is the risk managed?
Risks associated with the unfavourable results and conditions of frequency auctions  Level of risk	Risks associated with the unfavourable results and conditions of frequency auctions.	Higher costs.	Active participation in the drafting of the strategy on the allocation of the frequency spectrum; monitoring of the conditions for and manner in which the frequency spectrum is allocated on other EU markets; and cooperation and the submission of comments and recommendations regarding published documents that will define conditions for the allocation of the frequency spectrum.
Functioning of systems – ICT security  Level of risk	Risks associated with the secure provision of services to users and the protection of data against hacks into information systems.	Loss of revenues and reputation, higher costs and user dissatisfaction.	Establishment of the CSOC; regular preventive penetration testing; expansion of the security culture; and monitoring of technological development.
Functioning of systems – operational support systems (OSS)  Level of risk	Risks associated with the functioning of operational support systems for key business processes (services) due to the failure of network elements.	Loss of revenues and reputation, higher costs and user dissatisfaction.	Management and development of support systems for automated fulfilment and assurance processes; adaptation of systems due to changing laws and regulations.

Risk	What is the risk?	What is the effect?	How is the risk managed?
Functioning of systems – backbone network Level of risk	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.	Loss of revenues and reputation, higher costs and user dissatisfaction.	MPLS-core management strategy; continuous improvements to operational and security procedures and knowledge, and strengthening of personnel; comprehensive information security management system (ISMS).
Acquisition and implementation of sales-related IT projects Level of risk	Development and introduction of new products and projects.	Higher costs.	Adaptation of the portfolio to market demands, improvements to the quality of services; training of sales staff.
Departure of key staff and the availability of employees with the relevant knowledge and certificates Level of risk	Departure of key staff, and employees with the relevant knowledge and certificates.	Loss of revenues and higher costs.	Development and career planning, transfer of knowledge and training, and remuneration and motivation systems to retain employees.

PRESENTATION OF RISKS BY RISK CATEGORY

The graph presents levels of risk at Telekom Slovenije by risk category during the final quarter of 2018 and a comparison with acceptable levels of risk.



AVTENTA

Risk	What is the risk?	What is the effect?	How is the risk managed?
Human resource risks Level of risk	Lack of experts in the service element of project implementation.	Higher costs.	Establishment of staff links with external partners; intensive recruitment of staff on the market.

ANTENNA TV SL

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

GVO

Risk	What is the risk?	What is the effect?	How is the risk managed?
Risks associated with rising prices of construction services Level of risk	Rising prices of subcontractors in the provision of construction services on account of economic growth and an increase in demand for construction works.	Higher costs and the loss of revenues.	Proof of the lack of justification of subcontractors' claims and the pass-through of rising subcontractor prices to investors; study of the formulation of internal construction teams; and adaptation of the organisation of work and internal processes.

SOLINE

Risk	What is the risk?	What is the effect?	How is the risk managed?
Risk associated with inclement weather Level of risk	Loss of salt production due to adverse weather conditions	Low salt production and drop in number of visits to the spa.	No insurance product to transfer risk.

TSMEDIA

Risk	What is the risk?	What is the effect?	How is the risk managed?
Risks associated with achieving planned revenues Level of risk	Reduced scope of advertising on outdoor screens and fewer visits to portals.	Loss of revenues.	Monitoring of sales and revenues; conclusion of annual agreements; exclusive sales of advertising products; bundling marketing; and the technical and design development of portals.
Compliance in the area of personal data protection Level of risk	Loss of reputation and trust of customers, and fines or claims for damage due to breaches of personal data protection.	Loss of reputation, loss of users, payment of fines and claims for damage.	Appointment of authorised officers; implementation of legal requirements and European directives; and employee training in the area of personal data protection.



BLICNET

Risk	What is the risk?	What is the effect?	How is the risk managed?
Risks associated with the sales process  Level of risk	Effect on the implementation of processes for the company's operations; departure of employees and the company's strategy.	Revised points of departure for plan.	Conservative approach to the disclosure of documentation regarding operations; organisation of operations for the implementation of processes; employee motivation.

IPKO

Risk	What is the risk?	What is the effect?	How is the risk managed?
Risk associated with the loss of users and revenues  Level of risk	Unfair and aggressive competition; risk of the loss of exclusive rights to TV content.	Loss of revenues.	Monitoring of market development; active adaptation of the portfolio; appropriate market approaches; use of legal remedies.
Risks associated with the regulator's methodology for purchasing frequencies  Level of risk	Methodology used by the regulator to set prices for the purchase of frequencies.	Higher costs.	Initiation of the relevant proceedings.
Risks associated with the copyright fee for the transmission of programmes  Level of risk	Costs of copyright fees that are paid to a collective rights organisation.	Higher costs.	Use of the appropriate legal remedies; acquisition of an independent expert assessment.

2.5 COMPLIANCE, COMPETITION PROTECTION AND AUDITING

2.5.1 COMPLIANCE AND ANTI-CORRUPTION²⁸

Compliance is crucial for the long-term successful operations of Telekom Slovenije and the Group. Through a compliance management system, we ensure additional mechanisms for operations that comply with the law, valid recommendations, internal regulations and ethical principles.

The compliance system focuses on the identification and mitigation of risks. Special emphasis is placed on measures in the area of competition law, the prevention of corruption, conflicts of interest, data protection and the prevention of money laundering. Playing an important role in that process are preventive actions, and rapid and effective measures in the event of identified breaches.

A compliance and integrity officer is responsible for the compliance function at Telekom Slovenije. That function is governed by the Telekom Slovenije Group's Compliance Management Policy, which applies to all Group companies.

28 GRI GS 103-1, 103-2, 103-3, 102-16, 205-1, 415-1

The **Code of Ethics of the Telekom Slovenije Group** sets out the basic principles of operations and the Telekom Slovenije Group's responsibilities in mutual relationships, and in relationships with the users of its services and all other stakeholders. Certain areas from the aforementioned code are also defined in more detail in other internal acts.

As a socially responsible company, we are aware of the importance of compliance throughout the entire supply chain. To that end, we adopted the Code of Conduct for the Suppliers of the Telekom Slovenije Group at the end of 2018. That code binds suppliers to act in accordance with valid national and international regulations in their operations, and to respect the highest standards of ethics and business conduct.

Telekom Slovenije dedicates special attention to the transparent regulation of conflicts of interest.

Guidelines relating to conflicts of interest

highlight the avoidance of conflicts of interest and the pursuit of personal interests. Those guidelines define the actions expected of employees should they find themselves in a conflict of interest, and the role of the Compliance Committee, which uses an online application to assess notifications received from employees.

Similar to other companies, Telekom Slovenije is subject to regulations governing competition law. As a dominant operator on specific markets, we dedicate special attention to this area. This is reflected in the internal **Guidelines on Assuring Compliance with Competition Law**, which define procedures and internal controls for assuring compliance with competition law, and provide various instructions to employees on how to act in certain situations.

Using different channels, employees and the general public may anonymously and confidentially **report breaches** of the Code of Ethics and other internal acts, or identified illegal conduct. A system for receiving, handling and investigating reports has been in place within the Group since 2014. A Whistleblowing Committee has also been appointed to propose the adoption of measures in the event of identified breaches.

No cases of corruption were confirmed within the Telekom Slovenije Group in 2018.

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**. Those rules are also in line with the Code of Ethics, which states that Group companies may not use their financial resources or in any other way support political parties.

As the leading Slovenian operator, Telekom Slovenije processes an enormous amount of personal data. We are aware that potential breaches of the protection of personal data could have a significant impact on the Company's reputation and the trust of users. Special care is therefore given to the area of personal data protection. Processes and services are developed taking into account the requirements of regulations and best practices in the area of personal data protection.

A significant new development in this area is the **General Data Protection Regulation** (known as the GDPR) adopted in 2018, which brought numerous changes to personal data administrators and processors. In accordance with the requirements of the GDPR, we began adapting our operations back in May 2017. We thus adapted personal data processing procedures, and in 2018 established the function of personal data protection officer and appointed a person to fill that position.

For the purpose of increasing transparency and providing information to individuals regarding the processing of personal data, we adopted the Privacy Policy, which provides subscribers and users general information regarding the processing of their personal data and regarding their rights in that regard. With regard to the provision of cloud services and the Company's associated IT services, we included the relevant provisions in the special terms and conditions on managed IT services.

We updated subscriber consents and the ways in which we obtain them. On the Moj Telekom (My Telekom) subscriber portal, we made it possible for subscribers and users to manage consents for their subscriber relations.

We also included the requirements of the GDPR in processes and procedures for handling potential breaches of personal data protection. As part of the aforementioned procedures and with the aim of ensuring personal data protection, Telekom Slovenije monitors threats and incidents that could affect data security. In the incidents handled in 2018, we identified one event in which the personal data of one individual were affected and personal data protection requirements were breached. The competent supervisory bodies were informed accordingly at the beginning of 2019.

The processing of personal data is governed by both general regulations and sectoral regulations. Most important amongst the latter is the Electronic Communications Act, which governs data processing in the provision of electronic communication services, i.e. the services that account for the largest and most important element of the Company's portfolio.

As a provider of payment services (Moneta), Telekom Slovenije is bound by the Prevention of Money Laundering and Terrorist Financing Act. A system is in place for the provision of Moneta services, as are rules, measures, procedures and internal controls aimed at the prevention of money laundering and terrorist financing. In the scope of these activities, we did not identify any Moneta transactions in 2018 for which money laundering or terrorist financing was suspected.

Employee awareness and training represent key preventive tools in the area of compliance. Telekom Slovenije therefore organises regular lectures, workshops and e-training events, and informs employees about specific activities and previously implemented mechanisms via the intranet or in electronic form.

Telekom Slovenije and its subsidiaries strive to pursue the highest ethical and business standards, such that we have established and regularly upgrade the compliance management system for the entire Telekom Slovenije Group. When implementing individual internal acts and measures, we take into account the specific circumstances of subsidiaries and valid local legislation.

2.5.2 COMPETITION PROTECTION AND PROCEEDINGS BEFORE THE COURTS AND OTHER BODIES²⁹

No new proceedings were initiated against Telekom Slovenije in 2018 due to the potential breach of competition rules or monopolistic behaviour. There were two significant proceedings in this area before the Competition Protection Agency (CPA) in previous years. Those proceedings are still pending.

Telekom Slovenije was party to the following significant proceedings before the courts in 2018:

- Telekom Slovenije and T-2 reached a court-brokered settlement, under which mutual relations arising from the commercial dispute involving a claim filed by T-2 for the payment of damages in the amount of EUR 129,556,756.00 and appertaining amounts, as well as other unsettled mutual relations, were put in order.
- The Administrative Court of the Republic of Slovenia issued a ruling in which it partially upheld the claim of Telekom Slovenije to reverse the decision of the Competition Protection Agency (CPA), in the part in which Telekom Slovenije was accused of abusing its dominant position on the inter-operator broadband access market with bit-streaming in the Republic of Slovenia, by allegedly conditioning the provision of wholesale broadband access services with bit-streaming to alternative operators on the acceptance of additional obligations, i.e. the obligation to lease a telephony connection by an end-user or operator, in the period from 1 July 2005 to 22 September 2008. The court reversed the CPA's decision in that part and returned the matter to the same body for readjudication. The court rejected the remainder of the claim.
- Telekom Slovenije received a decision from the Ljubljana Higher Court in the commercial dispute between Telekom Slovenije and Bojan Dremelj, Dušan Mitič, Filip Ogris Martič, Željko Puljić and Darja Senica for the payment of EUR 7,635,500.00 with appertaining costs. The Higher Court ruled in favour of Telekom Slovenije's claim, overturned the contested ruling and returned the matter to the court of the first instance for retrial.

Provisions for obligations arising from legal actions are disclosed in [31](#) of the financial report

29 GRI GS 206-1, 307-1

EXTERNAL SUPERVISION PROCEEDINGS

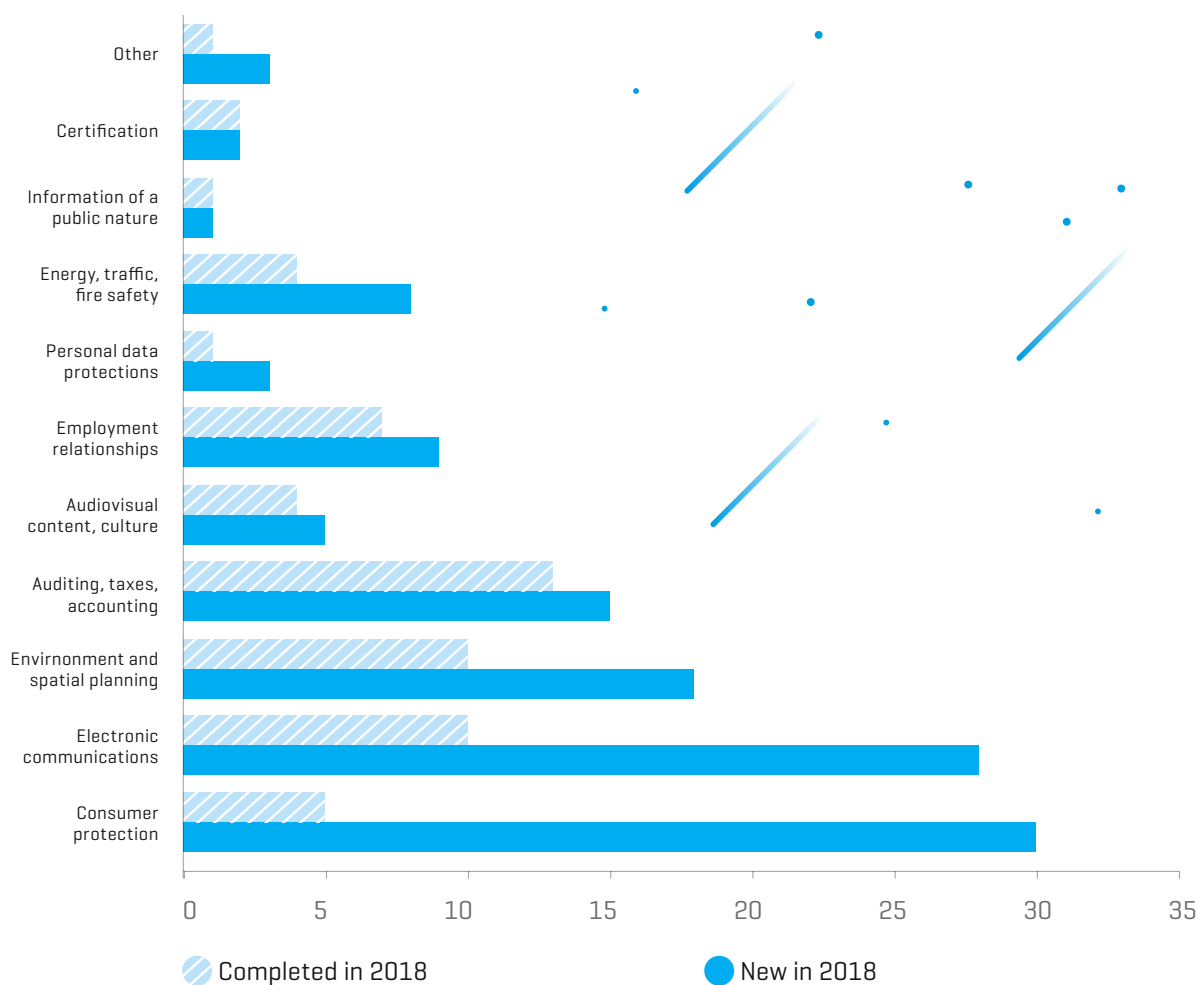
We define external supervision as an examination of the Company's operations to verify compliance with legal or contractual provisions or standards in the performance of its activities. The Telekom Slovenije Group has established the uniform recording and monitoring of external supervision proceedings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

There were a total of 122 external supervision proceedings within the Telekom Slovenije Group in 2018: 82 at Telekom Slovenije and 40 at subsidiaries. A total of 58 external supervisions proceedings were completed, 26 at Telekom Slovenije and 32 at subsidiaries.³⁰

NUMBER OF AND AREAS COVERED BY EXTERNAL SUPERVISION PROCEEDINGS

Of the 26 supervision proceedings completed at Telekom Slovenije, no irregularities or breaches were identified in 21 cases. Fines of EUR 1,000 and EUR 500 were imposed on the Company and its responsible person in one misdemeanour proceeding (half of the amount of the fines was paid). The Company was issued a written warning in one misdemeanour proceeding, while a misdemeanour and administrative warning was issued in another case. In one case, a decision was imposed on the Company, enforcing the disconnection of the facility of a third party in supervision proceedings. Irregularities in connection with the payment of import duties were identified in one case.

Review of supervision proceedings in 2018 by area



30 GRI GS 419-1

A total of 32 supervision proceedings were completed at subsidiaries. No irregularities or breaches were identified in 24 cases. Inspection authorities did not impose any fines on subsidiaries or their responsible persons.

- **Antenna TV SL:** decisions and a warning were issued to the company in two cases, while a warning was issued in another case.
- **GVO:** irregularities in connection with the company's VAT return were identified in one case.
- **Soline:** in one case, the company was issued a written warning and ordered to remove illegally disposed waste, and was ordered to remove municipal waste in another case.
- **TSmedia:** in one case, the company was issued a decision with a warning regarding compliance with the provisions of labour law.
- **Blicnet:** in one case, the company was issued a warning regarding audiovisual content.

2.5.3 AUDITING

INTERNAL AUDITING

Telekom Slovenije's Internal Audit Service (IAS) conducts internal auditing for all Telekom Slovenije Group companies. Through the effective and high-quality performance of its tasks, and by providing consultancy services, the IAS contributes to continuous improvements in the effectiveness of risk management, control procedures and corporate governance at Group companies. An independent external assessment in 2016 and internal assessments of quality in the years that followed have confirmed the compliance of the work of the IAS with the International Standards for the Professional Practice of Internal Auditing.

The areas of auditing for 2018 were defined in the IAS's work plan, and derive from its multi-year plan for the period 2018 to 2022. Annual and multi-year plans are adopted by the Management Board, and were also reviewed by the Audit Committee

and on its proposal gave approval the Supervisory Board. The IAS also performed extraordinary audits based on resolutions of the Supervisory Board or Audit Committee. External service providers were included in the performance of certain audits.

During audits of Group companies in 2018, the IAS assessed the effectiveness of internal control and risk management systems, governance in areas of information security, personal data protection and the effectiveness of planning procedures at subsidiaries, and the efficiency and effectiveness of procurement procedures, including compliance with labour law in the hiring of external workers. 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 adopted recommendations. It reports regularly to the Management Board and Supervisory Board's Audit Committee on findings and recommendations, and on the implementation thereof. It also provides consultancy services, particularly in the upgrading of the internal controls system.

EXTERNAL AUDITING

In accordance with the Guidelines for Ensuring the Independence of the Auditor of the Financial Statements of the Telekom Slovenije Group, the audit firm Deloitte Revizija was appointed to audit the Company's financial statements for the 2017, 2018 and 2019 financial year at Telekom Slovenije's 28th General Meeting of Shareholders. Audit costs are disclosed in the financial report in sections [43](#) and [41](#) Costs of auditor on pages [248](#) and [331](#).

2.6 BUSINESS ENVIRONMENT AND TRENDS IN THE SECTOR

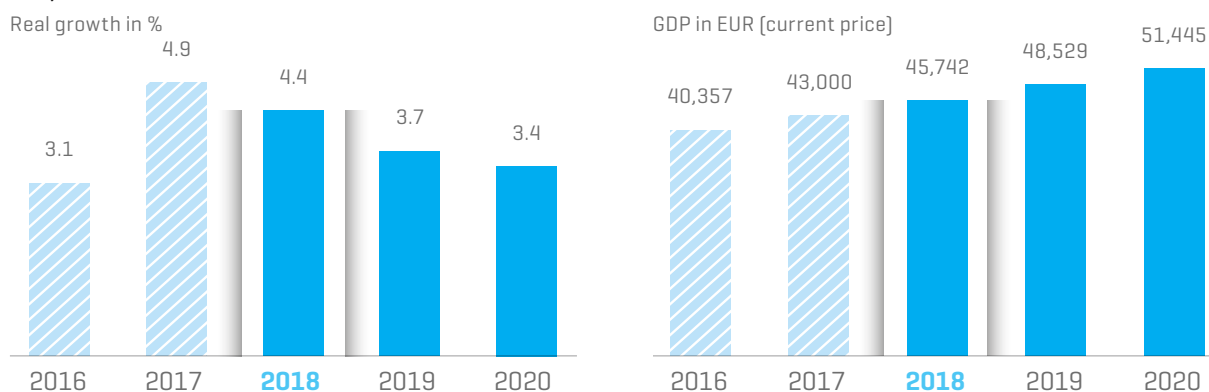
2.6.1 IMPACT OF THE MACROECONOMIC ENVIRONMENT ON OPERATIONS

SLOVENIA

Economic growth of 4.4% is forecast for 2018, and will remain relatively high during the next two years [3.7% and 3.4%]. Rising private and government consumption contributed to overall growth. Growth in exports will also remain high, but was slightly lower than in 2017 in line with slowing growth in foreign demand. Continuing growth in private and government consumption will contribute more to economic growth than in 2017, while investments and private consumption will also be major factors in growth. Wage growth will also strengthen in the context of favourable economic developments and a pronounced lack of qualified workers. Inflation will be somewhat higher than 2% in 2020. Price growth was slightly higher in 2018 (1.8%) than the previous year. The main factors in that respect were a sharp rise in oil prices and the gradual strengthening of growth in the prices of services.³¹

Predominant among risks associated with the realisation of the Autumn Forecast of Economic Trends for 2018 are potentially different conditions in the international environment than envisaged that could lead to lower economic growth. Domestic risks associated with actual economic growth that differs from the forecast remain largely balanced during the first two years.

Key macroeconomic indicators in Slovenia



Source: SORS, Bank of Slovenia, ECB and IMAD calculations and forecasts (Autumn Forecast of Economic Trends, September 2018).

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 in certain countries. Despite gradual economic growth on the aforementioned markets, unemployment is still relatively high, which results in significantly lower prices for telecommunication services than in Slovenia. The economy on those markets remains dependent on economic and employment developments in Western Europe, and dictates transfers and direct foreign investment.

Economic growth was 3.7% in **Kosovo** in 2017. According to forecasts, that growth is expected to increase somewhat in 2018, to 4.0%. The situation on the labour market is improving, but the unemployment rate rose again slightly in 2017 to stand at 30.5%.

31 Source: Autumn Forecast of Economic Trends for 2018, Institute of Macroeconomic Analysis and Development, Ljubljana, September 2018.

Economic growth continued in **Bosnia and Herzegovina** in 2017, but was slightly lower, at 3.0% [2016: 3.2%]. Growth is expected to strengthen slightly in 2018, to 3.2%. Although the unemployment rate is gradually falling, it remains relatively high. The unemployment rate was 20.5% in 2017 and is forecast at 18.4% in 2018.

Macroeconomic indicators

GDP per capita (in EUR)	Slovenia	Kosovo	Bosnia and Herzegovina
2016	19,547	3,403	4,347
2017	20,815	3,493	4,597
2018 forecast	22,154	3,646	4,809
2019 forecast	23,511	3,838	5,056
GDP growth in %			
2016	3.1	4.1	3.2
2017	4.9	3.7	3.0
2018 forecast	4.4	4.0	3.2
2019 forecast	3.7	4.0	3.5
Inflation in %			
2016	0.5	1.3	-0.2
2017	1.7	0.5	1.6
2018 forecast	2.1	2.4	1.7
2019 forecast	2.3	2.0	1.8
Unemployment rate in %		*	
2016	11.2	27.5	25.4
2017	9.5	30.5	20.5
2018 forecast	8.2	n/a	18.4
2019 forecast	7.7	n/a	18.0

Source: Slovenia: IMAD, Autumn Forecast for 2018, September 2018; SEE: IMF Outlook October 2018; * The unemployment rate in Kosovo is provided by the Statistical Office, May 2018.

2.6.2 STATE OF THE TELECOMMUNICATIONS SECTOR AND TRENDS

According to the analysts of Analysys Mason, revenues from telecommunications services will rise in **Central and Eastern Europe** until 2023, as the result of favourable economic conditions over the next several years.

Mobile data transfer and fixed broadband access remain key areas for revenue growth. Contributing most to growth in total telecommunication revenues will be rising revenues from mobile data transfer, as the result of the improved coverage of LTE/4G networks, higher speeds and upgraded capacities. Growth is expected in demand for mobile video content, which will also encourage subscribers to migrate from prepaid to more expensive subscriber packages.

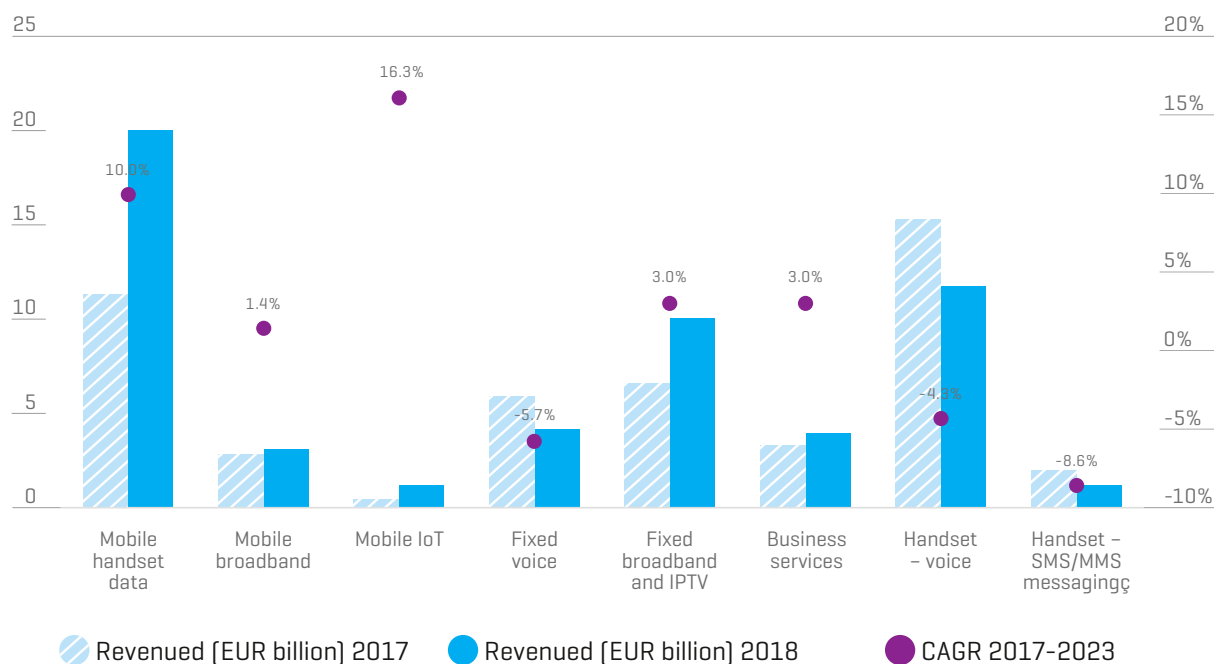
Revenues from fixed broadband services will be higher on account of moderate but sustained growth in investments in next generation access

(NGA) networks and due to an increase in average spend per user (ASPU). Growth in ASPU will primarily be the result of rising demand for high-quality streaming services that will allow operators to focus on the monetisation of investments in networks by enriching premium content and IPTV packages.

Growth in the revenues of companies in Central and Eastern Europe will be the result of an increase in the number of commercial service connections and revenues from data connections. The Internet of Things represents a relatively small market in terms of connections and revenues, but will grow sharply. Contributing most to revenue growth will be smart buildings and the car industry.

Pay TV revenues will rise in all access technologies, but OTT video will be the fastest growing segment.

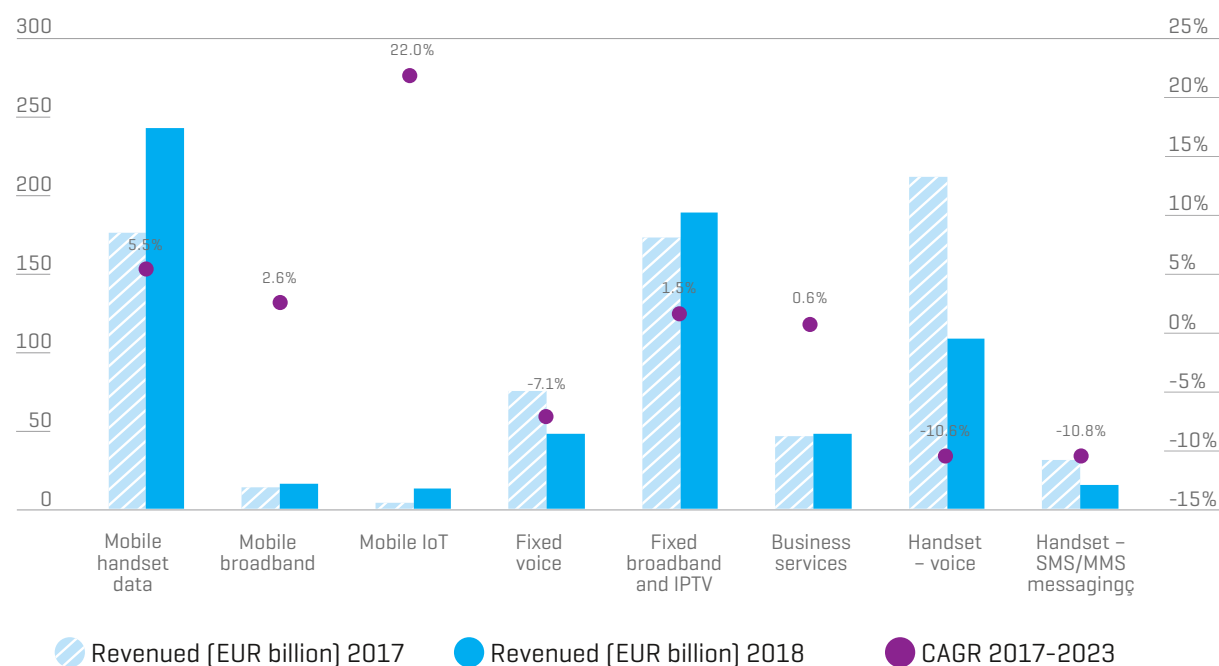
Revenue from telecommunications services – Central and Eastern Europe in the period 2017 to 2023 [in EUR billion]



Source: Analysys Mason – Central and Eastern Europe telecoms market: trends and forecasts 2018–2023.

Amongst individual services, the highest growth will be achieved by the mobile Internet of Things and mobile data transfer, followed by fixed broadband access, and IPTV and commercial services. The sharpest decline in revenues will be seen in traditional mobile services (calls and messages) and fixed telephony.

Revenue from telecommunications services – Slovenia in the period 2017 to 2023 [in EUR million]



Source: Analysys Mason – Central and Eastern Europe telecoms market: trends and forecasts 2018–2023.



The sharpest decline in revenues in Slovenia will be seen in traditional mobile services (calls and messages) and fixed telephony. Amongst individual services, the highest growth will be achieved by the mobile Internet of Things, mobile data transfer, fixed broadband access and IPTV.



New revenue sources: by expanding its portfolio to services outside the core telecommunications activity that are important to its users, Telekom Slovenije will strengthen its core activity, while increasing its share of household and corporate budgets.

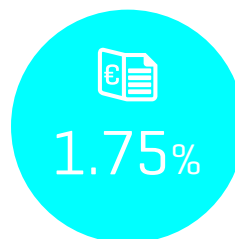
Slovenia – annual revenues [Q3 2018]



Revenues from
mobile services



Revenues from
fixed services



Revenues
as a % of GDP



Revenues from services
per capita per month

Source: Analysys Mason, Slovenia country report.

Trends on Mobile technology market in Central and East Europe



Limited number of new users

The sellers of devices in the majority of countries will focus on shortening smart device replacement cycles. This will be facilitated over the short term by the rising number of affordable, high-quality devices, while sales of smartphones will continue to rise until 2021.



Development of the LTE/4G network and increased use of data

The increased coverage of the LTE/4G network and increased use of mobile data will result in rising demand for upgraded smartphones and the replacement of old functional mobile phones for smart phones.



Prepaid packages will continue to dominate

Users purchase mobile phones in stores, bypassing official channels. However, the rising competition on the mobile device market allows operators to offer affordable devices in subscriber packages, too.

Source: Analysys Mason, Smartphones: worldwide trends and forecasts 2017–2022.

Slovenia is more similar to the markets of Western Europe, on which sales of smartphones reached their peak in 2016, while declining annual sales can be expected until 2022. Most markets are close to saturation, while the rising costs of premium smartphones and the tendency of users to purchase mobile devices separately from SIM cards will result in longer replacement cycles.

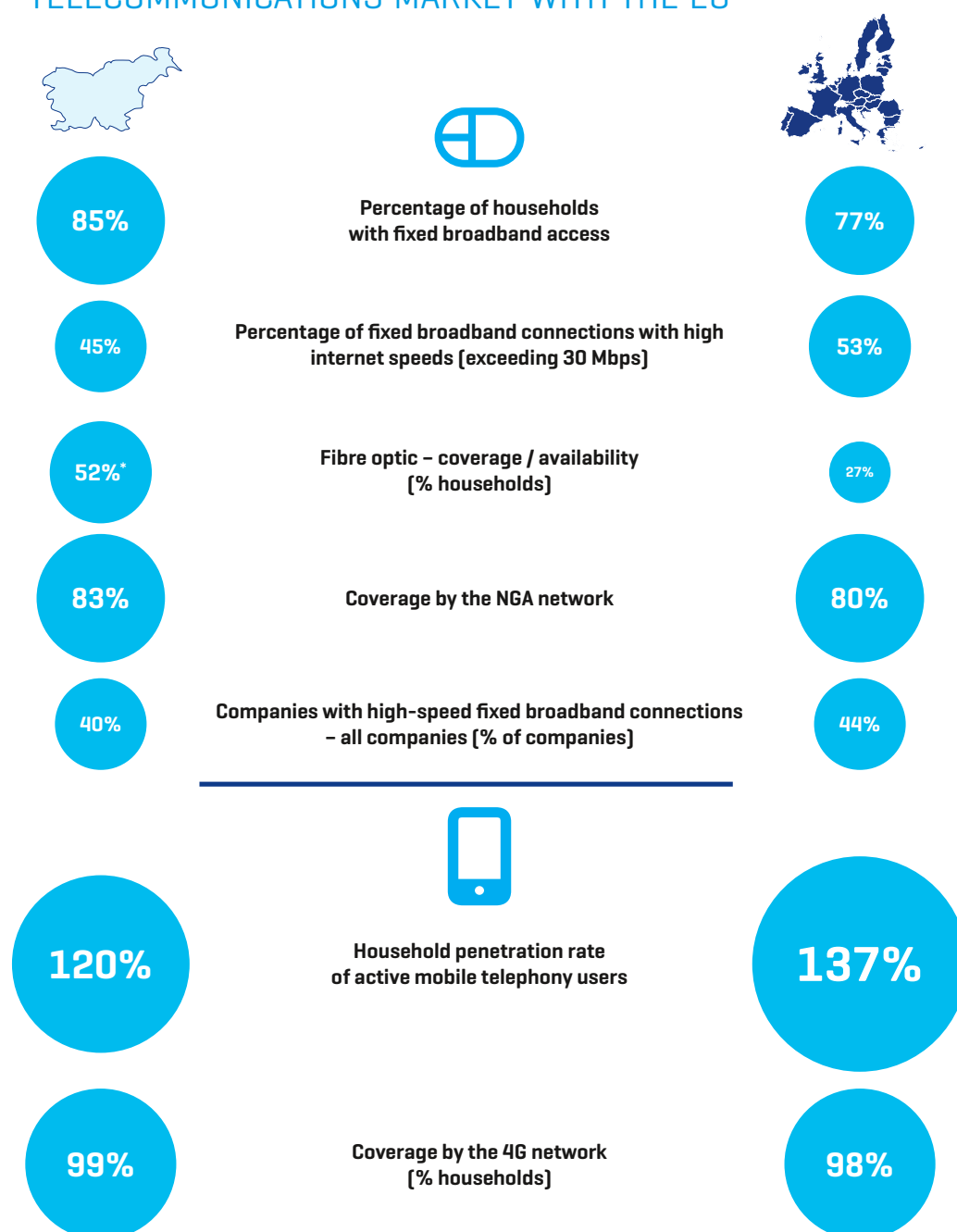
IT MARKET IN SLOVENIA

Big data, cloud computing, mobility, artificial intelligence and automation will play a key role in the digital transformation of companies in Slovenia. 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, follows trends in the implementation of SAP solutions and document systems, and develops innovative, effective, secure and high-quality solutions.³²

In the area of information technology, Slovenia faces a changing security environment that requires the appropriate adaptations and the right response. Threats to cyber security are greater than ever before. Ensuring information security and the continuous control of the network serve as the basis of the operations of Telekom Slovenije, which facilitates the connectivity of fixed and mobile services via the internet and provides cloud services for private and business users. We

give special attention to the security and privacy of communications. The services provided by the experts in Telekom Slovenije's Cyber Security Operation Centre are rendered in accordance with the strictest service-level criteria. All processes are supported by the international standards ISO 22301:2012 for business continuity management systems and ISO/IEC 27001:2013 for information management and security systems.

2.6.3 COMPARISON OF THE DEVELOPMENT OF THE SLOVENIAN TELECOMMUNICATIONS MARKET WITH THE EU



Source: European Commission, 2018.

* The figure relates to 2017.

FIXED BROADBAND ACCESS MARKET

Growth in the broadband connections market has slowed in Europe and Slovenia. According to figures from the European Commission (June 2017), Slovenia is below the EU average (33.7%) in terms of household fixed broadband access penetration, at 31.0%.

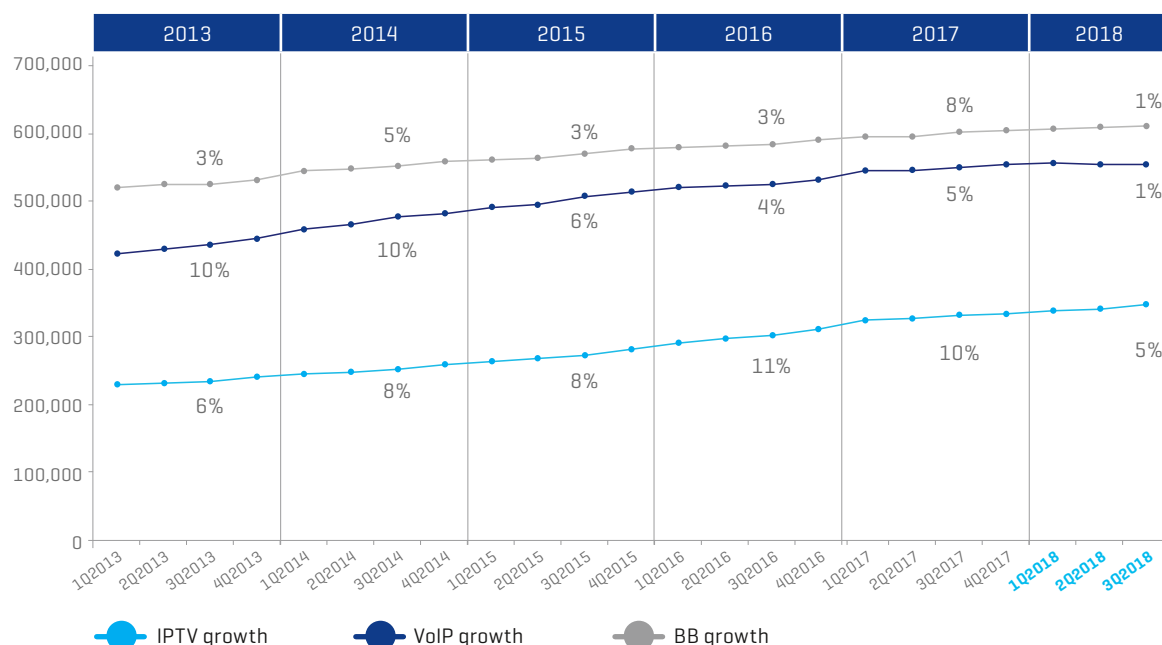


The fixed broadband connection market continues to grow in Slovenia, but that growth is slowing. Slightly higher growth is being recorded by IP television (IPTV), while growth in IP telephony (VoIP) is also slowing.



Increase in market share of fixed services: Telekom Slovenije will achieve growth in the number of IPTV connections by further expanding fibre optic access networks, through a portfolio of convergent packages, by expanding the portfolio outside the core telecommunications activity, and primarily by ensuring a superior user experience.

Growth in fixed broadband connections in Slovenia



Source: AKOS, SORS, Q3 2018

Slovenia remains above the European average in terms of the proportion of broadband access connections accounted for by cable and fibre optic connections, specifically via cable access (Slovenia: 29%; EU: 19%) and also via FTTH access (Slovenia: 30%; EU: 13%). Broadband FTTx connections accounted for 35.3% of all broadband connections in Slovenia in the third quarter of 2018.

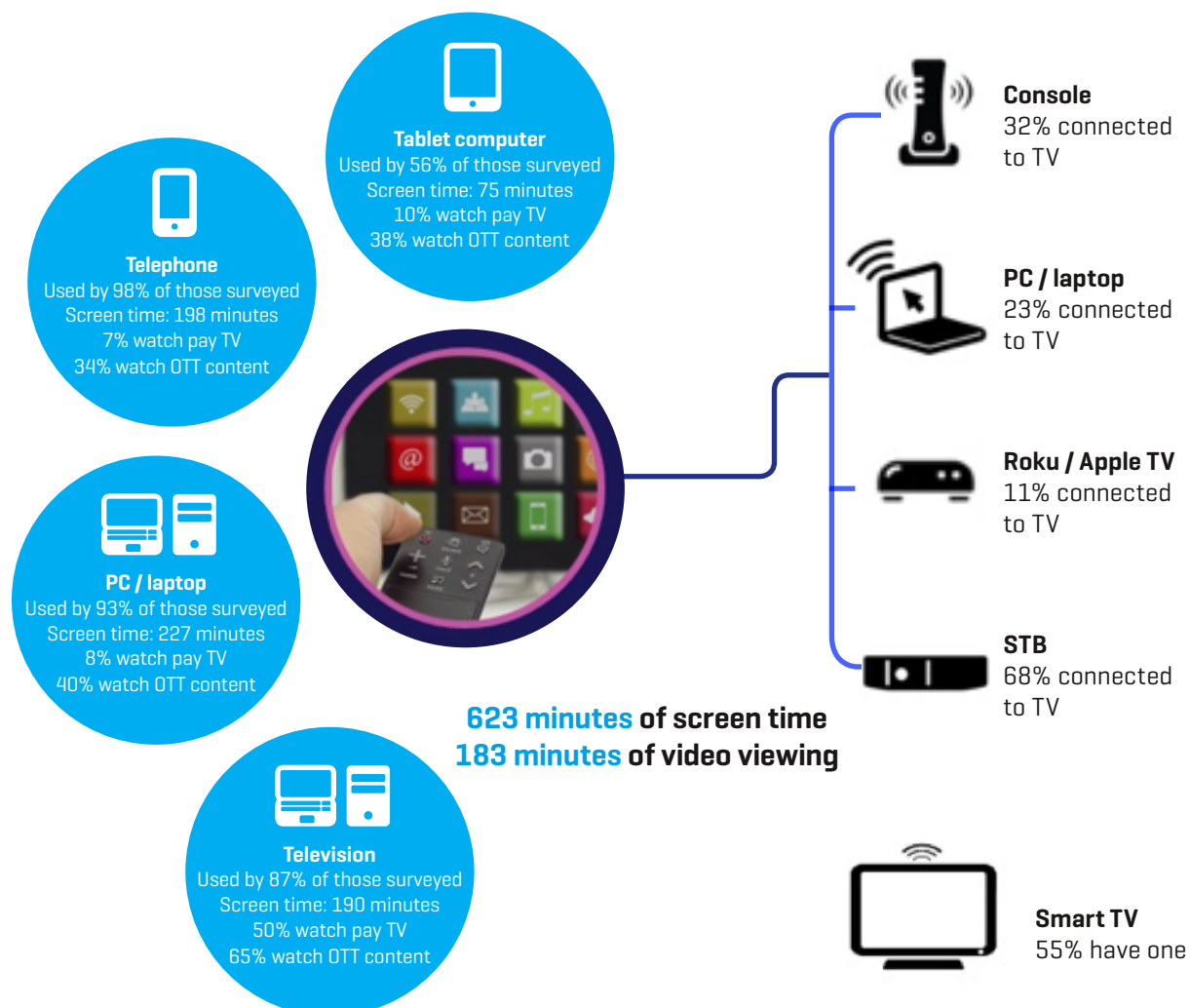
PAY TV MARKET

Television and video viewing is changing. Various business models successfully compete against traditional TV, as they offer users a wider selection, comfort and exclusive content. IPTV accounts for 54.3% of all TV connections in Slovenia (third quarter of 2018) and continues to grow. It is followed by cable TV (39.8%), the number of connections of which continues to fall. At 50.9% (third quarter of 2018), Telekom Slovenije holds the highest share of the IPTV market.

Traditional technologies for accessing pay TV will continue to be in the spotlight over the next five years. Revenues will fall, however, while the long-term trend is towards OTT (over-the-top) services. Pay TV providers will not lose users or revenues, but will further expand their portfolios to include OTT video services.

The analysts of Analysys Mason have researched changes in the TV and video viewing habits of users. They determined that TV and video viewing by users is quite fragmented, via different devices and services. The use of several screens is already a mainstay.

Penetration and average daily use of different devices for TV and video



Source: Analysys Mason, Connected consumer survey 2017: TV and video in Europe and the USA.



Fifteen years ago, Telekom Slovenije was one of the first operators in Europe to facilitate TV viewing via a broadband connection, and has upgraded that platform and the TV experience since that time.

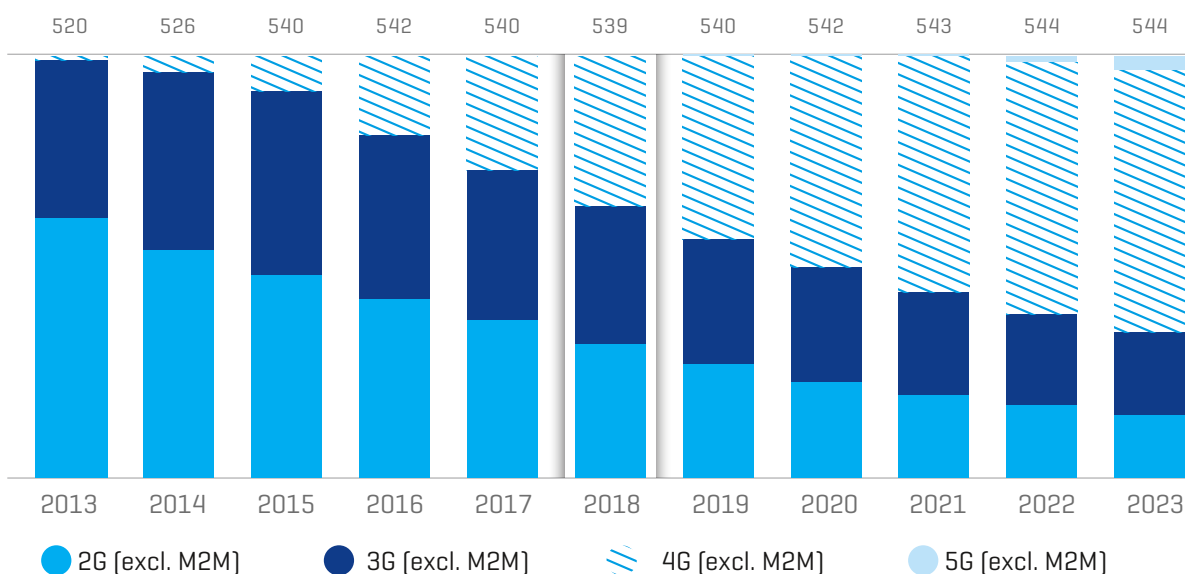


The next development step is to provide Slovenian users the NEO platform for smart living, with an entirely new television experience that brings the full integration of entertainment, content and smart home services to various screens and devices.

MOBILE BROADBAND ACCESS

Mobile broadband internet access is the fastest growing segment of the broadband access market. Close to two thirds of all active mobile SIM cards use a mobile broadband connection, for the most part on smartphones, only then followed by tablet and laptop computers.

Number of connections by mobile network generation in Central and Eastern Europe until 2023 (mio)



Source: Analysys Mason – Central and Eastern Europe telecoms market: trends and forecasts 2018–2023

The speed of 5G technology will allow operators to offer improved and faster broadband access [mobile broadband access and fixed wireless access or FWA], especially in countries where the fixed infrastructure remains undeveloped. Operators will have new opportunities to provide 5G connectivity in other sectors, particularly in those sectors in which Internet of Things solutions rely on low latency [e.g. healthcare, the automotive industry and security]. Latency should be shorter than one millisecond, while current LTE/4G networks achieve a latency of ten milliseconds or more.



The 5G technology brings increased network capacity and numerous opportunities for the development of new services.



Telekom Slovenije is actively preparing for the deployment of fifth generation mobile networks [5G], as this involves long-term technological development. We are thus carefully planning and carrying out interim steps for network development that are required for the introduction of the aforementioned new technology.

FIXED AND MOBILE TELEPHONY

According to the forecasts of analysts at Analysys Mason, revenues from **fixed telephony** will contract at an annual rate of -5.7% [CAGR] in Central and Eastern Europe, -4.6% [CAGR] in Western Europe and -7.1% [CAGR] in Slovenia until 2023.

The proportion of the market accounted for by IP telephony is growing constantly, such that at the end of the third quarter of 2018, the share of the Slovenian market accounted for by IP connections had already reached 81.3%, while the share accounted for by traditional telephony continues to decline and stood at 18.7%.

In the mobile segment, Slovenia has one of the lowest per capita penetration rates of active mobile telephony users in the EU (119.6%), giving it sufficient room for further development.

The migration from prepaid to subscriber services is characteristic of the EU mobile telephony market. Slovenia is among the countries with the highest proportion of subscriptions at 79%, compared with the European average of 63%.



The proportion of traffic from the mobile network and VoIP is 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 8.3% of total traffic in the third quarter of 2018, compared with 91.7% from the mobile network.

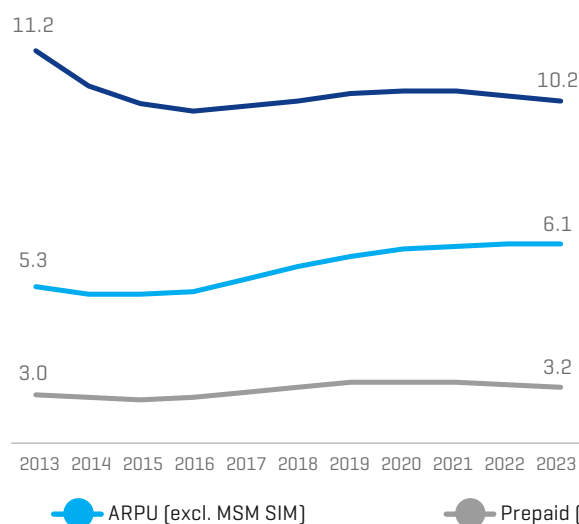


In addition to facilitating calls by users via the LTE/4G network [VoLTE service], Telekom Slovenije was the first to facilitate calls via the WiFi network [VoWiFi service].

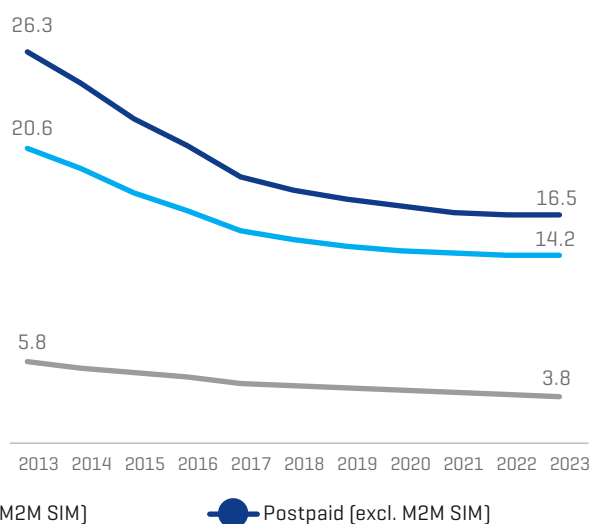
Improved coverage by the LTE/4G signal and the rising number of contracted mobile telephony subscribers will stimulate growth in average revenue per user [ARPU] in Central and Eastern Europe until 2023. Mobile ARPU will fall in Slovenia until 2023, but will remain the highest in the region.

Average revenue per user [ARPU] in Central and Eastern Europe, and Slovenia until 2023

Mobile ARPU Central and Eastern Europe,
2013 - 2023 [EUR monthly]



Mobile ARPU Slovenia,
2013 - 2023 EUR monthly



Source: Analysys Mason – Central and Eastern Europe telecoms market: trends and forecasts 2018–2023.

PACKAGE SERVICES

Operators are attempting to mitigate the declining number of subscribers by offering increasingly varied packages that include fixed telephony, internet, TV and mobile telephony. 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.

2.6.4 REGULATION OF ELECTRONIC COMMUNICATIONS

DEVELOPMENT OF NEXT GENERATION BROADBAND NETWORKS

In July 2018 the Ministry of Public Administration published an appendix to the next generation broadband network development plan covering the period until 2020, including a public call for declarations of market interest for the construction of broadband networks [2018], and a public tender for the co-financing of the construction of next generation 3A open broadband networks. Telekom Slovenije did not apply for the aforementioned tender, but is respecting its commitments given in the scope of the call for the declaration of market interest in 2016.



NATIONAL LEGISLATION AND EU REGULATIONS

Because the Act amending the Electronic Communications Act [ZEKom-1C] entered into force in August 2017, transposing into Slovenian law the EU directive on measures to reduce the cost of deploying high-speed electronic communications networks, the Agency for Communication Networks and Services [hereinafter: the AKOS] updated a number of general acts in 2018.

European law-making bodies approved the new directive establishing the European Electronic Communications Code [EECC] and the regulation governing the competences and functioning of the joint body of European Regulators for Electronic Communications [BEREC regulation]. The aim of the European Commission in this regard is to update the European regulatory framework for electronic communications from 2009. The aforementioned code entered into force on 20 December 2018, when the two-year deadline for the transposition of the directive into national laws of Member States also began to run.

RELEVANT MARKETS

The AKOS conducted various inspections in 2018 with respect to Telekom Slovenije in connection with imposed obligations on regulated relevant markets. It halted six proceedings, and issued a partial decision in one proceeding. Eleven proceedings were still in progress at the end of the year. The AKOS also conducted two proceedings involving disputes between operators. One of those proceedings was halted, while the other is still in progress.

In November the AKOS issued a decision on the former relevant market 1, while it repeated public consultations with respect to the market of high-quality products:

Relevant market	Change
Deregulation of retail market 1 "Access to the public telephone network at a fixed location for residential and non-residential customers".	In its analysis, the AKOS determined that no further regulation was required and therefore deregulated the market in question.
Planned regulation of market 4: "Wholesale high-quality access at a fixed location".	Telekom Slovenije submitted comments to the AKOS in December 2018 regarding the supplemented analysis published for the aforementioned relevant market.

MOBILE ROAMING

In 2017 Telekom Slovenije offered its users roaming in the EU under the same conditions valid at home, according to the 'roam like at home' [RLAH] principle. We updated the fair use policy in 2018 with the introduction of mark-ups for continuous roaming and with measures aimed at preventing the organised resale of prepaid cards.

FREQUENCIES

In 2018 the AKOS continued with preparations initiated in 2017 in connection with the tender for 5G frequencies. It published a proposed strategy for the management of the radio frequency spectrum, with a call to stakeholders to present their opinions, which Telekom Slovenije did. Together with Ericsson, Iskratel, the Ministry of the Interior [Police], the Slovenian army and the Faculty of Electrical Engineering, we are continuing our work on the 5G Safety project in cooperation with stakeholders of the Public Protection and Disaster Relief system [PPDR]. The strategy had not been adopted by the end of 2018.

UNIVERSAL SERVICES

In the spring of 2018 the AKOS adopted a new General Act on Functional Internet Access and a General Act on the Determination of Net Costs, through which the aforementioned agency defined broadband access as a universal service, with a speed of 4 Mbit/s / 512 kbit/s. This obligation entered into force for Telekom Slovenije in June 2018. We received two complaints in that regard in 2018 that proved to be unjustified. Telekom Slovenije nevertheless connected both users to the network.

Two rulings from the Administrative Court were served on Telekom at the end of December in connection with the TViN, TViN Shramba and Deezer services. The Administrative Court of the Republic of Slovenia ruled that the AKOS' decisions were null and void because they could not actually be enforced in their operative part. The Administrative Court also halted supervision proceedings against Telekom Slovenije. In the explanation of its ruling, the Administrative Court stated that readjudication by the AKOS did not take

into account the mandatory legal opinion that the aforementioned court issued in previous rulings in the same matters. The Administrative Court's initial rulings included the mandatory legal opinion that the third and fifth paragraphs of Article 203 of the ZEKom-1 do not prohibit distinguishing between access to internet services with respect to the use of a service or application from an economic and commercial point of view (different price setting).

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

Telekom Slovenije informs 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. If reclamations are unjustified, 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 of improving services and operations.

REGULATORY DEVELOPMENTS IN SOUTH-EASTERN EUROPE

KOSOVO

Preparations continued in 2018 for the introduction of the three-digit calling code assigned to Kosovo by the ITU, which will facilitate the portability of numbers. The regulatory agency RAEPC issued a decision in July regarding the reservation of IPKO's non-geographic (mobile) number blocks. In November it prohibited the routing of call termination to the numbers +386 and +377 from 15 January 2019 on, and threatened to impose a fine for each month a company fails to comply with the prohibition.

The RAEPC issued several decisions in 2018, as follows: regarding the regulation of universal telecommunication services, the start of public consultations for opening a band plan, the supplementation of rules for contracts and transparency. It published information and other protective measures for the end-users of electronic communications and postal services, regulations

governing the use of frequency bands for which authorisation is not required, and technical regulations on the use of radio equipment. In continued public consultations in July regarding the analysis of the regulated market for local loop unbundling, while operators submitted their comments regarding draft measures by the end of October. The RAEPC has not yet issued a final decision.

In August and September IPKO filed five lawsuits against operators in Kosovo due to the transfer of IPKO's content, including sports content. The Independent Media Commission (IMC) warned and sanctioned three operators. A strategy on the digitalisation of signals/frequencies was published in September. In November the RAEPC began public consultations on plans for the allocation and use of frequencies in the 800 MHz, 900 MHz and 1800 MHz bands for mobile communications.

BOSNIA AND HERZEGOVINA

The draft of the new electronic communications act was not adopted in 2018. The RAK published several implementing acts in 2018. It published a tender in January for the allocation of licences for the use of available frequencies in the ranges 410.00–415.85 and 420.00–425.85 MHz for the purpose of providing fixed voice telephony services and the transfer of data packages.

The RAK initiated proceedings against Blicnet and other alternative operators, ex officio, for allegedly failing to fulfil obligations to ensure lawful interception. Blicnet proved that those obligations were not fulfilled on account of reasons of culpability on the part of the administration for the lawful interception of telecommunications in Bosnia and Herzegovina.

Based on a public invitation from the city of Banja Luka, Blicnet filed a request to purchase land for the construction of the telecommunications structure.

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.



SALES AND MARKETING

A WORLD OF INSPIRING SOLUTIONS

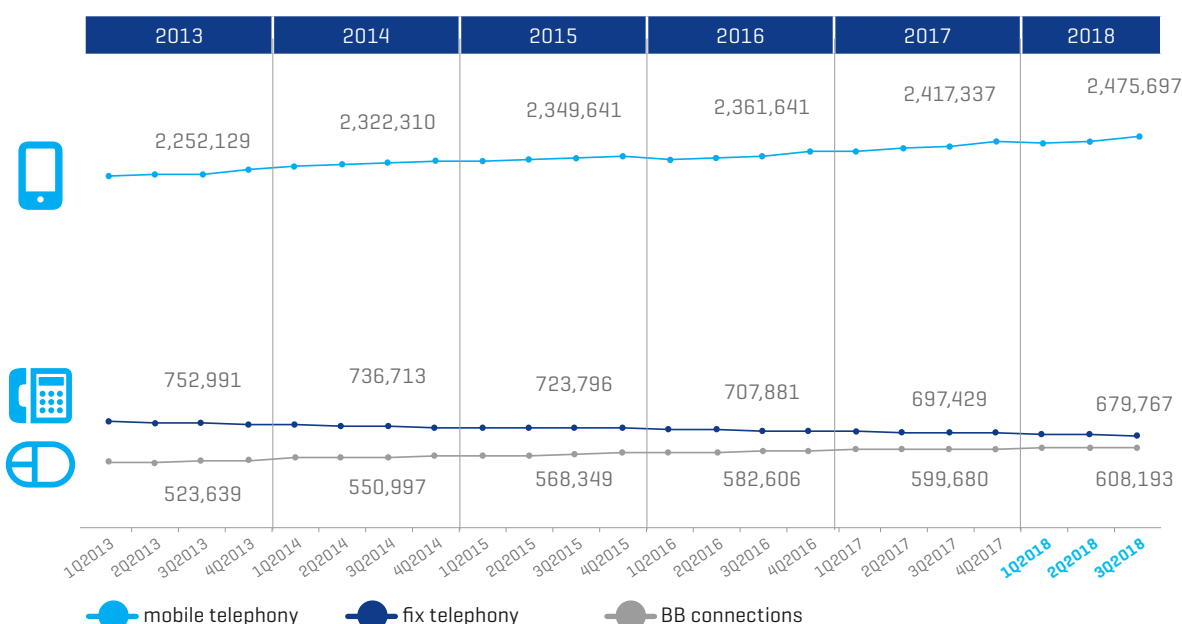
We entered a new world in 2018. A world of inspiring solutions and unlimited connectivity for endless, everyday comfort. A world that each person can shape as they wish. A world that we believe will capture your heart, just as it did ours.

2.7 SALES AND MARKETING

2.7.1 MARKET AND MARKET SHARES IN KEY SERVICE SEGMENTS³³

Telekom Slovenije maintains the highest market share in all segments of operations. This is achieved by investing in the expansion and upgrading of the fibre optic broadband network, through a portfolio of convergent packages, by expanding the portfolio outside the core telecommunications activity [to electricity, insurance, financial, smart home and eCare services], through a comprehensive portfolio of ICT services and through the best user experience.³⁴

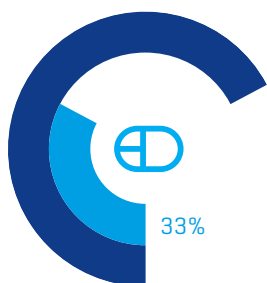
Changes in the number of connections on the electronic communications market in Slovenia



Source: Statistical Office of the Republic of Slovenia, third quarter of 2018.

Telekom Slovenije's market shares in key segments

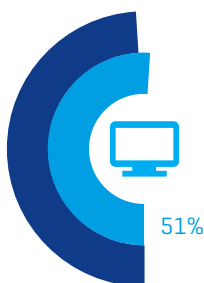
fixed broadband access



33% market share
Annual change: -0.7 p.p.

214,831 connections
Annual change: +0.8%

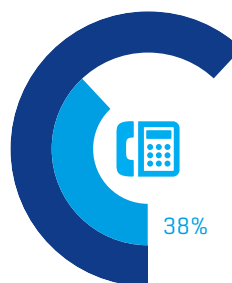
IP TV



51% market share
Annual change: -0.1 p.p.

176,378 connections
Annual change: +4.4%

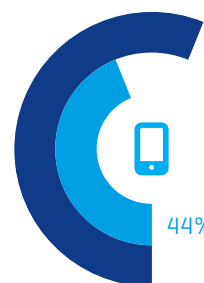
IP telephony



38% market share
Annual change: +0.4 p.p.

193,787 connections
Annual change: +1.7%

Mobile telephony



44% market share
Annual change: -0.2 p.p.

1,081,950 connections
Annual change: +1.9%

Source: Report on the development of the electronic communications market for the third quarter of 2018, AKOS; internal Telekom Slovenije figures.

³³ GRI GS 102-6

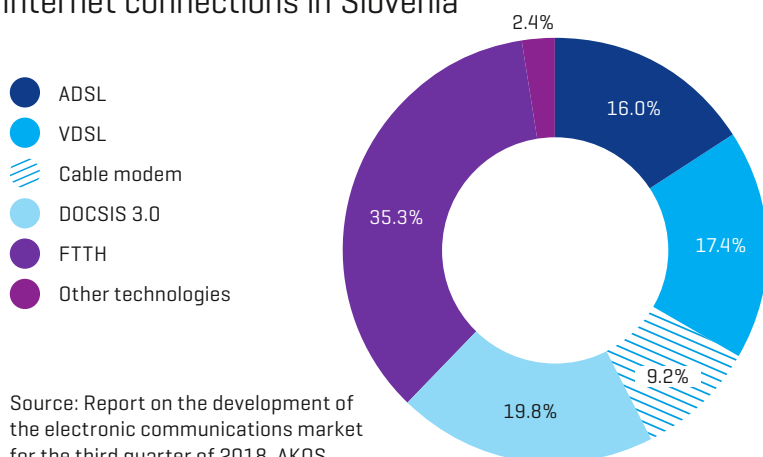
³⁴ SDG 8.10

FIXED BROADBAND ACCESS

The household fixed broadband penetration rate stood at 81.3% in Slovenia.³⁵ There was a total of 608,193 broadband connections at the end of the third quarter of 2018 [compared with 599,680 during the same period in 2017], 86.0% of which were accounted for by residential connections.³⁶ At 33.3%, Telekom Slovenije maintains the highest market share in the aforementioned segment, followed by Telemach and T-2.

A trend of higher speeds has been present for several years, as the result of the increasing proportion of fibre optic connections and the range of high-speeds included in the packages of operators. At the end of the third quarter of 2018, the number of active fibre optic connections in Slovenia was already close to 215,000, accounting for 35.3% of all connections. The number of fibre optic connections rose by 15% in one year.

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

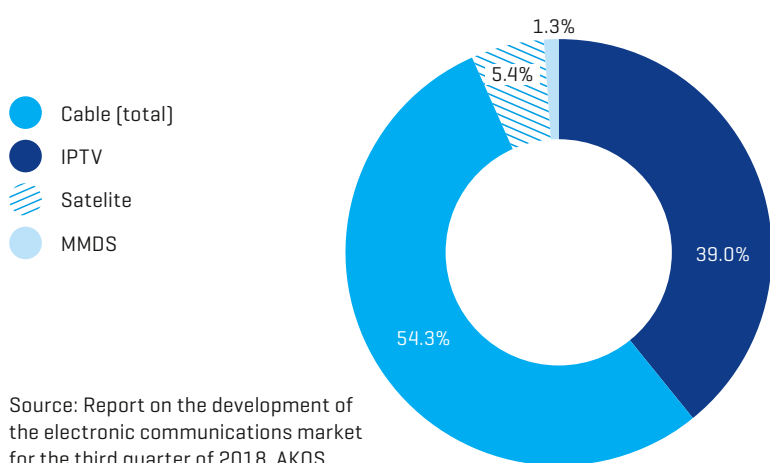


Telekom Slovenije had 81,000 users on FTTH connections at the end of the third quarter of 2018.

PAY TV MARKET

IPTV already accounts for 54.3% of all TV connections in Slovenia, followed by cable TV, the proportion of which is falling. According to figures from the AKOS, pay TV was already present in 78.4% of households in the third quarter of 2018, compared with 76.8% in the third quarter of 2017.

Market shares of TV connections by technology



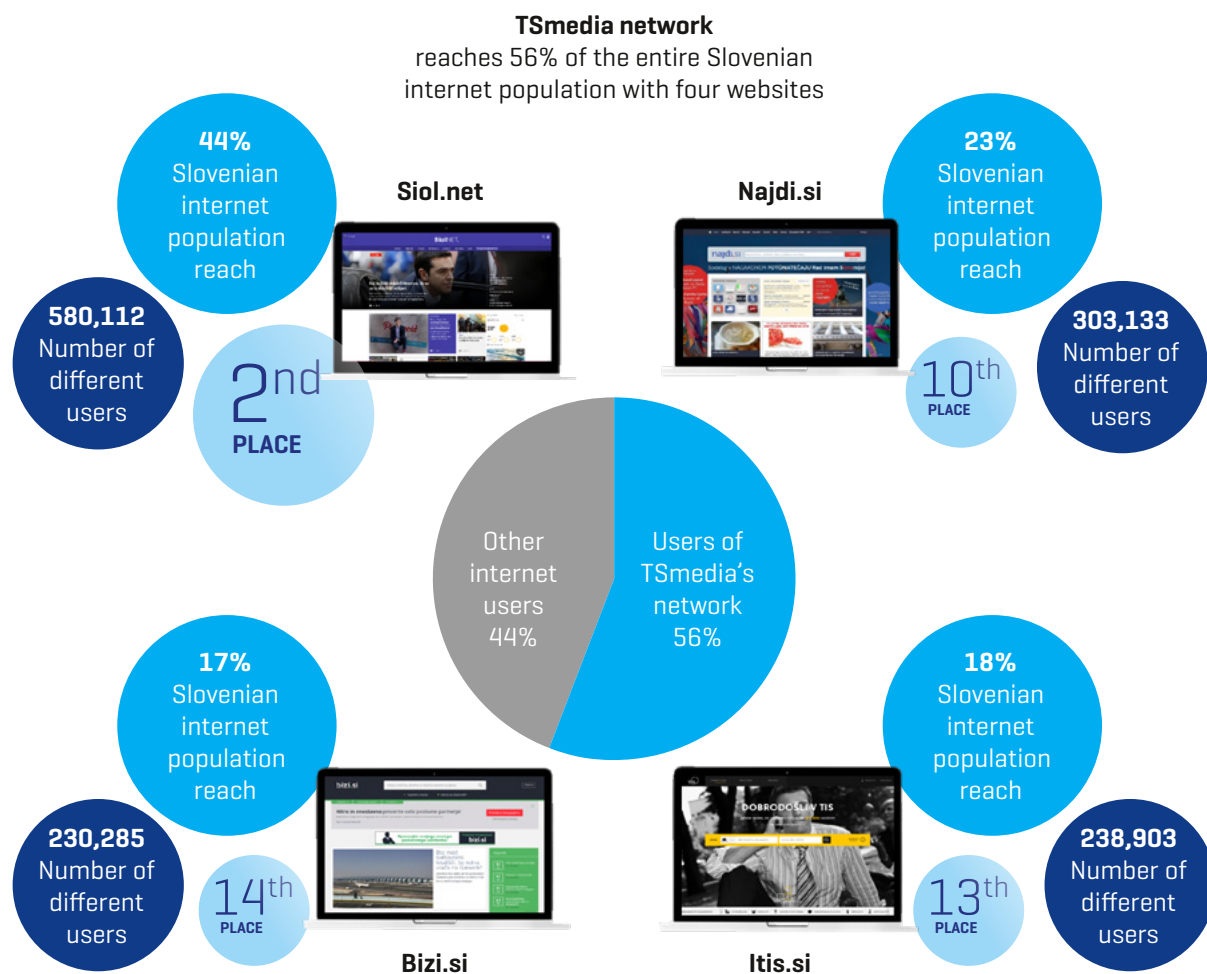
At 50.9%, Telekom Slovenije holds the highest share of the IPTV market.

³⁵ Source: AKOS: amongst 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.

³⁶ Source: AKOS, Q3 2018; SORS, Q3 2018.

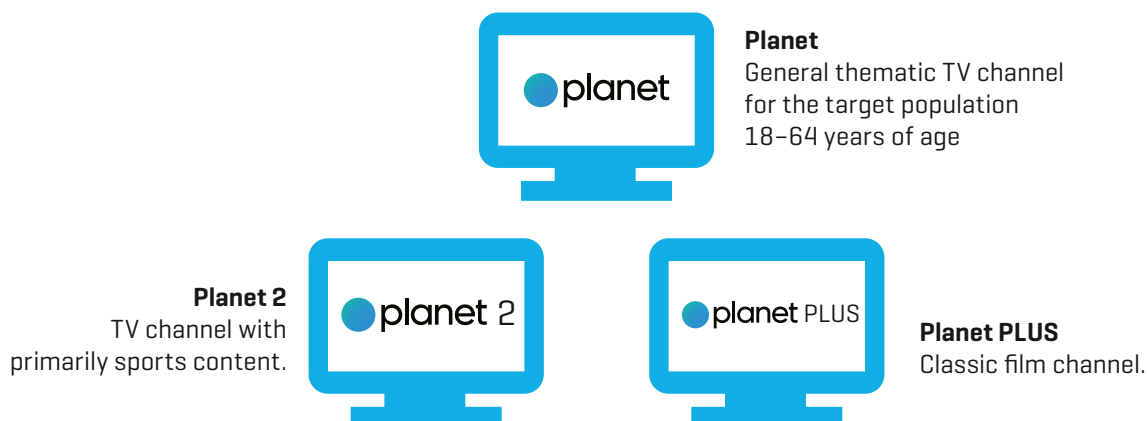
ADVERTISING MARKET

With its online media in the form of [Siol.net](#), 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, December 2018

Antenna TV SL is the broadcaster of the Planet, Planet 2 and Planet Plus TV programmes, which offer viewers high-quality content of local and foreign production.



MARKETS OF SOUTH-EASTERN EUROPE

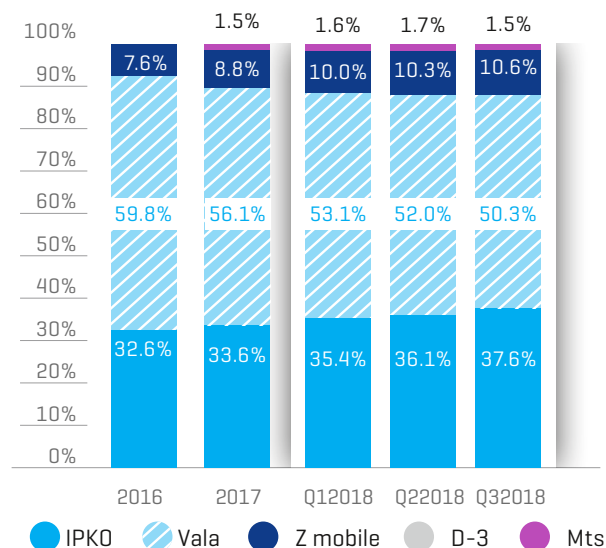
The telecommunications market and user habits are changing constantly in **Kosovo**. Mobile and fixed service penetration is high. The use of free WiFi and applications such as Viber and other OTT applications for telephoning and messaging is at a higher level than on other markets, and leads to a drop in total traffic and revenues. Revenues from mobile services continue to decline. IPKO remains a powerful operator on the mobile services market and enjoys a trend of growth. It holds market shares of 39.2% and 37.6%, respectively, in terms of revenues and users (third quarter of 2018).

IPKO also remains the leading provider of fixed services, despite the strong and increasing competition posed by major fixed operators and the entry of new, aggressive operators. It held a 44.4% share of the fixed broadband access market in the third quarter of 2018.

According to the figures of the ARKEP,³⁷ there were 306,000 fixed broadband connections in Kosovo at the end of the third quarter of 2018, translating to a penetration rate of 102.9%. The competition completely changed the market in 2018. Competitors have become very aggressive, particularly Artmotion and Kujtesa, primarily through the introduction of new, affordable packages with higher speeds, and through the enhancement and improvement of the digital programme scheme with sports and other TV content. IPKO nevertheless maintained the highest price positioning on the market. IPKO and its competitors are striving to steer their prepaid subscribers in the fixed segment to long-term subscriber packages. Fixed operators are continuously expanding the fixed network and are becoming highly competitive, primarily in urban areas.

The number of mobile telephony users fell by 7% relative to the previous year, while the mobile telephony penetration rate stood at 112.9%. IPKO made a major breakthrough in the subscriber segment following the introduction of new subscriber packages that increased the use of services. Operators are currently focused on steering their users from the prepaid segment to the subscriber segment.

Market shares of operators in the mobile telephony segment in Kosovo



Source: ARKEP, report for the third quarter of 2018.

The mobile telephony segment in **Bosnia and Herzegovina** is split between BH Telecom, m:tel [Telekom Srpske] and HT Mostar [Eronet]. All three operators must cover the entire territory of Bosnia and Herzegovina. However, users choose their operator based on national affiliation and the political divisions within the country. The operations of individual incumbent operators are adjusted accordingly. The LTE/4G network is not yet functioning in the aforementioned country [licences for the frequency domain have not even been tendered]. Incumbent operators are facing a contraction in revenues and the shrinking of margins in the mobile segment due to the increased use of OTT applications.

The largest provider of cable TV services is Telemach, with a strong presence in Sarajevo and central Bosnia and Herzegovina. The operator Elta kabel is the largest provider in Republika Srpska, while m:tel continues to invest in the construction of a fibre optic network and with very aggressive sales promotions to increase its market share. Through the fibre optic network, it facilitates higher internet speeds and interactive digital TV services. Blicnet primarily uses DOCSIS 3.0, which enables speeds of up to 100 Mb/s and a practically unlimited number of STBs at any location.

37 Source: ARKEP regulatory body in Kosovo, report for the third quarter of 2018.

2.7.2 MANAGEMENT OF THE PORTFOLIO OF BRANDS³⁸

Telekom Slovenije monitors and identifies user habits, and develops advanced services that require a different form of communication and a different approach to users. We are changing and developing the portfolio of brands in accordance with new needs.

The Telekom Slovenije Group continues with the evolution of its hybrid brand architecture. We are developing new brands that address specifically selected users segments to support strategic and other business areas. In terms of content, they cover business areas such as smart living, smart homes, smart transactions and e-commerce.

We are formulating and developing a brand portfolio that facilitates a coordinated approach and the functioning of the Telekom Slovenije Group in a specific segment or market.

We evaluate brands acquired as part of mergers and acquisitions in terms of their ability to cover individual target groups of users. We update and define their identity in accordance with the Group's values. We cooperate with or enter into partnerships with selected brands.

CORPORATE BRAND IDENTITY

The Telekom Slovenije brands remain our umbrella corporate brand. It is established and well-recognised, and continues to cover the business segment, network, connections and associated services. The core values of the brand are: simple, inspiring, cutting-edge, caring and safe. Through an umbrella identity, Telekom Slovenije also positions itself in certain new business areas. Newly developed brands are supported by the values of the Telekom Slovenije brand.

The Telekom Slovenije brand maintains the strongest position in initial recall and as the first choice. It is the leading brand in the category of comprehensive operator [operators that offer several services simultaneously]. It is strongest in the categories of Advanced living and the Digital future, and weakest in the category of Simple present [Brand Track, autumn 2018].

PORTFOLIO OF BRANDS

Telekom Slovenije has 224 registered brands,³⁹ broken down as follows:

- 156 national brands,
- 21 European brands,
- 33 international brands,
- 8 national brands in North Macedonia,
- 4 national brands in Kosovo,
- 1 brand in Bosnia and Herzegovina, and
- 1 brand in Serbia.

IZI, NEO and NekiNeki are worthy of mention amongst newly registered brands. Telekom Slovenije's brand portfolio also includes the partner brand WiFreeLjubljana. Registered brands include Mobitel, SiOL, Mobi, Itak and TViN, and Moneta since 1 January 2019.

We extended the registration of 36 brands in 2018 [21 national brands, four European brands, seven international brands, three brands in Kosovo and one brand in Bosnia and Herzegovina], and abandoned 27 brands [14 national brands, one European brand and 12 international brands].

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

38 GRI GS 102-2

39 GRI GS 102-7

NEW ADDITIONS TO THE BRAND PORTFOLIO



We have introduced a new category with the **NEO** brand – a platform for smart living. The brand is simple, inspiring, friendly and safe, and at the same time cutting-edge and caring. It links the best solutions for home and entertainment in one place: simplified viewing and advanced searches for TV content, including voice-control searching in Slovene, the simplified management of smart devices, purchases via the TV screen, and the playing of increasingly popular games without a console. It offers everything dictated by the latest global trends.

NEO means 'new', as it brings the entirely new experience of smart living. NEO in itself also means 'infinite', as it opens the door to endless possibilities of use in one place. All of this is also connected by a visual identity that derives from its essence: endless opportunities. The NEO brand is also reflected in devices, such as the NEO Smartbox and simple NEO remote control, and through its multi-screen experience [at the website www.neo.io, and in the NEO application and TV interface].



NEKiNEKi is a YouTube channel, through which we communicate over the long term and consistently with young people [aged 17–25 years] through

online content that is created by members of the aforementioned target group. The core values of the channel are inspiring and cutting-edge, while the attributes that characterise it are: open, communicative, witty and creative.



IZI is a brand that covers a modern portfolio of products and services for less demanding users. We updated the brand identity

in 2018 and simplified the name from IZI Mobil to just IZI. We retained the emoticon and made it even friendlier. At the identity level, we created a friendly and affable brand for which relationships are important. The brand's core values are: inspiring, simple and caring. The key attributes that characterise the brand are: friendly, fair and optimistic.

In addition to Telekom Slovenije, 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 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.

2.7.3 SALES AND MARKETING ACTIVITIES⁴⁰

The number of the Telekom Slovenije Group's **broadband connections** on the last day of 2018 was down 1% relative to 2017. The number of connections in Slovenia was at the level recorded a year earlier, but was down by 2% in Kosovo.

The total number of **mobile telephony** users was up by 5% in Kosovo in 2018, and by 15% in Bosnia and Herzegovina. That number was down by 7% in Slovenia.

We increased the total number of **VoIP connections** [in Slovenia and South-Eastern Europe] by 3%. The decline in the number of traditional fixed voice telephony connections continues in Slovenia where a decline of 3% was recorded in 2018. That decline represents a general trend in the developed world. The number of such connections was up by 13% in South-Eastern Europe.

TELEKOM SLOVENIJE GROUP CONNECTIONS AND SERVICES BY TYPE AND MARKET

Broadband connections

Number of retail broadband connections as at	31 December 2018	31 December 2017	Index 18/17
Slovenia	214,163	214,799	100
SE Europe:	148,170	150,486	98
Kosovo	120,999	123,428	98
Bosnia and Herzegovina	27,171	27,058	100
Telekom Slovenije Group	362,333	365,285	99

Number of mobile and fixed telephony connections, and VoIP services

Number of retail connections as at	31 December 2018	31 December 2017	Index 18/17
Slovenia, mobile telephony	1,049,230	1,124,605	93
Slovenia, traditional fixed voice telephony	331,192	343,084	97
SE Europe, mobile telephony:	722,812	685,203	105
Kosovo	719,771	682,570	105
Bosnia and Herzegovina	3,041	2,633	115
SE Europe, traditional fixed voice telephony	1,366	1,204	113
Telekom Slovenije Group	2,104,600	2,154,096	98
VoIP connections			
Slovenia	193,412	192,563	100
South-Eastern Europe	24,427	19,414	126
Telekom Slovenije Group	217,839	211,977	103

Number of retail connections as at	31 December 2018	31 December 2017	Index 18/17
Total mobile telephony	1,772,042	1,809,808	98
Total fixed voice telephony services*	550,397	556,265	99
Telekom Slovenije Group	2,322,439	2,366,073	98

* Sum of traditional 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 715.1 million in 2018, similar to the level recorded in 2017.

Breakdown of net sales revenue by company⁴¹

in EUR thousand	2018	2017	Index 18/17
Telekom Slovenije	639,672	645,190	99
Other companies in Slovenia	80,257	90,049	89
IPKO – Kosovo	71,298	71,199	100
Other companies abroad	19,508	20,559	95
Total unconsolidated	810,735	826,997	98
Eliminations and adjustments	-95,684	-110,823	86
Telekom Slovenije Group	715,051	716,174	100

TELEKOM SLOVENIJE

Telekom Slovenije's net sales revenue was down by 1% or EUR 5.5 million in 2018 relative to 2017, to stand at EUR 639.7 million. Revenues from broadband and IT services were up on the previous year. New revenue sources were also up: energy, insurance and financial services. On the other hand, revenues generated by mobile subscribers were down, as the latter migrate to new, more affordable packages with unlimited communication in Slovenia and EU countries. Revenues from traditional voice telephony have likewise been declining for several years due to the migration to mobile and IP telephony.

B2C

Through the careful monitoring of users' needs, habits and behaviour, our main focus in 2018 was on improving the comprehensive overview of users. In the **mobile user** segment, we enhanced the line of Dostopni packages with additional quantities of data transfer in Slovenia and fully complied with the provisions of the EU regulation governing data transfer quantities in countries covered by the EU tariff. We improved the Neodvisni A entry package for younger users. We offered the first mobile Doma package that includes services that only apply in Telekom Slovenije's mobile network. For demanding

business and private users, we prepared two special Platinum packages, where a wide range of mobile services is included in the monthly subscription fee. The aforementioned packages also include the option to select a new mobile phone at an affordable price every year, special Diners Club benefits and a personal adviser to make decision-making easier. We presented to the market the new subscriber package concept Vse dobro [All is well], which includes a data transfer quantity for the entire calendar year.

In the area of **convergent services**, we offered a standard promotional price for TV and internet packages, and thus made advanced services that are included in larger packages more affordable to users. We offered even more affordable packages in the fibre optic network, and thus further highlighted the advantages of fibre optics. At the end of the year, we invited users to a new world that brings endless new entertainment opportunities to the home.

Innovative **NEO platform for smart living** provides all family members advanced access to their favourite TV



⁴¹ GRI GS 201-1

content and applications, a new way of gaming and other modern functions that save users time and make use easier. NEO understands the user via commands (including in Slovene), and also upgrades video libraries and backing viewing. NEO also inspires as a home assistant that manages smart devices via a mobile application.

In April we successfully launched the renovated **Online Shop**, which makes navigation easier for users. It has an improved search engine, a new product categorisation, the advanced, yet simple presentation of products, improved filtering by device, and the possibility of evaluating and commenting on devices. We made it possible to view stock balances at Telekom centres and to pick up orders personally at the warehouse or Telekom centres.

We enhanced the range of **insurance** services. Insurance for mobile devices is a product that has become more interesting and useful since the inclusion of additional coverage. Several new features will be introduced in this area in 2019.

We marketed **electricity** services more intensively in 2018 via the single invoice for home services. We thus provided subscribers a more transparent overview of services, while we impressed new users with informative calculations and additional savings. At the end of 2018 we expanded the supply of electricity to include small business users, and thus met numerous expectations.

In the area of **advanced payment services**, we upgraded online payments with Moneta. We again received Bank of Slovenia authorisation to provide payment services, and now also hold authorisation to issue electronic money. We raised the limit for purchases from EUR 30 to EUR 60 a month for users who purchase digital content in the Google Play Store and settle their liabilities via their monthly Telekom Slovenije invoice. We thus increased the use of the aforementioned services, as well as the associated turnover and revenues.

Points of sale and sales network

We began standardising the sales network in 2018 with the aim of upgrading the unique user experience. Based on newly developed spatial guidelines, we have begun to renovate the points of sale of authorised agents. We have strengthened the staff of Telekom Slovenije's field teams and increased activities in the field.

We have arranged new NEO corners at Telekom centres and selected authorised agents, with the aim of presenting the aforementioned advanced TV and smart home user experience. We upgraded Telekom centres with additional opportunities for advertising and promoting products and services, remotely managed via LFD screens.

B2B

We upgraded commercial sales with vertical solutions. Knowledge of a particular vertical and its needs allows us to prepare adapted solutions and offers for every vertical and individual subscriber, which in turn allows companies to take a step towards the true digitalisation of processes and their entire operations. Through access to the most advanced technologies, we are transforming and creating platforms for the future; by upgrading the existing infrastructure, we are creating new, more friendly and safer services.





ICT SERVICES

We offer users comprehensive ICT solutions with a wide range of services, together with equipment, and adapt them to the individual needs of the most demanding business users. To that end, we obtain the requisite certificates and partner statuses, and strengthen employee competences.

- Telekom Slovenije enjoys the status of Microsoft CSP [Cloud Solution Provider] for the sale of Microsoft Office 365, Azure and Express Route services. We likewise continue our partnership in the area of Microsoft Premier services. Our comprehensive portfolio also includes our own services within the Microsoft environment, such as management, maintenance, migration and various consultancy services.
- We renewed the Cisco CMSP [Cloud and Managed Services Program] certificate for MPLS VPN [virtual private networks] and IaaS [infrastructure as a service] in 2018. We enjoy the Premier partner status.
- We hold the HP Gold status for the sale of HP personal and printing systems, and are also registered with the manufacturer as a Silver Partner for the sale of server and network systems, and data storage systems.
- We received the requisite certificates 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 the Gold Level Oracle partner status for the distribution of cloud services. We are included in the Oracle Cloud Managed Service Provider programme, and are specialised in IaaS. We can market IaaS and PaaS on the Oracle cloud platform, through which we 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 continued with the marketing of AaaS [application as a service] solutions in 2018, such as 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 supplemented our

portfolio with new services, such as the Internet of Things, big data, the smart infrastructure, support for ICT logistics, etc.

We made a significant step forward in 2018 with the establishment of the Cyber Security Operation Centre. Through the services we provide in the scope of the aforementioned centre, we reduce the operational risks to which subscribers are exposed in the area of cyber security, as those risks have increased significantly in recent years.

We have established a video identification service that facilitates the lawful identification of persons via a video connection. That service is an important link in the digital operations of all companies and institutions that enter into any type of contract or agreement with customers. In addition to identification, we also facilitate the issue of a digital identity and the remote conclusion of agreements, which in turn facilitates automation for subscribers and significantly shortens the entire process, from the moment a customer opts for a product to the signing of the relevant agreement.

We are also expanding the portfolio of ICT services to the markets of South-Eastern Europe in cooperation with business partners and subsidiaries.

INTER-OPERATOR SEGMENT

DOMESTIC WHOLESALE SERVICES

Revenues from the domestic wholesale market in 2018 were up by 2% relative to 2017. Growth was recorded primarily by revenues from broadband services for operators who roam on Telekom Slovenije's fibre optic and mobile networks. Special attention was given to the marketing of services relating to the overlapping of copper-based and fibre optic networks and the leasing of free capacities on Telekom Slovenije's network, such as capacities and mobile base stations and dark fibres.

INTERNATIONAL WHOLESALE SERVICES

The margin generated by international wholesale services was higher in all segments of operations (voice and data services, and roaming services) in 2018. 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 received the MEF CE 2.0 certificate in 2018, confirmation of the quality of the network and reliability of broadband data transfer between LANs. This also confirms the successful upgrading and consolidation of the network, which we achieved last year through the introduction of new technologies. We thus established a platform for the provision of comprehensive and reliable private network and internet access services to companies, education and public institutions and government bodies, and also facilitated operations in the area of international inter-operator connectivity.

Telekom Slovenije's key strategic advantage is its **regional fibre optic network**, which links major cities and areas in the region. Through that network, we 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



TSMEDIA⁴²

TSmedia generated net sales revenue of EUR 6.8 million in 2018, an increase of 6% relative to 2017. That growth is the result of new advertising solutions on Siol.net, and the development of digital outdoor advertising and digital media reporting 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. In 2018 TSmedia expanded its network of digital jumbo billboards to regional centres and a network of screens at Lekarna Ljubljana outlets throughout Slovenia.

The content of the Siol.net online media was upgraded and enhanced with the new section Plac. Plac is a conglomerate of own content, video production and a nexus of social network trends. It is intended for users up to 30 years of age. Through its own content, the company addresses serious and lighter topics. Regardless of the topic, the main emphasis is on high-quality content and innovation.

ANTENNA TV SL

Antenna TV SL generated net sales revenue of EUR 13.4 million in 2018, an increase of EUR 3.6 million relative to 2017. It is the broadcaster of the Planet TV, Planet 2 and Planet Plus TV programmes, which offer 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. It generated net sales revenue of EUR 8.4 million in 2018, an increase of 2% relative to 2017. Revenues from the sale of SAP services and key programmes on the external market were up. The company's market share is also growing in the

e-business solution segment, primarily in the area of public administration in Slovenia, while its role as an SAP provider outside the Telekom Slovenije Group is likewise 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.

SOLINE

Soline generated net sales revenue of EUR 4.0 million, a decrease of 2% relative to 2017, primarily due to the termination of the public water service and the completion of Slovenia's rehabilitation programme. The portfolio of products and the network of retail outlets in Slovenia and abroad are being expanded under the Piranske soline and Lepa Vida brands.

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.

42 GRI TA2

The company generated net sales revenue of EUR 45.0 million in 2018, a decrease of 27% relative to 2017, primarily because revenues in 2017 included one-off revenues from the project to deploy an electronic toll collection system. The company continues to record growth in revenues from the management and maintenance of open broadband networks, as the result of growth in the number of active connections on existing networks and the assumption of additional networks under its management.

IPKO

IPKO generated net sales revenue of EUR 71.3 million, similar to the level recorded in 2017. 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.

TSINPO

TSinpo generated net sales revenue of EUR 1.1 million in 2018. It provides the parent company business support in the servicing and distribution of terminal equipment, in the compilation of sales packages and in the distribution of marketing materials and subscriber documentation. Since July it has also provided support in the technical preparation of works and physical archiving. It is present on the wider Slovenian market with its own production and marketing of cardboard products.

BLICNET

Blicnet generated net revenues of EUR 16.7 million in 2018, a decrease of 8% relative to 2017. 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.

2.7.4 RESPONSIBILITY TO USERS⁴³

0.40%
PROPORTION OF COMPLAINTS

9.3 million
NO. OF ISSUED INVOICES

SIGNIFICANT ACTIVITIES IN 2018

We are continuing with the successful implementation of the **Sales Academy programme**, which we expanded in 2018 to areas other than sales. The project has also been upgraded with the advanced S.M.A.R.T. training and development programme, which is intended to further enhance the competences of field technicians to ensure the excellence of the user experience.

We enriched the range of benefits offered in the **Loyalty Programme** and simplified online purchases by updating the Online Shop. This improved the recognisability of the Loyalty Programme and increased the number of members who make use of reward points.

Users may also manage services independently via the **Moj Telekom** portal, which contributes to a reduction in the burden on support contact centres and points of sale. The portal makes it possible to access numerous settings, activate services, and obtain basic information and an overview of usage on PCs and tablet computers, and via a mobile application or TV communicator. Functionalities are continuously upgraded, which contributes to increased use. In 2018 we attracted more than 21,000 subscribers, who registered a unique Telekom ID code in Moj Telekom.

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



COMMUNICATION WITH USERS⁴⁴

Contact centres are indispensable in everyday communications with users and in the introduction of new services, as they represent the first contact with users and their employees share their enthusiasm and information. The increasingly diverse portfolio requires consultants to possess a great deal of knowledge. Attracting new users and retaining existing users were key policies in 2018. We very carefully monitored customer satisfaction with our services, and guided employees to the achievement of better results through the measurement of satisfaction indicators.

Contact centres received 878,986 calls in 2018 from users in search of general and sales-related information. We made 43,720 successful promotional calls and responded via info@telekom.si to 108,260 user emails. We also assisted users on Twitter and Facebook, and via the webchat.

TECHNICAL HELP FOR USERS

We answered more than 741,000 incoming calls in 2018, while the response success rate was 78.5%. We also made 158,432 outgoing calls and 209,714 other outgoing contacts (via email and SMS). We handled 228,926 contacts via other communication channels (the ISP portal, SMS, reporting of errors via email, webchat and web portal). The response time to incoming calls averaged 3 minutes and 46 seconds. The increasing complexity and range of services lead to an increase in call durations, which averaged 4 minutes and 44 seconds on an annual basis. In total, we handled more than 288,000 service-related cases.

In terms of technical support for key business users, we handled 32,268 incoming calls, made 30,256 outgoing calls and processed more than 60,000 emails.

We carried out development activities throughout the year for the introduction of a third communication channel for the reporting of cases (a so-called 'self-service' portal), and for the provision and coordination of second-level 'service desk' services for several new business users.

TRANSPARENCY IN THE CHARGING OF SERVICES⁴⁵

We updated Telekom Slovenije's invoice in 2018, and ensured the increased transparency and more logical content of the invoice and thus improved the user experience. We highlighted the amount of an invoice and logically organised the data contained therein. We also overhauled the reverse side and rearranged the content, and updated sources for electricity. We will continue to make adaptations and redesign the invoice in the future.

Telekom Slovenije issued more than 9 million invoices for services. The overall complaint rate relative to the number of invoices issued was 0.40% compared with 0.42% in 2017.

CONCERN FOR THE SECURITY OF USERS, IN PARTICULAR CHILDREN AND ADOLESCENTS⁴⁶

We establish sound, long-term cooperation with users through trust and by ensuring a high-quality user experience. Because the digitalisation of the Company opens new opportunities and creates new user experiences, we dedicate special attention to activities that provide users a simple, secure and carefree path to the world of modern communications, regardless of the devices they use for that purpose (PC, tablet computer, mobile phone or television). We focus our attention on the safe use of communications by all users, with a special emphasis on raising the awareness of children and adolescents.

We are a signatory of the code of conduct for providers of electronic communication services for the protection of users, the code of mobile operators and internet providers aimed at user protection and the ETNO Corporate Responsibility Charter. The aforementioned documents are published on our website. To that end, we follow the recommendations of the AKOS relating to concern for users.

44 GRI GS 102-43, 102-44

45 GRI PA10

46 GRI DMA, G4-M4, PA2

Together with the Logout organisation, we continued with activities and organised events in 2018 in the scope of the **Moja prva pogodba** [My First Contract] project with the aim of raising the awareness of young people and their parents, educating them and advising them with regard to the appropriate use of modern forms of communication. At events, parents received recommendations and practical advice about when to purchase a child their first mobile phone, how to guide them in the use thereof and things to pay particular attention to. Activities in the scope of the aforementioned project began back in October 2016, when we presented a simple handbook, together with experts from the Logout organisation. That handbook includes guidelines with recommendations on when and how to introduce a child to the use of a mobile phone, and the first contract, which parents sign with a child or adolescent and in which they set rules on the use of a mobile phone, including the monitoring thereof. Activities will continue in 2019.

We also considered the protection of children in the development of the NEO platform for smart living, which includes the **Children's Park service**. The latter is a carefree area in which parents or guardians can limit viewing to content appropriate for a specific age group, depending on a child's age.

We provide advice regarding the safe use of modern communication devices and services at Telekom centres and in the tab **Recommendations for the safe use of mobile devices and services**. Users may additionally protect their devices by installing security protection that is available in our portfolio and that facilitates parental control, the protection of a user's identity and safe web browsing. We offer the use of the **Varen spleť** [Safe Web] service that allows users to protect data traffic and to manage that data on all devices.

As a family-friendly company, we organised the Telekom Slovenije playhouse, together with **Minicity Ljubljana** as part of Children's Week, where different professions were presented to children. We presented professions in the telecommunications and an internet corner, where we encouraged balanced and safe internet use.

Through its responsible editorial policy, **TSmedia** ensures safe and transparent access to freely accessible content in our media. We call on those making comments on the Siol.net digital media to respect the etiquette of online communication, and moderate user comments, so that comments encouraging hate speech are not published.

SERVICES FOR VULNERABLE USER GROUPS

We provide **disabled 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 were offered mobile service packages with no subscription fee.

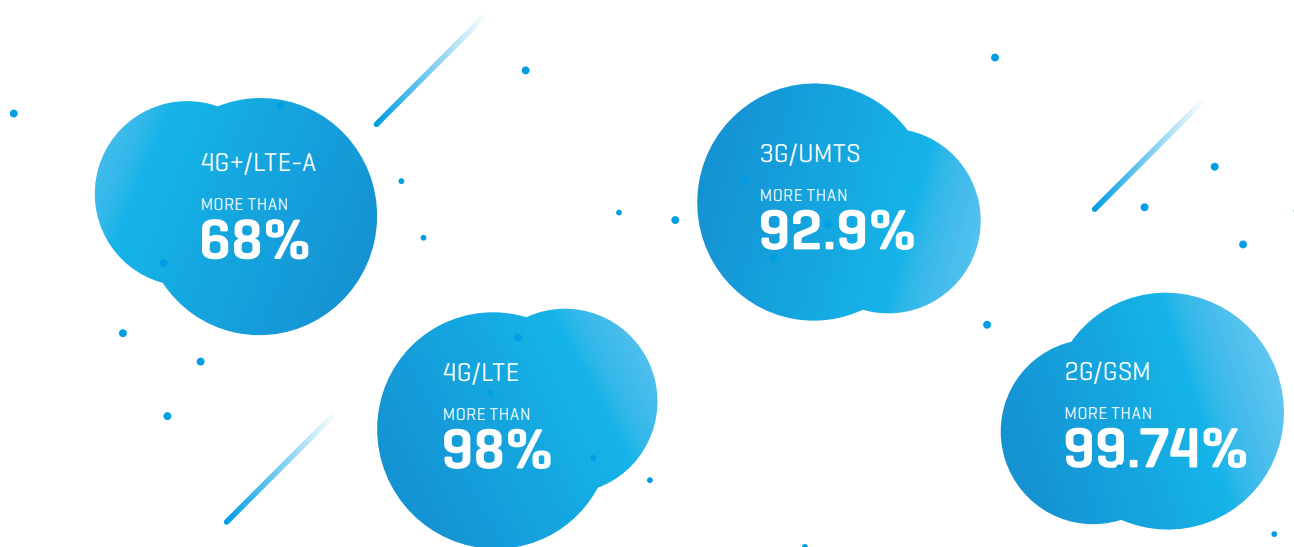
We offer **pensioners and seniors over the age of 60** the benefits of the Penzion package, with a lower monthly subscription fee for selected fixed and mobile packages, the free switching of mobile packages and no connection fee. In 2018 we included unlimited calls and messages in Slovenia and countries covered by the EU tariff in the Dostopni Start package, and also prepared special promotional offers. We presented an adapted range of packages and simple mobile phones at the Third Age Festival. We also organised training events for retirees, where we encouraged them to try their hand at the advanced use of smart devices.

We developed **eCare** for seniors and their families to facilitate active, more independent and safe living at home (<https://www.telekom.si/zasebni-uporabniki/ponudba/e-oskrba>). The eCare service allows seniors to make a simple and fast call, 24 hours a day, 365 days a year, in the event of a fall or sudden illness, and facilitates automated calling if a fall is detected and the organisation of assistance, as well as automated calling if smoke or the inflow of water is detected (smoke detector, water detector, etc.). The service functions such that the user has in place at their home an ambient-supported ICT technology that is directly linked to an assistance centre or remote assistance centre. The service was recognised in the scope of the European HoCare programme as an example of best practice.

BROAD ACCESS TO GROUP SERVICES⁴⁷

We strive to maintain a high level of customer satisfaction through superior quality services, while at the same time striving to ensure access to the most advanced ICT services by citizens who live in less-populated regions. The mobile telephony signal is accessible 99.74% of citizens of Slovenia, while a large portion of territory is covered by broadband internet access and fixed telephony.

In previous years we invested in the construction of mobile fourth generation LTE/4G and LTE/4G+ networks, and in the introduction of the fifth mobile generation [5G]. The LTE/4G network already covered more than 98% of the population at the end of 2018, while more than 68% of the population was covered by LTE/4G+ technology. The LTE/4G mobile signal is available in areas where setting up a fixed connection is not possible, as we provide users our own technological solution for the use of the internet, fixed telephony and TV services on the mobile LTE/4G network. We are also constructing at an accelerated pace the most advanced fibre optic network, to which we already facilitate connections by more than 282,000 Slovenian households.⁴⁸



Our companies in South-Eastern Europe also provide the most advanced technological solutions and thus contribute to the bridging of the digital divide in their own environments.

IPKO expanded coverage of the mobile network with new base station locations and upgraded 28 existing base stations with LTE/4G technology. Coverage of the population with the LTE network rose to 87.8%. In the fixed segment, we expanded our network to 35 new settlements, including some in remote rural areas.

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.

47 GRI PA1, PA2, SDG 9.1

48 GRI PA4, SDG 1.4

2.7.5 CUSTOMER SATISFACTION⁴⁹



Telekom Slovenije regularly measures customer satisfaction with services. Those results represent an important guide to us in the development and upgrading of services.

CUSTOMER SATISFACTION WITH TELEKOM SLOVENIJE'S SERVICES

Users emphasise the following as the most important advantages of our fixed services over other operators: advance services, the extensiveness of the network, the loyalty programme, the breadth of the TV programme scheme, the quality of devices on offer, the possibility of instalment purchases of devices with no commitment and discounts on the monthly subscription fee. The highest level of satisfaction is expressed with regard to the TV-communicator box, the search for content and advanced functions, which together represent a competitive advantage of Telekom Slovenije.

With regard to Telekom Slovenije's mobile services, customer satisfaction is driven by the high-quality functioning of voice services, coverage by the network, the breadth of the offer of mobile phones and devices, the stability of the network, our reliability, the stable functioning of the internet, qualifications and commitment, general concern for users, an affordable offer of mobile phones and devices, the innovativeness of the portfolio and the resolutions of issues.

Main competitive advantages of Telekom Slovenije

	Coverage and stability of the mobile network		Extensiveness of the fixed network
	Breadth of the TV programme scheme, BOX, search for content, remote control and advanced TV functions		High-quality functioning of voice services
	Qualifications, commitment and reliability		Advanced services
	Loyalty programme		Affordable offer of mobile phones and devices, the possibility of instalment purchases of devices with no commitment and discounts on the monthly subscription fee
	Quality of devices on offer, breadth of offer of mobile phones and devices		Stable functioning of the internet
	Customer service in general and the resolution of issues		Innovativeness of the portfolio

⁴⁹ GRI GS 103-1, 103-2, 103-3, GS 102-43, 102-44

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. Satisfaction is measured twice a year through mystery shopping research. All channels receive high ratings, which are on the rise.

Visitors to Telekom Slovenije's points of sale express the highest level of satisfaction with the following factors [Mystery Shopping research; second half of 2018]:

	Orderliness of surroundings and the interior of branches		Active approach and identification of needs; attention
	Atmosphere in centres		Understandable advice and in-depth knowledge of goods and services

NET PROMOTER SCORE [NPS]

We also measure feedback regarding customer satisfaction with our services with the help of the net promoter score [NPS] at contact points that are important for Telekom Slovenije. After visiting a contact point, we ask users if they would 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 well-positioned and comparable with other sectors.

CUSTOMER SATISFACTION AT OTHER COMPANIES

Customer satisfaction is also measured regularly at other Group companies.

TSmedia

TSmedia researches online products with the help of website statistics [e.g. the number of visitors and bounce rate], online questionnaires, telephone questionnaires, forms for submitting user opinions, and research amongst business partners [advertisers] at least once a year. We also measure customer satisfaction via data regarding TV ratings, which we measure via Arianna research [Nielsen]. TSmedia performs analyses and research both for itself and Antenna TV SL.

avtenta.

Avtenta measures customer satisfaction in the form of research, in which it also measures the NPS. A total of 88% of customers were satisfied, very satisfied or completely satisfied in 2018. That proportion was up slightly relative to the level of satisfaction measured in 2017. The satisfaction index is stable. The positive experiences highlighted by respondents relate to the company's

proactive approach, successful implementation, the efforts of employees and rapid response times.

GVO

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 9001 standard. Measurements in the area of project design were taken for the first time in 2018. With regard to construction works, all assessments received from Telekom Slovenije and external subscribers were 'excellent' and 'very good' [100% of respondents], while those figures were 89% from Telekom Slovenije and 75% from external subscribers in 2017. We were also very satisfied with results in the area of project design, where 'excellent' was the only assessment we received.



IPKO regularly monitors user responses via social networks, and measures customer satisfaction through a telephone questionnaire and quarterly quantitative studies. The NPS for mobile services was down during the first half of 2018 following

several years of growth. Customer satisfaction with fixed internet services records constant growth in terms of the NPS. The NPS for digital TV fell slightly during the first half of 2018, but remains higher than in the same period in previous years. The general satisfaction of the users of IPKO's mobile and internet services remained unchanged in 2018 relative to the previous year, while the satisfaction of digital TV users was down slightly.



Blicnet

Blicnet monitors customer satisfaction on a monthly basis via the number of complaints received and interventions. We also monitor the recommendations of users of services. Blicnet recorded the highest NPS for users of TV services in 2018, followed by users of internet and package services. The NPS is lower for mobile services.

2.7.6 MARKET COMMUNICATION⁵⁰

The information and communication technologies market was very dynamic in 2018, while our market communication activities focused on different user segments. We continued with the high-profile **“Turn Your Life Blue”** communication platform, which was extremely well-received by users. In presenting services, we linked different communication channels (TV, print, outdoor advertising, events, etc.), and dedicated even more attention to the internet and social networks during the year.

The Omnichannel project included the overhauling and upgrading of our online presence and operations on the main telekom.si website and Moj Telekom portal, and the optimisation of activities in the scope of our own social networks and presence in web browsers. The areas and key bases for planned improvements were defined based on an in-depth analysis of the Slovenian and European internet market, digital marketing, and best practices and trends, with a focus on the telecommunications sector. We selected Hybris, one of the leading platforms for information and 'e-commerce' support for the Omnichannel strategy.



During the summer we presented young people the **NekiNeki channel on YouTube**, where Maja and Lovro present entertaining videos with different challenges to inspire users. The channel achieved 10,000 followers in just over four months. We also presented positive user experiences with our services via the internet in the form of user videos with entertaining explanations.

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



Good Man and David the Elf brought wry humour to the New Year's campaign **'All is well. If the gifts are good'**.



We spiced things up at the end of the year with an inspiring entry into the **new world of NEO**, which promises a new milestone in the development and use of advanced fixed services.



We developed more than **80 pieces of print material** and six catalogues to achieve communication objectives and sales target.

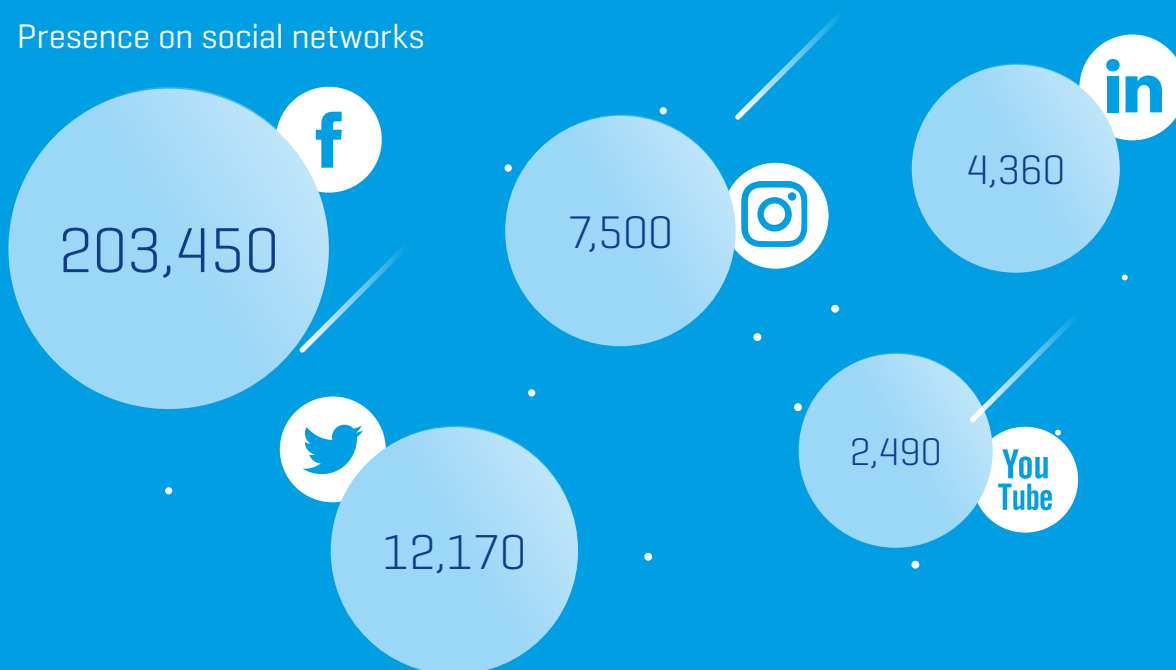
We participated in 55 events and promotions at events, and two fair presentations in 2018. For the Telekom Slovenije Group's key business users, we organised two business events, eleven regional meetings and one vertical event, where we presented specialised topics from the areas of trade and tourism.

For small and medium-sized business users, we organised an umbrella communications platform under the slogan **'Leading your business to a wise future'**. To that end, we positioned ourselves as a caring and safe partner in digital operations. At the end of the year we advertised the new mobile **Platinum package**, which includes a number of benefits aimed at entrepreneurs who wish to be in step with advanced technology, and enjoy exclusivity and a personal approach.



The number of visitors to the main www.telekom.si website was similar to the previous year. We thus recorded 26 million visitors in 2018, which resulted in more than 92 million views. 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 social networks



We dedicated special attention to direct communication with users, to whom we presented our services through more than 700 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 124 emails to 5.7 million email addresses in 2018.

ETHICAL MARKETING

As has become traditional in October, activities were carried out to raise awareness about breast cancer and the appropriate preventive measures. Together with Samsung, Telekom Slovenije prepared a special mobile phone offer in 2018, and earmarked a portion of proceeds to Europa Donna, the Slovenian Breast Cancer Association. The aim of the campaign was to raise public awareness about the importance of prevention and regular breast self-exams using the free Breast Test

application. The campaign was extremely well-received by users.

The market communication activities of Telekom Slovenije, TSmedia and Antenna TV SL are in line with the Media Act and the Slovenian Advertising Code. In market communication, we performed the self-regulation of advertising, meaning we verify compliance with the law and codes every time a communication project is planned. We also adhere to the examples of best practices drawn up by the Slovenian Advertising Chamber (accessible at: www.soz.si/projekti_soz/dobra_praksa/). IPKO also respects general professional advertising codes.⁵¹

No Telekom Slovenije Group companies were deemed to have breached codes or voluntary standards in the area of market communication in 2018.⁵²

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

52 GRI GS 417-3



NETWORK, TECHNOLOGIES AND IT

A WORLD OF SUPERIOR TECHNOLOGIES

Our mission is based on protecting the world of those who use our services. This drives us to develop comprehensive, safe solutions and provide our users a network of the highest quality. So they can enjoy all the advantages of the most advanced technologies.



2.8 NETWORK, TECHNOLOGIES AND IT

2.8.1 RESEARCH AND DEVELOPMENT SERVICES⁵³

We participate as a partner in numerous local and international research and development projects that are financed in part or full by the European Union. We focus primarily on areas that facilitate the development of technologies and that will form the market of state-of-the-art telecommunications in the near future. We are preparing for fifth generation (5G) mobile networks, which will facilitate further development. Internet of Things (smart grids, connected homes, smart cities, eHealth, etc.) technologies, and cloud and big data services will facilitate a major step forward in the future. We are also expecting progress in the area of critical public services, such as emergency call services, to which we are giving a great deal of attention.

The majority of activities were carried out in the scope of the Horizon 2020 programme, which includes EU projects in the areas of research and innovation. We were also active in the Slovenian 5G initiative for broadband networks for the Public Protection and Disaster Relief system (5G PPDR initiative) and in the Smart Cities and Communities Strategic Development-Innovation Partnership (SRIP PMIS).

Presented below are the major research and development projects in which Telekom Slovenije participated in 2018.

CHARISMA

We successfully completed the **CHARISMA** project (<http://www.charisma5g.eu/>) in March 2018. The total value of the project was EUR 5.9 million. The project was part of the Horizon 2020 programme, in the scope of which experts addressed the development of solutions for fifth-generation mobile networks. Twelve partners from nine countries focused on the development of mechanisms to ease the burden on the network, which would ensure the flow of data to end-users by the shortest path possible (offload) and the development of 'end-to-end' security mechanisms in the convergent virtualised open access network. Telekom Slovenije's primary role in the project was to set up a test environment, draft test scenarios and validate various concepts, such as solutions for smart grids, eHealth services and the Internet of Things. The results of the project were presented at Telekom Slovenije.



ICIRRUS

The **iCIRRUS** project (<http://www.icirrus-5gnet.eu/>) was also completed in March 2018 with the presentation of results. The results achieved in the scope of the project exceeded expectations. Together with partners from six countries, we used a 5G pilot network to demonstrate a transfer speed of 100 Gbit/s in the fronthaul segment of the network and 5 Gbit/s in the radio access segment. The iCIRRUS project, with a total value of EUR 3.8 million, is part of the Horizon 2020 programme. Project partners researched the impact of the architecture of the cloud radio access network (C-RAN) on the capacities of the 5G mobile network, such as communication between devices (D2D) and the introduction of virtual mobile cloud services.

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

The result of the iCIRRUS project is the possibility of establishing a highly efficient convergent fibre optic Ethernet network that facilitates 5G fixed and mobile services. The use of an Ethernet network to support all types of mobile network structures relieves the burden on the network and devices in use (mobile phones, tablet computers, etc.), despite the high volume of data transfer. The main benefits for end-users will be the extended battery life of mobile devices, an improved user experience through the use of increased bandwidth, low service latency and additional flexibility due to the use of a mobile information cloud. The final demonstration of the project took place at Telekom Slovenije.

NEXES

We successfully presented the **NEXES** project (<http://nexes.eu/>) in Brussels in June 2018. We have participated in the aforementioned project (with a total value of EUR 4 million) since 2015, together with 16 partners from ten countries. The aim of the project was to upgrade telecommunications between end-users and rescue service providers. New telecommunication possibilities based on data transfer facilitate video calls and the prompt exchange of medical information. This will also make it possible for the hearing impaired to use those services. Special attention was therefore given to that segment of the population. The project included pilot presentations in Slovenia, Turkey and Romania, where we carried out the appropriate exercises, together with rescue workers. Rescue workers were briefed on the NEXES application and provided their feedback. Telekom Slovenije contributed to the project with improved technology for locating accident victims. Their location was not determined based solely on the distance from a base station; in determining location, we combined information from several cells and mathematically estimated the strength of a signal in a particular area.

I_HeERO

The European **I_HeERO** project (<http://iheero.eu/>) was successfully completed in 2018. The aim of that project was to establish a single entry point for the receipt and processing of emergency calls sent from vehicles in EU Member States. As part of the upgrading of the automated emergency

call [eCall] system, we established an additional geo-redundant node [eCallNode] for the receipt, decoding and storage of relevant data about an accident at the Maribor location. In addition to the basic functionality for cars, we also facilitated the transfer of additional information from a device in a freight vehicle involved in an accident to the 112 call centre. This facilitates access to the waybill of a vehicle involved in an accident, which provides rescue teams key information for effective and safe measures.

5G SECURITY

Together with the Faculty of Electrical Engineering and the companies Iskratel and OSI, we launched the **5G Security** project (<https://5gvarnost.iskratel.com/>) in September 2018. The project, with a total value of EUR 3 million, is being co-financed by the Ministry of Education, Science and Sport and the European Regional Development Fund. Its focus is on reliable, 5G-ready communications and applications through the use of new and improved interactive modalities for citizens and professional PPDR [Public Protection and Disaster Relief] users. In the scope of the project, we will research alternative forms of 5G technologies and ways to migrate from existing technologies to 5G technology, and assess their impact on the provision of PPDR. In this way, we will obtain the relevant input data required to introduce new generations of PPDR applications and to establish migration strategies from today's specific-purpose professional communication systems to a common 5G infrastructure.

EKOSMART

Telekom Slovenije is also part of a consortium of 25 partners in the **EkoSmart** research and development programme (<http://www.ekosmart.net/sl/ekosmart/>). As part of that programme, we are developing 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.



2.8.2 NETWORK, TECHNOLOGIES AND IT

Due to trends in 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. To that end, we strive to optimise or retire outdated technologies. User habits are changing, and the digitalisation of society as a whole has a major impact on the development of our services. Communication traffic and volumes of transferred data are rising sharply. All of this requires from us the increased optimisation, automation and digitalisation of processes, which in turn requires additional new knowledge and major personnel changes.

We took these factors into account when planning investments, and in the development and management of a reliable, secure, modern and high-quality network. We made this possible through the most advanced access technology and modern control and support systems, and thorough the comprehensive verification of technologies and the effective clearance of system- and service-related faults. We developed new, high-quality and modern services for users and external service providers. We provided technical support for sales in the development, implementation and management of technical solutions. To that end, we are active in the research and development of next generation technological solutions. Our guiding principles remain the economic and cost-efficient management of a technology over its entire life cycle and the coordinated development of the Telekom Slovenije Group as a regional network and operator.

One of the key tasks in terms of technology is the effective management of operational risks, both in the scope of the information management and security and business continuity management systems, and in the scope of ERM (Enterprise Risk Management). Through planned projects, we have ensured the requisite reliability and capacities of all technological segments crucial for the achievement of objectives. We are upgrading systems taking into account their lifecycles,

and thus bringing the associated risks to an acceptable level.

One of the key trends in the broader area of ICT is the convergence of technologies, which through continuous development provides users increasingly interesting and higher-capacity services, as well as a high-quality user experience, and brings operators increased agility and competitiveness, including in terms of efficiency. We continued to exploit the convergence of technologies at the level of the network and server infrastructure to facilitate all types of services, and developed operational support processes and systems in accordance with international standards (e.g. eTOM and TM Forum).

A key strategic policy is the strategy of employing several suppliers, which ensures the operator's independence from suppliers.

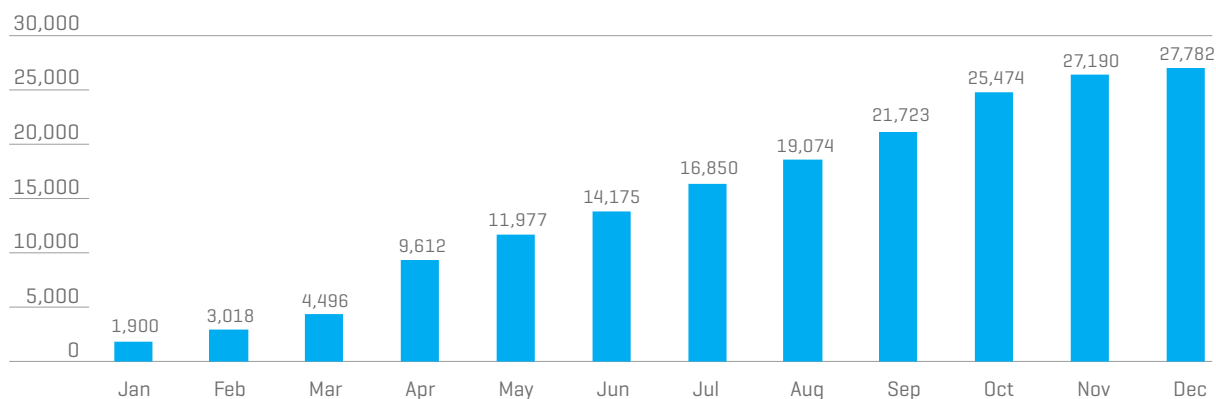
ACCESS NETWORKS

The fixed access network ensures broadband coverage, and the capacities of the cable network and active access devices. We continued to modernise radio access networks and thus remained a step ahead of competitive operators. We continued intensive development activities with an emphasis on the development of the Internet of Things and 5G, and on the provision of services via the mobile network, where the fixed infrastructure does not meet the needs of users.

ACCESS DEVICES

Telekom Slovenije has been building a fibre optic network for more than a decade. In recent years, we have been following contemporary economic trends in the construction of passive fibre optic networks, where several users physically share an optic fibre. Over a period of more than two and half years, we built more than 107,000 new fibre optic connection points, 27,782 in 2018 alone. We already facilitate connections to our most advanced fibre optic network by more than 282,000 Slovenian households. Transfer speeds of up to 1 Gb/s are possible on that network. We are planning to continue construction of the network in the coming years, as in this way we can satisfy the requirements of the users of our networks, optimise costs and achieve the objectives of the Digital Agenda for Europe.

Number of fibre optic connections built in 2018



With the upgrading of the fixed network with new technologies, we are also replacing TDM technology, which in the contemporary world of telecommunications does not satisfy development needs or regulatory requirements. We exceeded planned targets in 2018, as more than 26,000 subscribers were migrated to the IP platform.

TRANSMISSION SYSTEMS

We upgraded DWDM network elements with OTN [optical transport network] functionality, and thus significantly increased the flexibility of subscriber interfaces. This also allows us to provide protection at the 100 G level and more affordable QSFP interfaces. We continued to install 100 G cards and thus increased network capacity. We also connected a large number of business users' data centres via the DWDM network using encrypted connections. This is accompanied by the optimisation of the SDH network, together with the testing of 200 G lines and the first MPLS-TP connections. Through the planned construction of the additional Zagreb–Split–Mostar–Sarajevo DWDM section on our regional fibre optic network, we will expand the portfolio of services and further improved the reliability of systems and services.

TELECOMMUNICATIONS CABLE NETWORK

The copper-based network will no longer meet user requirements over the long term. The fibre optic network is thus the basic building block with which we can provide users a comprehensive range of services. By migrating users from a copper pair transmission medium to a fibre optic medium, we are reducing operating costs and increasing the efficiency of the existing infrastructure.

We have built more than 550 FTTP connections for business users on the fibre optic network, and connected 60 Telekom Slovenije base station locations and several locations for other operators. We continued to repair the damage to the cable network caused by heavy winds.

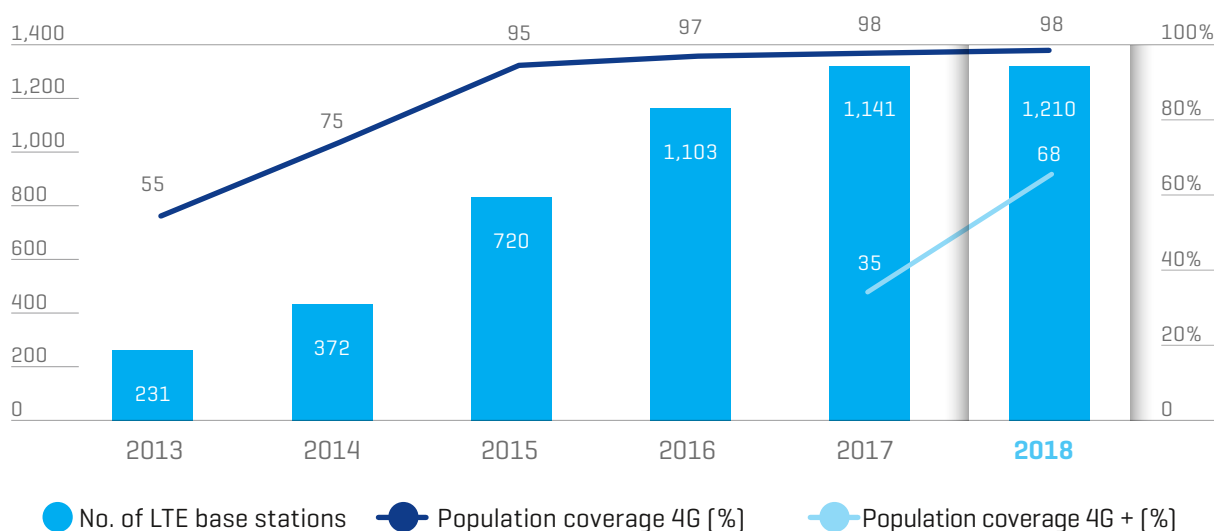
RADIO NETWORK

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 1,185 GSM base stations, 908 UMTS base stations and 1,210 LTE/4G base stations connected to a total of 1,242 functioning locations on the radio network in Slovenia at the end of 2018. The LTE/4G network already covers 4,842 cities and towns and more than 98% of the population, which exceeds the AKOS' 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 is comparable with GSM coverage.

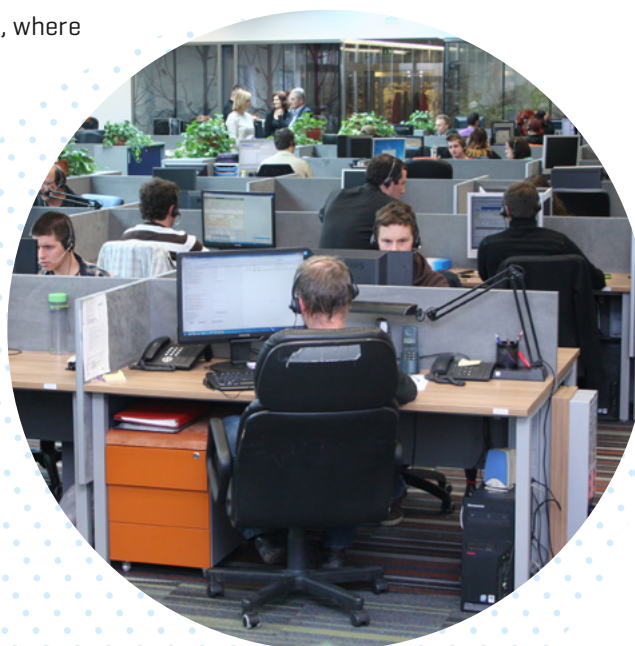
In line with needs for additional network permeability and capacities at specific locations, we are upgrading the network with LTE-Advanced [LTE/4G+] technology, and thus providing users even higher mobile data transfer speeds, of up to 300 Mbit/s for downloads and up to 50 Mbit/s for uploads. We already cover more than 67% of the population with LTE/4G+ technology, while that proportion will rise even further in the future.

Development of Telekom Slovenije's LTE/4G network



We successfully set up a test environment in Ljubljana and Maribor for testing Internet of Things solutions on the basis of Narrowband Internet of Things [NB-IoT] technology. The test environment is intended for companies, independent developers and educational institutions that wish to test their Internet of Things solutions in a real environment. Telekom Slovenije's first pilot projects in this area are already in progress, including in cooperation with the Faculty of Electrical Engineering at the University of Ljubljana and the Faculty of Electrical Engineering and Computer Science at the University of Maribor.

We are actively preparing for the introduction of 5G, where we are the only Slovenian operator participating in European projects aimed at the development of fifth generation mobile technology. This involves long-term technological development. We are thus carefully planning and carrying out interim steps for network development that are required for the introduction of that new technology. Users will be able to experience 5G sometime around 2020, when a boom is expected to take place at the global level and in Slovenia, and a wide range of terminal equipment will be available on the market.



eSIM

As of January 2019, Telekom Slovenije is the only operator that makes it possible for Slovenian users to use the latest eSIM technology in devices that meet the GSMA standard. eSIM is a chip or virtual SIM card that is permanently installed in a mobile device and replaces the existing SIM card that we know in physical form. With the help of an eSIM, which represents a milestone in the development of mobile networks, devices that could not previously use a physical SIM card (such as smart watches, Internet of Things devices, household appliances, etc.) can be connected to the mobile network.



PROVISION OF SERVICES TO USERS

The excellence of the user experience is extremely important, and our aim is to ensure that excellence at all major contact points with the users of services. We use a workforce management (WFM) system to allocate tasks to technicians in the field and coordinate installation times with users. We also continuously improve work processes with the aim of reducing the number of visits to users by technicians.

We have been recording a sharp increase in damage to our communication devices as the result of lightning strikes. For that reason, we organised the ad-hoc campaign 'Lightning-quick visit', through which we raised users' awareness about the consequences of lightning strikes. We advised users to disconnect their devices (modem, TV, computer, box, gaming console, etc.) from the electricity and communications networks during storms and when they are away for extended periods, in order to prevent damage to or the destruction of devices. Our users in Slovenia also have the possibility of receiving SMS notifications about forecast storms. The aforementioned activities brought positive results: during the summer months (from June to August), we recorded 10% fewer damaged subscriber modems and 23% fewer reported faults in the functioning of services, despite a 6% increase in the number of lightning strikes.

CORE TECHNOLOGIES⁵⁴

Core technologies represent one of the most advanced areas in terms of digital transformation, which has already made us highly competitive in the increasingly important area of managed cloud services. Through the well-planned introduction of new core network technologies, we ensure the optimisation and necessary capacities of systems. We test and introduce new technologies relating to the virtualisation of network and infrastructure technologies, ensure the standardised management of the core, private and public cloud infrastructure, monitor the development of new technologies, and support specialised services, special projects and managed services taking into account market requirements. Due to the restrictive regulation of net neutrality, we will introduce a platform for controlled and secure access by solution providers (or internal solutions) to network capacities. Cyber security will continue to be one of the main areas of our operations in the future.

54 GRI PA6



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:

- 418 GSM,
- 229 UMTS,
- 175 CAMEL and
- 56 LTE.

DEVELOPMENT OF AGGREGATION AND THE MOBILE CORE

We ensured the appropriate reliability and capacity of the convergent aggregation network, including the network synchronisation element. We supported the expansion of the access network and ensured compliance with the development of the core network, prepared the conditions for the conveyance of intelligence to the network edge, and ensured the consistency of commercial connectivity and security services. We supported the development of the RAN for the next generations of the mobile network (Cloud RAN and Elastic RAN) and upgraded elements of the mobile package core (in terms of licences and capacities), which will require a complete overhaul and virtualisation prior to the introduction of 5G. This will be accompanied by the virtualisation of network functionalities (CPE and package core) and integration with MANO in the scope of standardised ICT platforms. We introduced the VoWiFi service and facilitated support for eSIM.

FUNCTIONING OF THE SERVICE-OPERATIONAL CENTRE (SOC)

We continued to optimise processes and support systems with the aim of simplifying processes, achieving transparency and ensuring an even better user experience in the processes of fault clearance and ensuring cyber security. In 2018 we established the Cyber Security Operation Centre (CSOC), which we use for our own needs and for the market. We developed 'bot' technologies for

the digitalisation of the Technical Help Desk, which we will gradually expand for other interactions.

In the area of control and services, we manage control and participate in the introduction of new services and elements in the network. We handled around 70 major network outages, and helped make 142 changes to settings at base stations. Key tasks also include fault management and the coordination of planned elements for the electronic toll collection system.⁵⁵

The Cyber Security Operation Centre handled several thousand potential breaches of information security, and managed 225 actual breaches of information security that included malicious programs, visits to websites designated as potentially dangerous, viruses, phishing, C&C communication, the abuse of user data (e.g. hotel chains), security vulnerabilities, etc. We performed periodic vulnerability and penetration testing throughout the entire year.

In the area of change management, the migration of planned elements from UNOS to ITSM was carried out. The primary task in this area is the performance of service impact analysis (SIA), which ensures the integrity and accuracy of data in the resource management system (reference base for fulfilment and assurance processes). We adapted OSS taking into account changes to processes and technologies.

EVOLUTION OF TV

We linked services for private users on TV screens, mobile devices and the internet. Such merging of existing and new systems on a single platform will allow Telekom Slovenije to ensure or create new competitive advantages and provide services to generate new revenues (smart home, eHealth, Online Shop, etc.). We have begun to overhaul the main satellite TV receiving station.

DEVELOPMENT OF BSS AND OSS

Through the development of BSS and OSS, we follow trends and changes on the ICT market, and thus improve operational efficiency and support

new business opportunities. In the segment of traditional telecommunication services, we actively focused on improving operational efficiency [e.g. the automation of processes for delivering services, and the simplification of processes and the product portfolio]. By reusing BSS and OSS components, we facilitate the use of solutions to support new verticals [such as electricity, electronic toll collection and the Internet of Things].

DEVELOPMENT OF ICT PLATFORMS AND COMMERCIAL SERVICES

In the scope of this development programme, we have ensured urgent generational exchanges, and upgraded the capacities of server, disk, archive and network equipment. We standardised previously separate segments of the core, private and public cloud [NG single cloud], through a high level of integration and automation for standardised solutions. We facilitated technological ICT solutions for special projects on the B2B market.

LEGAL OBLIGATIONS

We supported legal obligations deriving from the GDPR. The development of a public alarm system continues in connection with the ZEKom, while upgrades were carried out with respect to the search for missing persons, SMS notifications while roaming, the development of emergency services and other new obligations of this type.

We ensured the comprehensive management of technological facilities and co-location sites, and optimised operating costs. We optimised the number of public telephone booths taking into account traffic, and thus fulfilled legal obligations.

BUSINESS CONTINUITY

In the scope of business continuity, we ensured the necessary capacities of access and regional fibre optic transfer systems, active access equipment through the appropriate number of connection points, the construction of connection points in the cable network and the construction of a backbone fibre optic cable network. We also carried out joint construction works with municipalities and other investors in the municipal infrastructure. Through the building of planned power supply and air-conditioning systems, we will improve the reliability of active equipment, and thus services and the efficiency of electricity consumption in accordance with the ISO 50001 system. We also tested the relocation of network control to alternate locations.

We continued to optimise the fixed core by shutting down central TDMs and consolidating the VoIP [telephony] platform for the residential market, and consolidated fixed and mobile communication services for residential users in the IMS domain. We began consolidating business telephony in the IMS. We supported and developed sales projects for special solutions [managed call centre, private switchboards, video conferencing and unified communications]. We ensure the compliant and optimal development and lifecycles of fixed core, mobile core and service platform technologies. The emphasis with respect to the latter is on eHealth services [eCare and telemedicine] and on the continued development of voice [080 and 090 call services] and messaging services. We are upgrading tools and measuring systems for the testing and verification of technologies in the development laboratory, where we performed numerous verifications and test settings.



SUSTAINABLE DEVELOPMENT AND SOCIAL RESPONSIBILITY

A WORLD OF CARING

With a bold approach, care and the responsible management of the environment in which we operate, we are co-creating a society that inspires us through culture, education, sports and humanitarian activities. This is our commitment for a friendlier world. Today and tomorrow. Our world of caring.



2.9 SUSTAINABLE DEVELOPMENT AND SOCIAL RESPONSIBILITY

2.9.1 SOCIAL RESPONSIBILITY⁵⁶

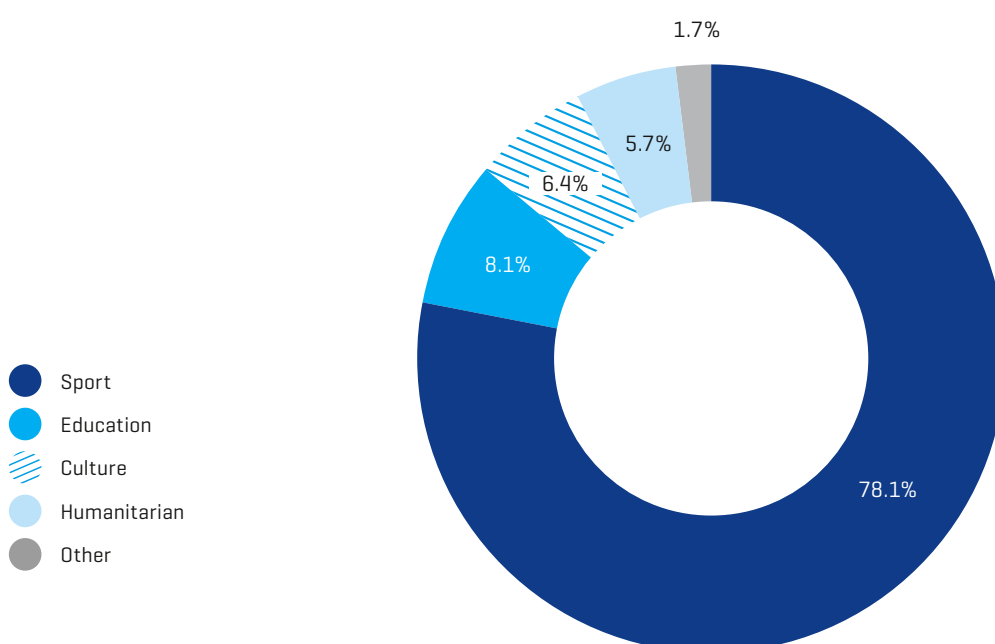
Social responsibility is one of the strategic policies of the Telekom Slovenije Group. The principles of sustainable development and social responsibility are therefore integrated into our operations, products and services. More in this regard is reported in the sections [2.7.4. Responsibility to users](#) and [2.7.6. Market communication](#).

As the leading Slovenian operator, closely tied to the environment in which we operate, we wish to give back to society via sponsorship and donation activities. We contribute to the development of the social and economic environment with our expertise, and financial resources and other resources. We have supported humanitarian, cultural, environmental, educational and scientific projects and institutions, 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 our work, we have maintained our role as an important donor and sponsor at the national level, where special attention is also given to geographical diversity. 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 strategic business plan when allocating funds.

The Telekom Slovenije Group earmarked a total of EUR 2.8 million or 0.4% of its operating revenues for sponsorships and donations in 2018.

Allocation of sponsorship and donation funds by purpose



MAJOR SPONSORSHIPS AND DONATIONS IN 2018

HUMANITARIAN PROJECTS

We regularly participate in humanitarian projects aimed at overcoming social differences. Our activities in 2018 included the support of the following organisations:

- the Slovenian Red Cross's Debeli rtič youth spa and resort for the renovation of swimming pool tiles in the Bor building;
- the Ljubljana Moste-Polje chapter of the Friends of Youth Association in the Slovenia-wide Botrstvo v Sloveniji child sponsorship project. Money was earmarked for a fund for the development of the talents of children from socially disadvantaged families;
- the Friends of Youth Association for the TOM telephone intended for children and adolescents in distress; and
- telephone counselling provided by the Association of Counsellors to help those in distress (the anonymous Samarijan line)

EDUCATION AND SCIENCE

Telekom Slovenije supports numerous educational and scientific projects, conferences and events, and serves 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 Presidents' Forum (Bled),
- the EuCNC conference – technical conference in the field of communication and network technologies,
- the Sporto conference,
- the multimedia educational programme at the Faculty of Electrical Engineering at the University of Ljubljana, and
- the Post and Telecommunications Museum, which Telekom Slovenije co-founded.

ENVIRONMENTAL PROJECTS

We have supported and participated as a partner in the Eco-Quiz project aimed at educating primary school students about the environment for several years.

CULTURE

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

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

SPORTS

We continuously support numerous major and minor events that are intended primarily for children and adolescents. Our sponsorship activities in 2018 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, the Slovenian Cycling Federation and the Slovenian Sailing Federation;
- sporting clubs: the Maribor football club, the Olimpija, Krka Novo Mesto and Domžale basketball clubs, the Celje Pivovarna Laško and Gorenje Velenje handball clubs and others;
- sporting events: the 2018 World Cup ski flying competition in Planica, the 2018 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 Ljubljana Marathon and the international 3-on-3 basketball tournament; the Red Bull Goni Pony bike ride up Vršič and the Red Bull 400 (race up the Planica sky flying hill), and the Bovec marathon; and
- individuals: Peter Kauzer, Robert Renner and Ilka Štuhec.

Social responsibility is also a policy at all Telekom Slovenije Group subsidiaries. Worthy of mention amongst the sponsorship activities of subsidiaries is IPKO as sponsor of the Football Federation of Kosovo.

2.9.2 RESPONSIBILITY TO EMPLOYEES

We are aware that satisfied employees are the key to success of every company. The Telekom Slovenije Group therefore strives to ensure a stimulating and friendly work environment, open to innovation and cooperation. We provide for continuous employee training and education in various areas, and introduce innovative approaches for empowering employees. We are active in the areas of health and the prevention of burnout, upgrade employee remuneration and motivation systems, and implement numerous activities to strengthen the employer's brand.⁵⁷

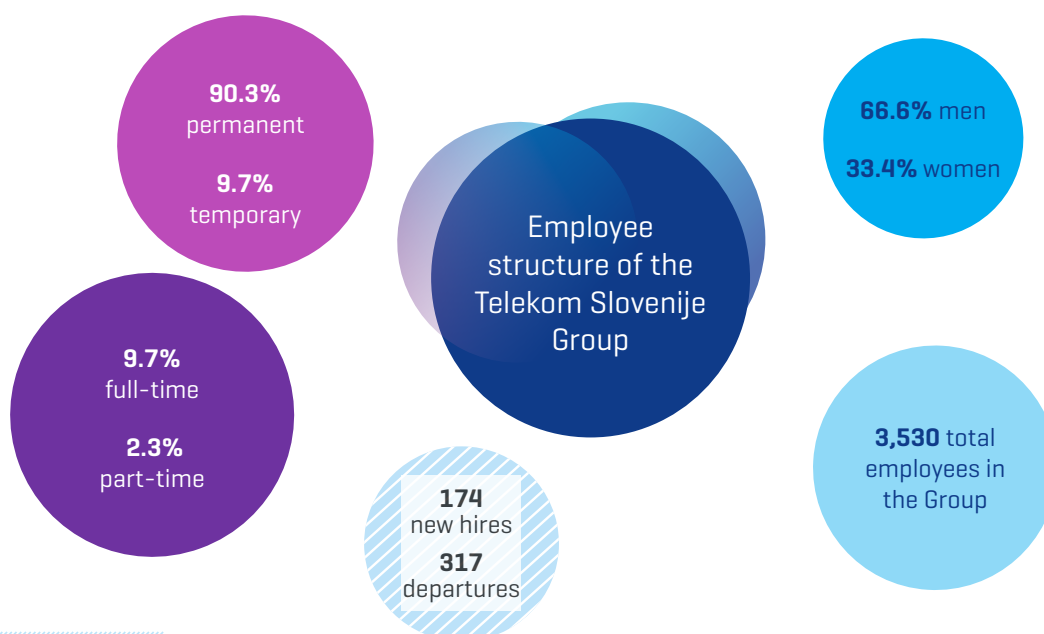
CODE OF ETHICS⁵⁸

The Code of Ethics of the Telekom Slovenije Group sets out the guiding principles of our operations, and our responsibilities in both mutual relationships and in relationships with the users of our services, shareholders, the social and natural environment and all other stakeholders. 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 confidential 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.

Similar to the previous year, Telekom Slovenije Group companies did not receive any complaints due to discrimination in 2018.⁵⁹

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.⁶⁰



57 GRI GS 103-1, 103-2

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

59 GRI GS 406-1

60 GRI GS 408-1, GS 409-1

STRUCTURE OF EMPLOYEES⁶¹

The Telekom Slovenije Group had a total of 3,530 employees at the end of 2018, with Slovenian companies accounting for 2,903 of that number. The total number of employees was down by 4% relative to the previous year, primarily due to the termination of employment for business reasons and retirements at Telekom Slovenije. The companies in Kosovo and Bosnia and Herzegovina have a total of 627 employees. When the scope of work increases, they also hire contracted workers via agencies, as well as students [primarily in sales and warehousing activities]. There were 135 such employees during the year [129 at IPKO and 6 at Blicnet]⁶².

At 8.2%, employee turnover within the Telekom Slovenije Group was up by 2.6 percentage points relative to the previous year, while the turnover rate was 10.6% at companies in Slovenia, an increase of 5.0 percentage points relative to 2017.

Structure of employees at Telekom Slovenije Group companies⁶³

Situation as at 31 December	2018	2017	2016	Change in 2018	Index 18/17
SLOVENIA	2,903	3,040	3,027	-137	95
Telekom Slovenije	2,196	2,338	2,403	-142	94
Other companies in Slovenia	707	702	624	5	101
Antenna TV SL	44	48	-	-4	92
TSmedia	56	55	58	1	102
Avtenta	43	41	40	2	105
GVO	431	448	437	-17	96
Soline	92	87	89	5	106
TSinpo	41	23	-	18	178
SOUTH-EASTERN EUROPE	627	633	638	-6	99
IPKO – Kosovo	528	528	532	0	100
Blicnet – Bosnia and Herzegovina	99	105	106	-6	94
TELEKOM SLOVENIJE GROUP	3,530	3,673	3,665	-143	96

Number of new employees and departures in 2018 by age group⁶⁴

Age group	Telekom Slovenije Group		Telekom Slovenije		Other companies in Slovenia		Companies in South-Eastern Europe	
	New hires	Departures	New hires	Departures	New hires	Departures	New hires	Departures
00-30	92	55	24	2	38	15	30	38
31-40	50	73	17	32	19	29	14	12
41-50	19	75	1	58	13	13	5	4
51-60	13	99	1	81	12	18	0	0
61-65	0	15	0	12	0	2	0	1
Total	174	317	43	185	82	77	49	55

The proportion of employees with whom the Telekom Slovenije Group has concluded standard employment contracts and contracts based on a collective agreement was nearly the same as the previous year, at 98% of employees. The remaining 2% of employees hold contracts outside the collective bargaining system. These are primarily employees in management positions.

61 GRI GS 401-1, GS 102-7

62 GRI GS 102-8

63 GRI GS 102-8

64 GRI GS 401-1

Proportion of employees by contract type⁶⁵

Proportion of in % as at 31 December 2018	Telekom Slovenije Group	Telekom Slovenije	Other companies in Slovenia	Companies in South-Eastern Europe
Employees covered by collective agreement	98.0	97.3	98.7	100.0
Employees outside the collective agreement system	2.0	2.7	1.3	0.0
Total	100.0	100.0	100.0	100.0

EMPLOYEES BY TYPE OF EMPLOYMENT AND GENDER⁶⁶

The majority of employees in the Telekom Slovenije Group are on permanent contracts. A total of 90.3% of employees were employed permanently in 2018 [compared with 87.3% in 2017], while 9.7% of employees were employed for a fixed period of time [compared with 12.7% in 2017]. 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 2,196 employees at Telekom Slovenije in 2018, only 20 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 type⁶⁷

Proportion in % as at 31 December 2018	Telekom Slovenije Group	Telekom Slovenije	Other companies in Slovenia	Companies in South-Eastern Europe
Permanent employment	90.3	99.1	90.7	59
Temporary employment	9.7	0.9	9.3	41
Total	100.0	100.0	100.0	100.0

Men accounted for 66.6% and women for 33.4% of Telekom Slovenije Group employees. 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%].⁶⁸

Full-time employees account for the largest proportion [97.7%] of employees at the Group level, while part-time workers account for a smaller proportion [2.3%].⁶⁹

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.⁷⁰

We took a planned, targeted and systematic approach to work with older employees [older than 51 years of age] during the year. We will draft a strategy with a list of measures for the effective management of older employees, which will serve as a part of the overall human resources strategy in the period 2019 to 2023. That strategy will include a policy on the employment and retirement of older persons, training and lifelong learning, the development and advancement of older employees, the development of flexible forms of work, the adaptation of jobs to the needs of older persons and the modification of positions in connection with older employees, including improved awareness about ageing.

65 GRI GS 102-41

66 GRI GS 102-8

67 GRI GS 102-8

68 GRI GS 102-8, GS 405-1

69 GRI GS 102-8

70 GRI GS 201-3, 404-2

EDUCATIONAL STRUCTURE OF EMPLOYEES

The largest decline at the Group level was recorded in the number of employees with educational levels of IV and V. Those persons account for slightly less than one third of employees.

Telekom Slovenije Group employees by actual educational level

Employees by actual educational level	2018	2017	2016	Proportion in %	Change during the year	Index 18/17
Levels I to IV Education comprises less than four years of schooling, i.e. less than technical or other secondary education	348	387	400	9.9	-39	90
Level V Four-year secondary school	1,091	1,149	1,154	30.9	-58	95
Level VI Higher or college education, faculty comprises less than four years of schooling	839	867	866	23.8	-28	97
Level VII Faculty – university level, Bologna master's programme	1,103	1,115	1,093	31.2	-12	99
Level VIII Master's and doctorate degrees	149	155	155	4.2	3	96
Total	3,530	3,673	3,665	100	-143	96

EMPLOYMENT AND TRAINING OF DISABLED PERSONS

There were 82 employees of various disability levels working in the Telekom Slovenije Group at the end of the year. Of those persons, 58.5% 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 regular 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 such a compensation system in place.

TSinpo became fully functional in 2018. Within the Telekom Slovenije Group, the aforementioned company provides jobs adapted to the abilities of disabled persons and other difficult-to-employ individuals and trains them for the implementation of support processes. At the end

of 2017, 18 employees were transferred from the parent company to TSinpo, together with the service workshop activities and logistics work that those persons performed previously at the parent company. TSinpo thus began providing the parent company business support in the distribution and maintenance of terminal equipment and the distribution of marketing materials.

Activities relating to the technical preparation of works and physical archiving were transferred from the parent company to TSinpo in July 2018, together with 18 employees. The disabled workers company performs certain service-related support activities for Telekom Slovenije and its subsidiaries, and is present on the wider Slovenian market with its own production and marketing of cardboard products. Taking into account commercial development, and the expansion of activities and markets, TSinpo will hire disabled persons, primarily within the Group, due to the loss of work as the result of the inability to perform certain jobs.



TRAINING AND HR DEVELOPMENT⁷¹

The ICT sector is changing, developing and adapting to new technologies and the growing requirements of users. We therefore dedicate a great deal of attention to strengthening employee competences and the acquisition of new knowledge, which we share in our everyday work. We are aware that we can only be stronger together, and will therefore work as a team, with top-flight experts, superior knowledge and common values and objectives, to create and develop the most advanced services and business opportunities in the future. Through continuous planned education and training, and the management and transfer of knowledge, we ensure the growth and development of the Company and its employees. Investing in knowledge contributes to the successful achievement of objectives and the internal mobility of employees.

Employee education and training at Telekom Slovenije are set out in the Education and Training

Rules, together with changes thereto, and are organised in accordance with annual plans.

Employee development and training plans are drafted every year, as part of annual development interviews, on the basis of the Education and Training Programme. In the planning process, we define the purpose and objectives of education and training, which derive from the organisation's overall objectives. Objectives are clear and measurable, which is important for monitoring the effectiveness of education and training.

We begin measuring the effects of education and training during the implementation phase, by measuring the satisfaction of participants. We established an electronic questionnaire in 2018, through which we receive an assessment of the implementation of education or training and feedback regarding its usefulness. We use coaching, workplace mentoring and focus groups to measure acquired knowledge and skills.

Key figures regarding employee training within the Telekom Slovenije Group and at Telekom Slovenije⁷²

	Telekom Slovenije Group				Telekom Slovenije			
	2018	2017	2016	Index 18/17	2018	2017	2016	Index 18/17
Number of participants in training	3,286	3,356	3,315	98	2,460	2,585	2,479	95
Number of training hours	92,821	92,346	95,701	101	79,241	79,589	74,727	100
Proportion of employees included in training	93.1%	91.4%	90.5%	102	112.0%*	110.6%*	103.2%*	101
Number of training hours per employee	26.3	25.1	26.1	105	36.1	34.0	31.1	106

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

The proportion of employees included in education and training was up by nearly 2 percentage points in 2018 at the Telekom Slovenije Group relative to the previous year. At subsidiaries in South-Eastern Europe, the proportion of employees included in education and training was down by 6 percentage points, while that proportion was up by 3 percentage points at subsidiaries in Slovenia and by just over 1 percentage point at Telekom Slovenije. The number of employees included in education and training was down by 5% at Telekom Slovenije, as the result of a reduction in the number of employees. Despite that fact, the total number of education and training hours was not down at Telekom Slovenije. The average number of training hours per employee at Telekom Slovenije was up by 2 hours relative to 2017 to stand at 36 hours per employee.

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

72 GRI GS 404-1

Number of hours and proportion of employees included in training by gender⁷³

	Telekom Slovenije Group				Telekom Slovenije			
	2018	2017	2016	Index 18/17	2018	2017	2016	Index 18/17
Male	65,376 [70.0%]	64,986 [70.4%]	65,651 [68.6%]	101	54,482 [68.75%]	54,540 [68.5%]	49,699 [66.5%]	100
Women	27,445 [30.0%]	27,360 [29.6%]	30,050 [31.4%]	100	24,759 [31.25%]	25,049 [31.5%]	25,028 [33.5%]	100
Total	92,821	92,346	95,701	101	79,241	79,589	74,727	100

Training at Telekom Slovenije accounts for 85% of all training. Men accounted for 68.75% and women 31.24% 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.

Number of training hours per year by employee category⁷⁴

	Telekom Slovenije Group				Telekom Slovenije			
	2018	2017	2016	Index 18/17	2018	2017	2016	Index
Technicians and sales staff	57,423	60,198	63,447	95	48,323	53,205	50,484	91
Administration	11,472	7,755	7,412	148	11,303	7,208	6,575	157
Department heads	10,003	10,810	12,534	93	9,346	9,779	8,513	96
Middle management	11,306	8,533	4,435	132	8,463	6,156	2,700	137
Other	2,617	5,022	7,874	52	1,806	3,241	6,455	56
Total	92,821	92,346	95,701	101	79,241	79,589	74,727	100

We are aware that we can only formulate and achieve strategic policies and objectives with highly educated and qualified, competent, innovative and motivated employees.

Technicians and sales staff received the highest number of education and training hours within the Group and at Telekom Slovenije in 2018. The proportion of education and training hours accounted for by technicians, sales staff and other employees was down relative to 2017, but primarily due to reorganisation activities in 2017 and the new allocation of jobs. As a result, administration and middle management recorded a higher proportion of training hours compared with 2017. The total number of hours in 2018 was comparable with the previous year.

Average number of training hours per year by gender and by employee category⁷⁵

Telekom Slovenije	2018		Total
	Men	Women	
Technology and sales	16.79	5.22	22.01
Administration	2.37	2.77	5.14
Team leaders	2.83	1.43	4.26
Middle management	2.34	1.52	3.86
Other	0.49	0.34	0.83
Total	24.82	11.28	36.1

* There is no comparison with previous years available, as we have not yet monitored such an allocation. We have likewise not yet monitored data for subsidiaries according to the above allocation.

73 GRI GS 404-1

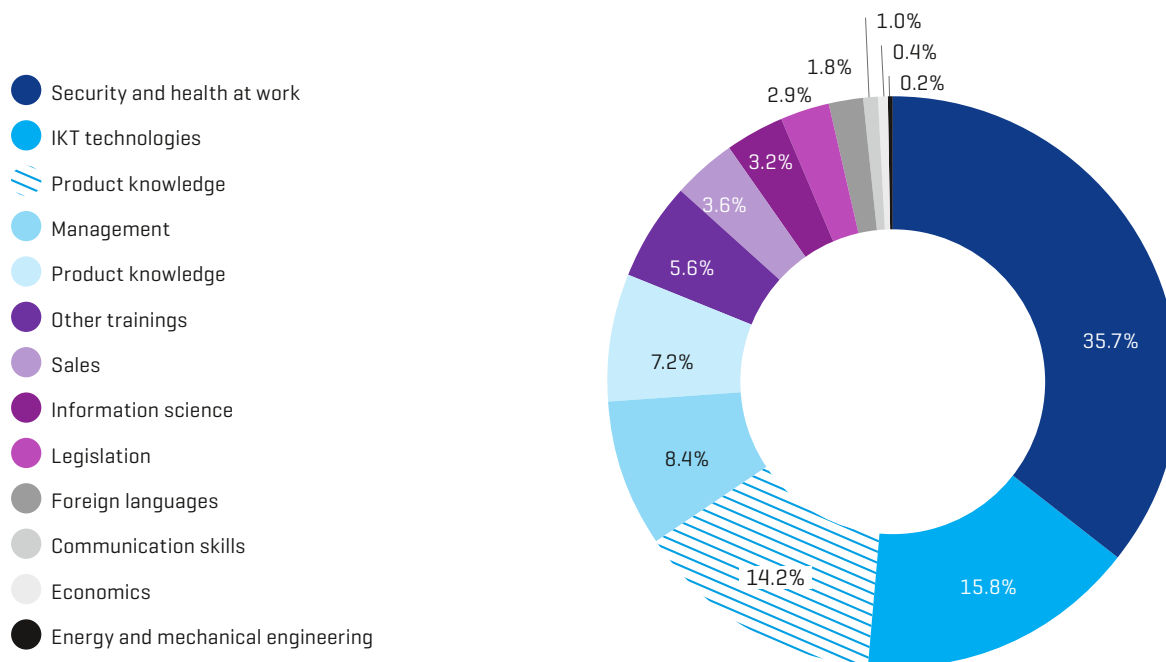
74 GRI GS 404-1

75 GRI GS 404-1

STRUCTURE OF TRAINING BY AREA IN 2018⁷⁶

The Telekom Slovenije Group dedicates a great deal of attention to the occupational health of its employees. The aforementioned area therefore accounted for the highest proportion of education and training, which was up relative to last year [26%]. In the scope of the Živijo, stres [Hey, stress] project, we educated employees and raised their awareness about stress management and the prevention of burnout. All Telekom Slovenije employees were required to attend e-courses on information security and business continuity (i.e. employee conduct in emergencies) in 2018.

Structure of training by area within the Telekom Slovenije Group in 2018



Our employees also received a great deal of education and training in the areas of sales and information and communication technologies. The content of all education and training was prepared by internal experts, and was tailored to specific target groups for which it was mandatory.

Education and training in the areas of business communication and business skills accounted for a higher proportion of total education and training in 2018, as satisfaction and an excellent user experience depend on a professional approach and relationship, and the appropriate communication of our employees. Telekom Slovenije employees who encounter users were therefore included in education and training in this area. We began enhancing sales skills and competences and coaching sales staff in 2016. We upgraded that programme in 2018 with the inclusion of field technicians. We named the aforementioned development-training programme S.M.A.R.T. It

includes the knowledge and skills we want to introduce in contact with users, and a team of employees equipped with coaching skills who transfer such knowledge and experience to co-workers.

Due to the nature of the work at Telekom Slovenije, we handle various personal data that we are obliged to protect diligently. We organised a total of 91 training hours in this area in 2018. The purposes of training are to present employees the basics of personal data protection and the lawful processing thereof, to improve knowledge of rules governing the protection and processing of personal data and to increase employee awareness. In accordance with the law, we dedicated 23.5 training hours to the General Data Protection Regulation [GDPR]. Eleven employees attended 165 hours of training for prevention of mobbing officers.⁷⁷

76 GRI GS 404-1

77 GRI GS 103-1, 103-2, 103-3, 205-2, 412-2

Telekom Slovenije took even greater advantage of the benefits of e-training in 2018, as 11% of all training was organised on the internal e-portal.

Four employees were reassigned to the position of sales trainer, and perform that work as their only work task. We also have 15 managers who dedicate at least half of their time to the development of employees with coaching skills.

S.M.A.R.T. – an advanced development-training programme



INVESTMENTS IN EMPLOYEE KNOWLEDGE

Investments in employee knowledge and training are seen in the improved performance of the organisation and higher added value. We thus give such investments a great deal of attention. The success of our efforts is also evidenced by Telekom Slovenije's ranking as one of the top ten masters of knowledge in Slovenia.

We finance the study of employees and facilitate paid absence to prepare for study requirements. At the end of 2018 a total of 44 employees had contracts with the Telekom Slovenije Group to obtain a higher level of education, 40 employees at Telekom Slovenije, three employees at GVO and one employee at Avtenta. The number of new contracts was up by 37.5% relative to 2017.

KEY AND PERSPECTIVE PERSONNEL⁷⁸

Telekom Slovenije updated the methodology and criteria for identifying key and perspective personnel, as well as the strategy for managing those employees. We updated the system and adapted it to the requirements of a developed society, and harmonised it with the business context, strategic objectives and values.

The system includes individuals who contribute an above-average share to the achievement of the Company's objectives (special work achievements), who have highly developed competences or who demonstrate potential and the motivation for further development.

We break them down into the following categories:

- key personnel – creators: who with their creativity and commitment achieve better results, and who have highly developed potential to take on more demanding work and to advance to higher professional and management positions;
- key personnel – experts: are the bearers of knowledge that is crucial and specific to the Company and that has been gained through rich experiences; only a certain proportion of the Company's employees have such knowledge and are difficult to find on the labour market; and
- perspective personnel: young employees who are still developing as managers or professionals.

A total of 8.9% of all Telekom Slovenije employees were recognised as key and perspective personnel, according to the Company's adopted methodology.

Phases in the process of managing key and perspective employees in Telekom Slovenije



RECRUITING NEW EMPLOYEES, PROFESSIONAL TRAINING OF SECONDARY SCHOOL AND UNIVERSITY STUDENTS, AND THE AWARDING OF SCHOLARSHIPS

In the scope of human resource planning, we aim to recruit the best secondary and university students in their respective classes, primarily in strategically important areas, such as multimedia, cloud applications, user interfaces, etc. Telekom Slovenije facilitates the practical training of secondary school students and the practical education of university students. The best candidates who prove themselves during practical training and education and who could be potential candidates for employment are entered into a database of employment candidates.

We provided practical training opportunities to 62 secondary school and university students in 2018. Those students performed 18,820 hours of practical training. We guide the best trainees to the most advanced technologies through their seminar papers or theses, and also employ the best amongst them. This method has proven effective in the past, and we therefore re-introduced company scholarships. Telekom Slovenije awarded seven company scholarships during the 2018/2019 school year.

Blicnet and IPKO each had one scholarship agreement at the end of the year.

OUTPLACEMENT

The transition to a new job and the search for new employment opportunities can present a major challenge to employees. We have therefore developed an outplacement programme that helps individuals make a faster and easier transition in their search for new employment. The programme comprises four workshops that are aimed at obtaining information for the successful search for employment on the labour market and the building of job seeking skills. It includes first-hand information and practical advice in the search for employment. The programme was offered to all employees who left the Company in 2018 for business reasons. A total of 18 employees elected to attend the programme.⁷⁹

STRESS MANAGEMENT AND THE PREVENTION OF EMPLOYEE BURNOUT

A study on organisational vitality in 2017 indicated that employees are suffering from burnout and that we must take a systematic approach to that problem. The preparation of activities to prevent employee burnout was thus one of the priority measures adopted by the Company's Management Board.

This led to the Živijo, stres, [Hey, stress] project, through which we raise employee awareness about the importance of stress management. Lectures were given during the year by experts in the fields of psychology, sociology and anthropology, and by individuals who have suffered from burnout. We were also briefed on numerous relaxation methods and the effects of positive thinking. We prepared a modular training course for a pilot group of employees, who managers identified as suffering from symptoms of severe stress and the beginning of burnout. We also organised combined exercises for employees several times a week outside of working hours, and organised massages in the workplace for employees, the Modri telefon [Wise Telephone], which provides employees the help of a psychologist, and so-called anti-stress weekends. Useful information and advice in this area are available to all employees on a special intranet portal.

79 GRI GS 404-2

MOTIVATION OF EMPLOYEES

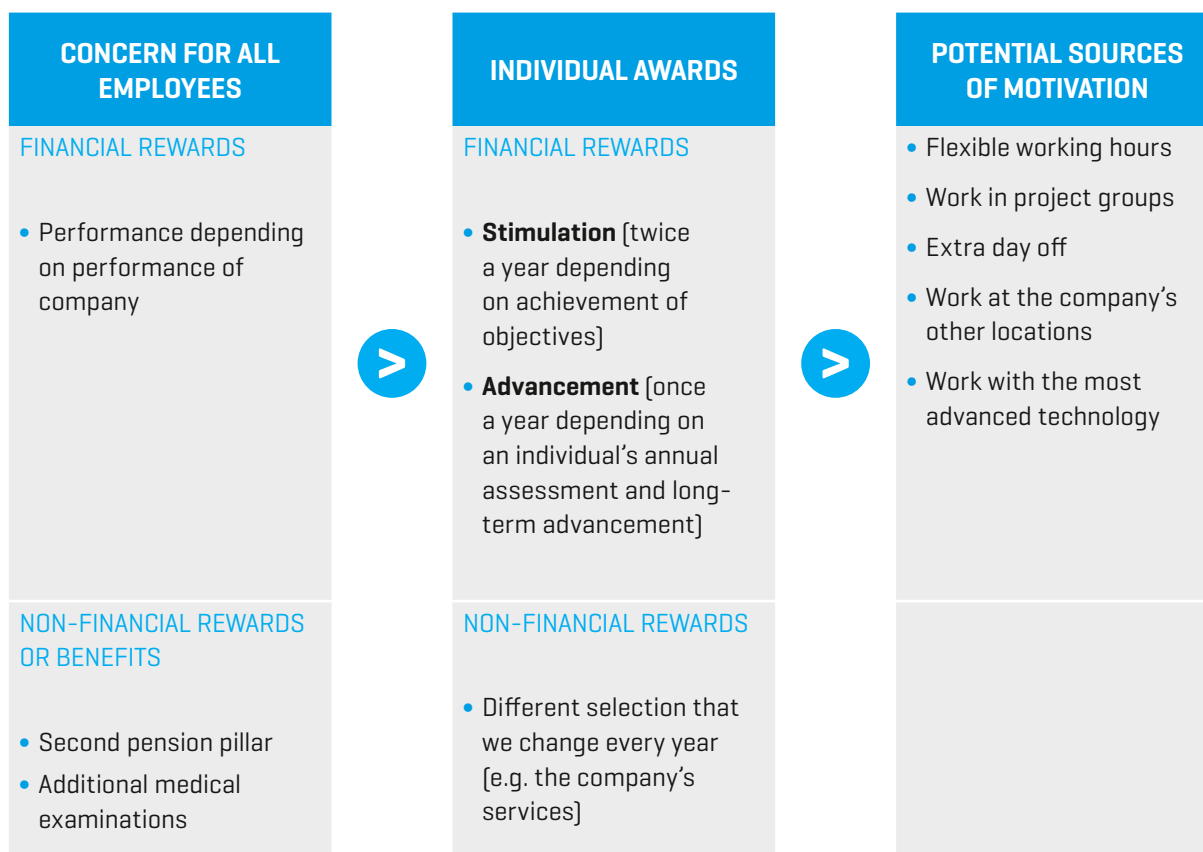
Our aim is to provide employees a work environment in which they will be satisfied and motivated, as this strengthens employee commitment and loyalty. We have an established and precisely structured bonus system in the form of monetary and non-monetary bonuses that are paid in accordance with the company-level collective agreement and other internal acts.

The Telekom Slovenije Group encourages individual and collective successes: individual remuneration depends on an assessment of the achievement of personal objectives (stimulation), while collective remuneration depends on pre-defined objectives and the achievement of results. We thus pay a year-end bonus (thirteenth salary) based on the achievement of established objectives, a Christmas bonus equal to 70% of the average Slovenian wages, and stimulation and bonuses for outstanding achievements.

We continued with non-monetary forms of employee remuneration again in 2018. Those forms of remuneration derive from the Telekom Slovenije Group's activities (discounts in the Online Shop, credit notes for Moneta, gift certificates for Soline and Hotel Tisa, etc.). We also offer employees benefits, such as additional medical examinations, payments to the second pension pillar, preventive treatments, flexible working hours, etc.



Forms of employee remuneration within the Telekom Slovenije Group



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 [97% of employees], GVO [94% of employees], TSmedia [86% of employees], Avtenta [86% of employees], Antenna TV SL [89%] and TSinpo [100%]. The amount paid is 4.6752% of the defined base for Telekom Slovenije and TSinpo, and 5.844% of the defined base for GVO, Antenna TV SL and TSmedia. Avtenta has a fixed premium of EUR 27.18.

Retirements are planned five years in advance. Employees receive severance pay at retirement in accordance with the collective agreement. Other Group companies do not have such programmes, as the average age of their employees is 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.⁸⁰

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 215].⁸¹

PROFESSIONAL LITERATURE

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

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

81 GRI GS 405-2, 202-1

COOPERATION WITH RESEARCH INSTITUTIONS

We have 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, particularly in the areas of technology, multimedia, cloud services, user interfaces, etc. 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.

In the area of employee education and e-training, we work with the Telecommunications Laboratory at the University of Ljubljana's Faculty of Electrical Engineering, which is involved in research and development in the areas of ICT and multimedia. We work with students in various activities (in 2018 we participated, for example, in the human resource 'Mediathlon', which was organised in the scope of the Inženir/Inženirka bom [I'm Going to be an Engineer] project) and in thematic events organised by faculties (World ICT Day, and lectures regarding employment and alternative sources of employment in the scope of the Dan po diplomu [Day After Graduation] project).

ORGANISATIONAL CULTURE

We are transforming Telekom Slovenije's organisational culture into a culture that is based on the constructive style of employees' behaviours and attitudes. A constructive style positively promotes superior quality, the development of services, mutual cooperation and business excellence.

We took into account the latest trends in human resource management when drafting the action plan for the transformation of the organisational culture. The project was designed with an emphasis on innovativeness and cooperation, as the culture affects the successfulness of the organisation, the quality and quantity of innovative ideas that the organisation develops, and the motivation and mutual cooperation of employees.

By encouraging innovativeness, we are advocating interactive and dynamic learning processes, while through various events, we are connecting employees, students, start-up companies and the employees of other companies.

APPRAISAL-DEVELOPMENT INTERVIEWS⁸²

Appraisal interviews are conducted at Telekom Slovenije twice a year for employees covered by the collective agreement and for employees under individual contracts who are not first and second level 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. At the beginning of the year, in conjunction with appraisal-development interviews, we also draft education and training plans for the coming year.

Annual appraisal interviews were conducted with all employees at companies in Slovenia, except those employees on lengthy sick leave or parental leave, with new employees and reassigned employees, and with employees in the process of employment termination.

We updated the competence model in 2018. That model serves as an element of appraisal interviews. Values play an important role in the monitoring of the organisational culture, as they define the desired behaviour of employees. These values are set out in the strategy for the period 2018 to 2022, and are: **inspiring, cutting-edge, simple, caring** and **safe**. Using those values, we defined behavioural standards and indicators for identifying work performed in a quality manner, and including them in the appraisal system for 2019.

MANAGING INNOVATION



We encourage employees to share ideas and development innovations, as it is precisely innovativeness that facilitates our competitive advantage in all areas.

We also encourage employees who are not directly involved in the creation of new business models, products and services to put forth their good ideas. We promote innovativeness through publications on the intranet, and through the organisation of workshops and events.

We gather ideas through the Brihta digital collection box, to which employees submit their ideas. In place is an established procedure and comprehensive overview of proposals, from submission to potential implementation or feedback. Employees receive practical awards for useful ideas. Those employees whose ideas have greater potential but cannot be realised simply through implementation are given the opportunity to participate in the next development steps. To that end, they receive the help of co-workers, with whom they form a temporary team. Ideas that become innovations with higher added value may also be rewarded financially.

We encourage innovativeness by issuing monthly challenges. We issued five such challenges in 2018 that were directly linked to Telekom Slovenije's values. We also organised BrihtaLive workshops at four locations across Slovenia. The workshops, organised in the form of intensive hackathons, were attended by 113 employees.



We participated in the Dragonhack student hackathon, organised by the Faculty of Computer and Information Science, where we were a partner for 'best IoT hack'.

As a bluechip partner, we attended the Podim conference, which was attended by more than 100 start-up companies from the region. In connection with the Podim conference and the Start:up Slovenija initiative, we are actively involved throughout the year in the community and thus identify start-up companies with synergies and the potential for cooperation.

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 REPRESENTATIVES⁸³

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 Work Council met at fifteen regular and six correspondence sessions in 2018. The majority of initiatives and questions put forth by employees and their representatives relate to the Company's strategy and operations, regarding which the former and present members of the Management Board and Workers Directors and member of the Management Board and Director of HR Management reported accordingly. Employee representatives were briefed on the human resource strategy and plan. Telekom Slovenije's Supervisory Board 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 provides support to employees in various ways, including leisure activities outside the workplace. We devote special attention to our employees' children and pensioners. Various activities are carried out by individual companies, in accordance with their policies:

- we organised sporting and social events for employees;
- we organised a workshop in conjunction with Children's Week;
- we organised events with employees at the Company's different locations;

- we gave gifts to employees' newborns and those children entering first grade;
- we organised open house for secondary school and university students;
- we organised holiday day care services for employees' children;
- at the end of the year we gave gifts to the children of employees, and to the minors and school children of deceased employees, with some companies awarding scholarships;
- we organised recreational activities for employees by leasing various sporting facilities, and supported sports organisations functioning at Group companies;
- we supported Telekom Slovenije pensioners clubs;
- at the end of the year, we gave gifts to both active 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;
- we organised preventive examinations and vaccinations, and preventive treatments at spas;
- we continued with the Modri telefon [Wise Telephone], which provides employees in distress the help of a psychotherapist;
- we continued with 15-minute massages during working hours at locations in Ljubljana, Celje and Maribor;
- at the Cigaletova and Vojkova locations in Ljubljana, we introduced morning and afternoon exercises combining Pilates, yoga, dynamic stretching and meditations; and
- we began implementing activities aimed at preventing stress and burnout in the workplace [lectures, articles on the intranet portal, and anti-stress weekends for employees].

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

Functioning under the auspices of Telekom Slovenije is the **TSport** sports club, which facilitates the participation of employees in recreational activities and championships in various sports. The club facilitates affordable offers for different branches of sports and the purchase of equipment for employees. Championships were organised in 2018 in bowling, golf, nine-pin bowling, tennis, running, five-a-side football, table tennis, volleyball, sailing, shooting, skiing and sport fishing. We gathered at cycling and running marathons.

OCCUPATIONAL HEALTH AND SAFETY⁸⁴

Occupational health and safety is managed within the Telekom Slovenije Group in accordance with legal requirements that are defined for all employees and for each sector separately. We again implemented all measures relating to occupational health and safety, and fire protection in 2018. We took regular measurements of environmental conditions and lighting in the work environment for all locations where deemed necessary.

The identification of dangers associated with safe work is carried out via regular occupational safety training, regular on-site inspections and various project groups.

Training was organised in the following areas: workplace injuries, fire safety, work at height and training for those persons responsible for carrying out evacuations. All training in the area of occupational health and safety was in line with the requirements of the law. Training may be theoretical or practical, and may be out in traditional forms (such as lectures) or as e-training. We carried out regular inspections of personal protective equipment and supervised its use. Major locations and Telekom Slovenije centres are equipped with semi-automatic defibrillators, to provide aid in the event of heart failure.

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

diet. Via the portal, employees are also provided access to supplementary healthcare services [that are not part of occupational medicine]. At the beginning of every year, we publish a schedule of additional medical examinations that employees may sign up for.



In addition to examinations, employees also have at their disposal additional activities aimed at the promotion of health, such as roundtable discussions, massages in the workplace, preventive treatments, anti-stress

weekend packages, psychological counselling, the purchase of adjustable desks for standing-sitting workstations, hand disinfectant, etc.

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 [0.27% 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.

During occupational safety training, we actively encourage employees to participate in the development, implementation and evaluation of occupational health and safety. Responsibility is defined by the law and authorisations, while decisions are made by managers at levels in cooperation with employees. Meetings are held once a month and more frequently if required. We also encourage employees to report potential dangers whenever they arise. In this way, we prevent or mitigate potential negative effects on health and safety.

In companies in the rest of the world, this area is governed by the laws of individual countries and the relevant business policy.

84 GRI GS 103-1, 103-2, 103-3, GS 403-1, 403-2, 403-4, 403-5, 403-6, 403-7, 403-9

HEALTHCARE⁸⁵

Preventive medical examinations were organised for employees at Telekom Slovenije and at other subsidiaries in Slovenia in accordance with the law. Occupational medicine specialists inspect specific work areas, working conditions and work processes at the Company as necessary. Based on those inspections and identified health indicators, they propose measures to improve the situation. Occupational medical services are accessible via preliminary, periodic or control examinations. We organised vaccinations against tick-borne meningoencephalitis for employees working in forests.⁸⁶ We also organise flu vaccinations for employees in Slovenia, although interest is waning. The systematic organisation of these types of vaccinations has not yet been introduced at companies abroad.

Healthcare and workplace injuries in the Telekom Slovenije Group⁸⁷

Occupational safety and healthcare	2018	2017	2016	Index 18/17
Number of injuries	36	45	44	80
Number of working days lost	1,265	779	1,315	162
Number of working hours lost	10,125	6,234	10,199	162
Number of medical examinations	957	1,059	820	90
- Preliminary examinations	160	125	108	128
- Periodic examinations	1,380	1,088	746	127
Number of deaths	0	0	0	-

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

FIRE SAFETY

Telekom Slovenije Group companies reported three fires in 2018, two of which were minor (smouldering) fires in Ljubljana at the Cigaletova location and at the Kobarid central office. A company car caught fire in the third case. Employees exited the vehicle, which was engulfed in flames. The fire was extinguished by firefighters.

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



Družini
prijazno
podjetje

The Family-Friendly Company certificate represents an element of the Company's social responsibility and is deeply ingrained in its organisational culture. In the scope of the aforementioned certificate, we gave special attention during the year to the formalisation of 21 selected measures that make it easier for employees to find the right work-life balance, strengthen loyalty and create a positive work environment.

The values that derive from the Family-Friendly Company certificate are included in adopted measures and reflect the successful management of employees.

The activities associated with those selected measures cover various areas of operations, including working hours, health protection measures, manager training, communication with employees and external stakeholders, activities for children, etc.

85 GS 403-3

86 GRI 103

87 GRI GS 403-9



PARENTAL LEAVE⁸⁸

The Family-Friendly Company certificate has special meaning for a socially responsible company. That certificate encompasses measures that make it easier for employees to find the right work-life balance, as we are aware that the success of the Company depends on satisfied and motivated employees who value that opportunity highly. Measures include the use of leave for parental care, primarily by mothers [maternity leave and child care leave], although fathers also opt for this type of leave.

There has been a recent increase in the use of paternity leave, which is also deemed a form of parental leave and is intended exclusively for fathers to allow them to care for and nurture their child in its infancy. A total of 89 employees elected to use paternity leave in 2018, an increase of 28% relative to 2017 when 69 fathers made that decision.

Most of the time, 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 similar trend is also characteristic of companies in South-Eastern Europe.

	Telekom Slovenije Group			Telekom Slovenije		
	2018	2017	2016	2018	2017	2016
Number of employees on parental leave	109	112	128	48	50	70
of which: women	106	109	121	47	49	67
men	3	3	7	1	1	3
Employee of employees who returned to work following parental leave:						
number	82	89	101	45	48	68
proportion in %	75.2	79.5	78.9	93.8	96.0	97.1
of which:						
women	79	87	94	44	48	65
proportion in %	74.5	79.8	77.7	93.6	97.9	97.0
men	3	2	7	1	0	3
proportion in %	100	66,6	100	100	100	100

COMMUNICATION WITH EMPLOYEES⁸⁹

The Telekom Slovenije Group communicates with employees via various communication channels.

Employees and retired workers may access the 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 continuous 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, electronic screens, notice boards, special events, etc.

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

88 GRI GS 401-3

89 GRI GS 102-43, 102-44

2.9.3 RESPONSIBILITY FOR QUALITY MANAGEMENT

Responsibility for quality covers the entire lifecycle of our services. It includes design and development, procurement and logistics associated with the required resources, ensuring and maintaining the high-quality functioning of services, and managing the end of the lifecycle. 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];⁹⁰ and
- the introduction of tools for quality management.

QUALITY MANAGEMENT SYSTEMS

In addition to internal audits and management reviews, external audits are a key mechanism for the independent verification of the functioning of and constant improvements to quality management systems. The parent company and

subsidiaries passed all regular assessments of compliance with the requirements of SIST EN ISO/IEC standards in 2018.

A new version of the SIST EN ISO 50001:2018 standard covering efficient energy consumption was published in August 2018. That standard promotes the increased integration of systems into the everyday operations and management of companies. The migration of our energy management system to the new version of the standard is envisaged over a period of two years. We have already begun preparations for that migration, even though the existing system provides excellent results. The regular assessment of the energy management system indicated that the vast majority of objectives set for 2018 were achieved. This certificate, together with other benefits from the performance of internal energy audits, facilitates annual savings of EUR 40 thousand, taking into account the surface area of Telekom Slovenije's covered premises.

Compliance certificates [ISO certificates] and the validity

Company – certificate:	Validity of certificate [as stated therein]:
Telekom Slovenije	
SIST EN ISO 50001 valid until: 31 January 2020	Development, planning, construction and management of the telecommunications network and services.
SIST ISO 22301 valid until: 11 April 2019	Services and processes of Telekom Slovenije
SIST ISO/IEC 27001 valid until: 28 April 2020	System integration, the security of ICT cloud services, cyber security [CSOC], and control over the network and services [NOC].
SIST EN ISO 14001 valid until: 31 January 2020	Development, planning, construction and management of the telecommunications network and services.
GVO	
SIST EN ISO 9001 valid until: 31. 12. 2020	Design, construction and maintenance of telecommunication and electricity networks.
SIST EN ISO 14001 valid until: 31. 12. 2020	Design, construction and maintenance of telecommunication and electricity networks.
Avtenta	
SIST EN ISO 9001 valid until: 30 June 2019	Development and integration of business solutions, provision of services and advice to users, system integration, project implementation and sales.

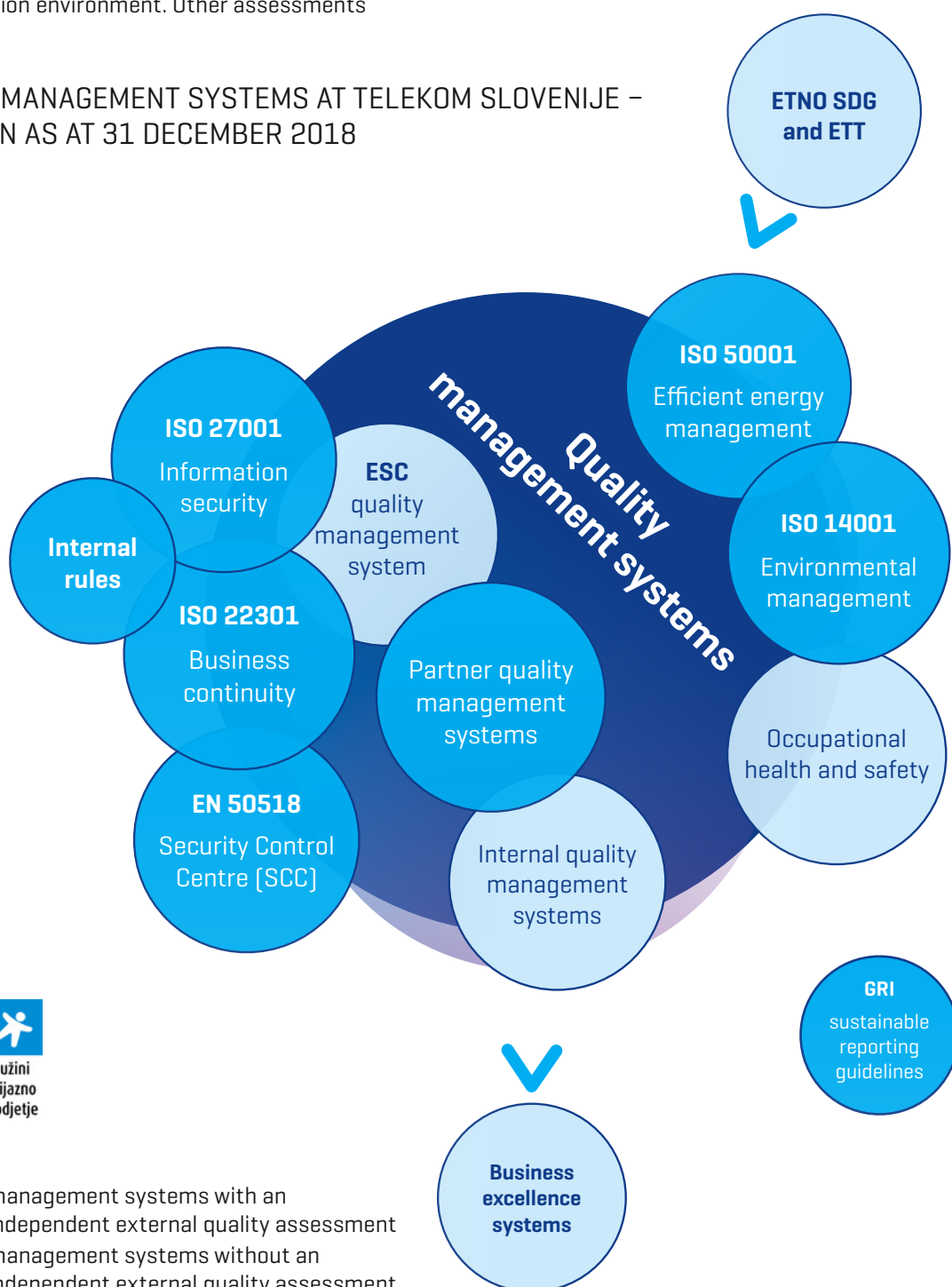
90 For more details, see section 1.8.4 Significant projects.

Telekom Slovenije expanded its ISO 27001 certificate in 2018 to include the control of the network and services and cyber security. It also maintained its certificates pertaining to security services [SCC – compliance primarily with EN 50518]. The quality management system at Avtenta and the environmental management system at the parent company migrated to the new version of the standard [2015] in 2018. The quality management system for the ECS [electronic toll collection system] was placed in the production environment. Other assessments

were successfully passed to maintain the certificates of manufacturers [e.g. MS Partner, Cisco, Oracle and HP; details about partner quality management systems can be found in section [2.7.3 Sales and marketing activities – B2B – ICT services](#)], and to ensure the quality and legal compliance of purchases, with special attention given to strategic projects [e.g. NEO].

An overview of all quality management systems at Telekom Slovenije at 31 December 2018 is presented in the figure below.

QUALITY MANAGEMENT SYSTEMS AT TELEKOM SLOVENIJE – SITUATION AS AT 31 DECEMBER 2018



2.9.4 RESPONSIBILITY TO THE NATURAL ENVIRONMENT⁹¹

Environmental responsibility is built into the Telekom Slovenije Group's strategic guidelines. Progress in this area is monitored using measurable energy and environmental indicators.

The key guidelines of the energy and environmental policy are as follows:

- methodical prevention and reduction of the impacts of the Group's activities on the environment and the world we live in;
- regular monitoring of the use of resources, in particular energy consumption and associated costs;
- strategic and operational energy and environmental objectives that are in line with our operations and development; and
- monitoring and compliance with the requirements of Slovenian and European law.

TELEKOM SLOVENIJE

ENERGY REPORT

In 2018 energy consumption expressed in kilowatt hours was the lowest since the introduction of the energy management system and also lower than planned. Lower consumption was not enough to offset growth in energy prices, particularly during the second half of the year. Total costs were up by more than EUR 0.8 million in the context of total savings across all energy sources of 3 million kWh.

In addition to the most important direct effects of efficiency, we also carry out numerous activities dictated by the Energy Act [EZ-1] in the scope of the energy management system. In February 2018 the Energy Agency of the Republic of Slovenia issued the Company a decision on the fulfilment of requirements to perform energy audits, making it one of the first companies in Slovenia to receive such a decision. That decision remains valid for the validity of the compliance certificate [SIST EN ISO 50001 certificate], i.e. until 31. January 2020. For Telekom Slovenije, this means annual savings of close to EUR 40 thousand, as energy audits by external service providers are not required. With more than 120 completed energy audits, we are among the leaders in Slovenia. The four-year validity for Telekom Slovenije's first key buildings expired in 2018. Those buildings were thus re-audited.

We communicate with employees regarding the efficient use of energy via intranet sites. Employees complete one-hour energy and environmental training as part of mandatory occupational and fire safety training, except for those employees who sit for an exam in the scope of e-training.

We report regularly and in a transparent manner to the competent regulatory body and other government authorities [e.g. MI, ARSO, SORS, FARS and AKOS].

ENVIRONMENTAL KNOWLEDGE COMPETITION



Since 2001 Telekom Slovenije has participated in an environmental education programme aimed at raising awareness about sustainable development amongst primary school children. The Company thus supports the Eco-Quiz, a team competition in environmental knowledge for sixth, seventh and eighth grades of primary schools, organised by the Eco-School programme. The quiz has been organised entirely via the internet since the 2008/2009 school year.

91 GRI GS 103-1, 103-2, 103-3, SDG 12.2.



ELECTRICITY⁹²

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 EUR 2.9 million lower at the parent company in 2017 relative to 2009, but were up by more than one tenth in 2018. Four fifths of the aforementioned costs are accounted for by the cost of electricity.

Consumption was reduced by close to 2% relative to 2017, while energy costs were up by around 12%.

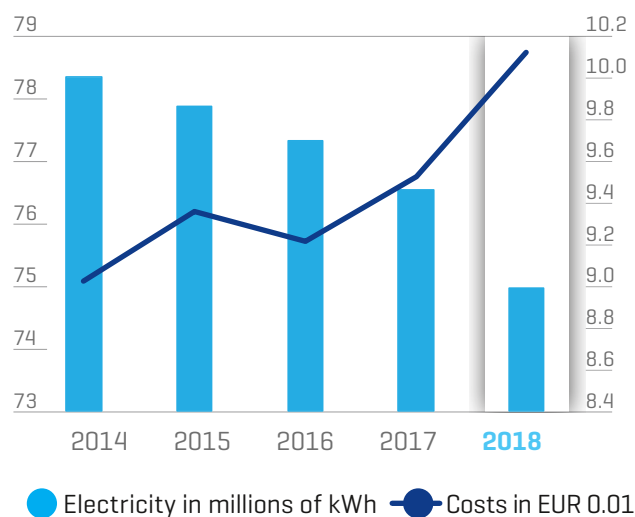
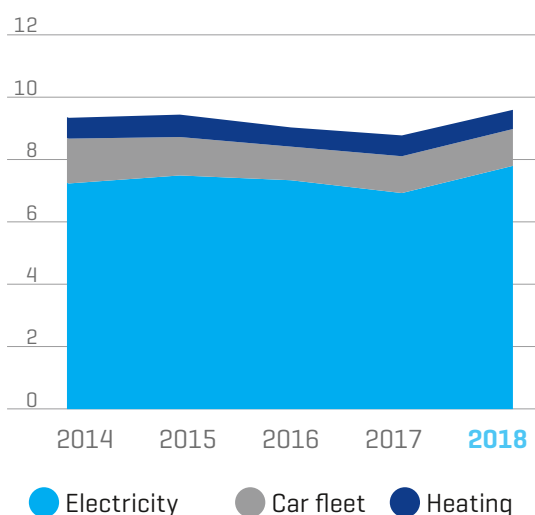
Energy consumption was up primarily at base stations on account of upgrades to new generations and due to the use of the devices of other users in our premises. Production by own solar power plants accounted for close to a quarter of a percent of total electricity consumption [197.8 MWh].

Telekom Slovenije's energy management system, which facilitates effective control over energy consumption, will be further upgraded in the future. That system already includes nearly 2,300 measuring points, 85 locations with heating devices and nearly 12 thousand data entities.

The figures below illustrate electricity consumption and costs by year compared with changes in prices.

Energy costs of Telekom Slovenije [in EUR million]

in EUR million



Costs and consumption of energy products at Telekom Slovenije

Telekom Slovenije	2018	2017	2016	Index 18/17
Electricity costs [in EUR]	7,584,371	6,773,766	7,131,975	112
Total paid electricity [in GWh]*	75.0	76.5	77.3	98
Cost of fuel for car fleet [in EUR]	1,151,846	1,135,132	1,049,563	101
Cost of fuel for heating [in EUR]	628,462	646,076	638,519	97

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 [co-locations, etc.]. Terajoule/GWh conversion factor = 3.6; GWh = one million kWh.

ACHIEVEMENT OF ENERGY OBJECTIVES IN 2018

We achieved strategic and operational objectives in connection with the energy management system nearly in full, and even exceeded them in some segments. We exceeded the primary strategic objective of reducing consumption of the most important energy source, electricity. Objectives were included in the system for setting objectives in appraisal-development interviews.

In line with the development strategy for data centres, we successfully upgraded electricity and air-conditioning systems at the business premises in Maribor. For all technological users in high-security system premises and the data centre, which is also leased to external users, we ensured a fully redundant back-up power supply [DEA], an uninterrupted power supply [UPS] and cooling from two fully segregated sources. The infrastructure is built in accordance with the Uptime Institute guidelines [Tier III]. The upgrade included the relocation of the diesel power generator from the Vilharjeva location in Ljubljana, and the upgrading and synchronisation of four existing generators. Through the upgrading of the power supply and air-conditioning systems, we significantly increased the resistance of the network to external impacts and disruptions, while through the proper management and maintenance, we ensure the high-quality and uninterrupted functioning of the network and services.

We replaced old air conditioning units in more than 165 buildings with more technologically advanced and energy efficient units, and upgraded direct and

alternating current systems in 140 buildings in the fixed and mobile network with the aim of ensuring a continuous back-up power supply.

The consumption of electricity in the fixed and commercial real estate segments is being reduced on account of the modernisation of the network and awareness, but is rising in the mobile segment due to upgrades to the radio network and new base stations. We expect electricity consumption to rise in the radio network segment in the coming years, as well.⁹³

ELECTROMAGNETIC RADIATION⁹⁴

Telekom Slovenije carried out 264 additional comprehensive measurements of environmental impacts in 2018 [268 in 2017] due to the expansion of the fourth generation mobile network. The level of electromagnetic radiation [EMR] at base stations 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 EMR are turned over to the Slovenian Environment Agency [ARSO], where the latest data regarding environmental impacts are stored and accessible by all citizens. Due to lawsuits regarding environmental impacts, the Ministry of the Environment and Spatial Planning requested the submission of EMR measurements for the Zavrh-Selce base station in 2018. Those measurements were environmentally acceptable and did not exceed threshold values.

93 GRI GS 302-4

94 GRI PA8, GRI GS 103-1, 103-2



With the expansion of the network, our subsidiaries in Kosovo and Bosnia and Herzegovina also performed EMR measurements in 2018. IPKO performed measurements at two base stations. Blicnet also performed two measurements for the purpose of obtaining a licence to use base stations for the wireless internet and digital TV. Results indicate that exposure to radiation is well below the recommendations of the ICNIRP.

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 EMR project, Forum EMS developed a mobile application that allows the general public to access data regarding harmful impacts on the environment due to high-frequency electromagnetic radiation and the effect of exposure due to the use of mobile phones [http://www.inis.si/index.php?id=348&no_cache=1#.WIHhbVzNQvU].

FUEL FOR CAR FLEET⁹⁵

The number of vehicles in Telekom Slovenije's car fleet was reduced by 2% in 2018. Fuel costs were up by 1%, however, 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
2018	381	559,162	308	397,140	689	956,302
2017	340	490,813	364	520,284	704	1,011,097
2016	301	459,135	420	572,550	721	1,031,685

Source: SAP/BI.

An average of 1.13 million km were driven a month, which is below the level recorded in 2017 [1.2 million]. An average of 1,640 km were driven per month per vehicle, compared with 1,670 km in 2017.

We made progress in the area of sustainable mobility in 2018. With the help of a subsidy from the Eco Fund, we purchased our first entirely electric vehicle. We also purchased 10 hybrid vehicles, and set-up our first charging station. We have been using the electric vehicles of an external service provider since 2017.

Telekom Slovenije's first central communication and charging station, located on Vojkova ulica in Ljubljana. GVO also set-up electric vehicle charging stations in Slovenske Konjice and Loče in 2018.



95 GRI GS 302-1

ASSESSMENT OF CARBON FOOTPRINT⁹⁶

Based on the calculation in previous years, we estimate that nearly fourth fifths of the Telekom Slovenije's carbon footprint is accounted for by electricity consumption (Scope 2). Telekom Slovenije's total carbon footprint over the last three years is estimated at slightly more than 50,000 tonnes of CO_{2ekv}, of which slightly less than 40,000 tonnes is accounted for by emissions due to electricity. 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_{2ekv}. The total carbon footprint is declining by close to 400 tonnes a year.⁹⁷

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 13 properties valued at EUR 0.75 million in 2018. We are planning to sell an additional 12 properties in 2019.

WASTE MANAGEMENT⁹⁸

Telekom Slovenije is not considered a major polluter of the environment. In 2018 we forwarded a total of 3,697 tonnes of waste, which is close to double the average of the last five years. That increase in total waste forwarded is primarily the result of a significant increase in forwarded construction waste. The volume of such waste fluctuates significantly from year to year with respect to the intensity of investments in the infrastructure. We accelerated works in the construction of the fibre optic access network and the construction of base stations in 2018. The aforementioned waste thus totalled 3,295 tonnes or 89.1% of all waste.

The volume of forwarded hazardous waste in 2018 was 75 tonnes, a decrease of one third relative to the previous year (when 113.4 tonnes were forwarded). However, 98% of that figure was accounted for by lead batteries, which are a highly sought form of waste on the market. Waste electrical and electronic equipment (including metals) totalled 175 tonnes, a decrease of 72 tonnes or 29% relative to the previous year. The volume of waste packaging was close to same as previous years (148 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 are reducing the number of collections or the volume of containers at locations where employees are not present at all times.

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.

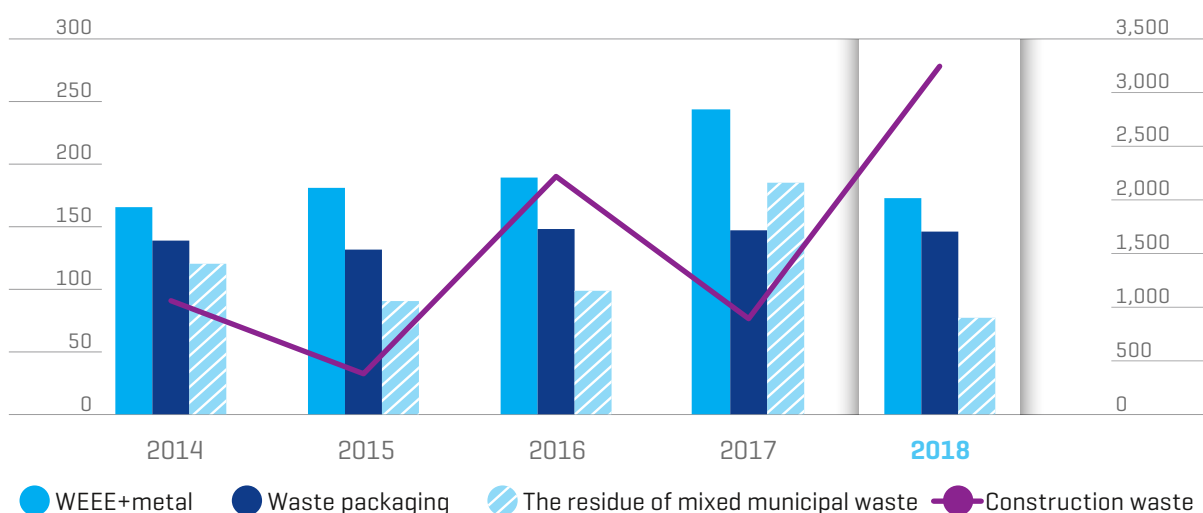
96 GRI GS 103-1, 103-2, GS 305-1, 305-2, 305-3, 305-5

97 The absolute result (expressed in kg of CO_{2ekv}) 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.

98 GRI GS 103-1, 103-2, 103-3, GS 306-2

Quantities of separated waste at Telekom Slovenije in tonnes

	2014	2015	2016	2017	2018
WEEE+metal	168,433	183,564	191,687	247,334	175,420
Waste packaging	140,436	134,048	149,838	149,584	148,135
The residue of mixed municipal waste	122,303	91,672	100,606	187,742	77,907
Construction waste	1,071,787	382,526	2,246,266	901,895	3,295,324
Total	1,502,959	791,810	2,688,397	1,486,555	3,696,786



WATER MANAGEMENT

Telekom Slovenije is not a major consumer of water, as water is not one of the predominant resources required for the performance of its activities. 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 OPERATIONS⁹⁹

Telekom Slovenije promotes the use of electronic operations. A total of 39.6% of invoices were received in electronic form in 2018, an increase of 2.9 percentage points relative to 2017. The consumption of office paper was comparable with the previous year.

Consumption of office paper at Telekom Slovenije in euros

	2018	2017	2016	2015	2014	Index 18/17
	17,366	19,262	19,145	22,830	27,248	90

We also encourage our users to reduce the consumption of paper and thus spur them to more responsible environmental management. 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 encourage users to receive electronic invoices, which is possible via an electronic banking system or email. Starting in February 2019, users who gave their consent for direct debit will only receive their monthly invoice for Telekom Slovenije services in electronic form. 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. We also digitalise incoming documents, so that more than 70% of those documents are already digitalised. In the coming years we are also planning to gradually digitalise certain sets of documents linked to the main work processes of individual organisational units. We also optimised the capture, processing and rejection of incoming supplier documents.

The Company's archive materials represent an important part of its documentary materials and are of permanent importance for its history, the broader environment, science, culture and legal protection. We received certification at the end of 2018 in the form of a decision from the Archives of the Republic of Slovenia that Telekom Slovenije's internal rules are compliant with the law governing the protection of documentary and archive materials.

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. The electronic telephone directory [on DVD and on the itis.si

website] contributed to the reduction of printed paper. Blicnet also offers an online telephone directory and sends invoices to its users in electronic form.

REDUCTION OF ENVIRONMENTAL IMPACTS THROUGH EFFICIENT PROCUREMENT AND LOGISTICS

The sharing of electric and hybrid vehicles has positive effects on the areas of procurement and logistics. 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.

When fulfilling orders, suppliers are obliged to comply with best practices in the area of energy and environmental management and related areas, in particular occupational safety and health, the handling of chemicals and other hazardous materials, the transportation of hazardous goods, fire protection and energy efficiency. They must also comply with all requirements arising from the Company's environmental and energy policies, its waste management plan and Rules on Separate Waste Collection by Location, and must maintain communication with the persons responsible for energy and environmental management by location. We expect suppliers to have in place the appropriate management of packaging, packaging waste, electrical and electronic equipment, waste electrical and electronic equipment, batteries and waste batteries in accordance with valid regulations governing these areas.

When ordering energy services, products and equipment, we give priority to those that are energy efficient. The Company thus takes into account an assessment of energy efficiency over the entire expected lifecycle of a service, product or equipment.

KEY ENERGY AND ENVIRONMENTAL INDICATORS AT OTHER TELEKOM SLOVENIJE GROUP COMPANIES

Telekom Slovenije 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. A positive shift in this area in 2018 was awareness about and the monitoring of energy consumption by all Group companies, even the smallest. The total energy costs of the Telekom Slovenije Group amounted to almost EUR 12 million in 2018, an increase of 9% relative to the previous year. The majority or 78.1% is accounted for by the costs of Telekom Slovenije, followed by companies abroad [15.4%] and subsidiaries in Slovenia [7.2%]. IPKO in Kosovo, where costs were up by 1% in 2018, accounted for 90.4% of the costs of foreign subsidiaries.

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 twenty employees who contributed most to reducing fuel consumption during the previous year were given the opportunity to participate in a safe driving course organised by the AMZS centre in Vransko. Total fuel consumption was down in part due to a reduction in field activities following the excellent completion of the electronic toll collection project. Electricity consumption was up by 7%, primarily due to the growing number of active connection points, while energy consumption per active connection point was maintained at the level of the previous year through measures aimed at efficient energy consumption. We installed the first canopy over an OBN location. The result is expected to be a reduction in the thermal load during the summer, and thus reduced electricity consumption due to the functioning of air-conditioning units. We will monitor energy consumption, and gradually install canopies in other locations if the effect is positive. The first electric vehicle charging stations were also set-up in Slovenske Konjice and Loče in 2018. Activities aimed at sustainable mobility will continue in 2019.

Costs and consumption of energy products at GVO

GVO	2018	2017	2016	2015	Index 18/17
Fuel costs [in EUR]	530,000	546,988	452,001	469,839	97
Fuel [in litres]	493,895	547,225	496,648	470,801	90
Electricity costs [in EUR]	40,670	34,977	34,607	29,891	116
Total electricity consumption [in kWh]	357,905	334,186	317,227	269,754	107

Avtenta implements permanent measures in the premises it leases for both the economical consumption of electricity and the classification of waste. **TSinpo** began the systematic monitoring of energy consumption in 2018.

IPKO¹⁰⁰

IPKO reduced electricity consumption by 6% in 2018. It achieved this through projects aimed at improving energy efficiency. Through improvements to the control and management of generators and the shared use of two base stations with Vala, the company saved 10,000 l in fuel on an annual basis. Solar power plants have been installed on the warehouse roof. Through the aforementioned measures, IPKO saved at least 125,000 kWh in energy in 2018. On the other hand, the costs of fuel, for both heating and company vehicles, were up by 46%.

in EUR	2018	2017	2016	2015	Index 18/17
Electricity costs	1,369,938	1,455,004	1,313,332	1,338,180	94
Fuel costs	300,857	205,639	317,238	356,626	146

SOLINE

Due to its social and environmental importance, Soline remains a symbol of the Telekom Slovenije Group's sustainability. Its activities are therefore presented more comprehensively below.

Soline manages the state-protected Sečovelje Salina Nature Park (SSNP) under a concession agreement concluded with the Republic of Slovenia. The area measuring 600 hectares, land and other real estate are owned by the government.¹⁰¹ 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 salt pans due to the production process. The presence and number of such species are not yet so high as to have significant consequences for ecosystems or communities. The number of species in the Sečovelje Salina Nature Park has not fallen over the last ten years; on the contrary, we have recorded continuous growth in populations. Additional measures aimed at the state of the hydrological regime have led to an increase in the number of natural habitats for which halophilus plants are characteristic. No major changes in ecological processes were seen in 2018.

Key administrative objectives for the period 2011 to 2021 were set out in the plan for managing the Sečovelje 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.¹⁰² These objectives are achieved by:

- maintaining the saltpan ecosystem;
- preserving traditional salt production processes and centuries-old technological processes; and
- continuing the production of salt, which has been the driving force behind the economic development of the region for ages.

Soline draws up an annual plan and a report on the management of the park, and submits them to the Ministry of the Environment and Spatial Planning for approval. Every activity that exceeds the normal impacts on the environment 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 Sečovelje Salina Nature Park Committee. This cooperation also takes the form of joint events and presentations that are organised on-site.

There are no endangered animal or plant species from the IUCN's global list of endangered species present in the SSNP.¹⁰³ Around 20 bird species are included in the annexes to the EU Birds Directive, while two species of fish, four amphibious species and one reptilian species are included in the annexes to the EU's Habitat Directive. For this reason, the Sečovelje salt pans are included in the European Natura 2000 network.



101 GRI GS 304-1

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

103 GRI GS 304-4

The region is one of two that are of national importance to the migration of birds according to the EU's Bird Directive. The salt pans are defined as a wetland of international importance according to the Ramsar Convention. Several nationally endangered plant and animal species also live in the salt pans.

The SSNP received 42,621 visitors in 2018. A total of 16,020 visitors were taken on 512 guided tours of Lera. A total of 4,135 visitors were taken on 109 guided tours of the Salt Production Museum.

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 of up to 20%. Soline has not been fined for failure to comply with environmental laws and regulations¹⁰⁴.

Natural gas and electricity consumption was lower in 2018 relative to the previous year as the result of the optimisation thereof. Fuel consumption was reduced due to the completion of EU rehabilitation projects and the resulting reduction in the scope of construction works.

Energy consumption by Soline¹⁰⁵

Soline	2018	2017	2016	Index 18/17
Consumption of natural gas [in m ³]	3,958	4,969	4,467	79
Consumption of electricity [in MWh]	393.28	394.13	380.54	99
Consumption of fuel [in litres]	30,809	51,013	57,500	60

Sea water is an essential element of the operations of Soline, as it is required for the production of salt and the functioning of the Lepa Vida Thalasso Spa. Sea water from the production of salt is returned to the sea uncontaminated. Only used sanitary water that is discharged into the public sewerage network is treated as waste water. We thus used 7,491 m³ of sanitary water and 180,000 m³ of sea water in the production of salt in 2018. We used 1,658 m³ of sea water for the functioning of the Lepa Vida Thalasso Spa, in particular for the pool and salt-water showers, where the use of soap and shampoo is forbidden. The sea water that is used for showering and the rinsing of salt-pan mud from the body passes through two collectors to separate mud from the water, which is discharged back into the sea. The sea water used in the swimming pool flows to a collection tank during filtering, where it is dechlorinated and passes to a drainage system for its return to the sea.¹⁰⁶ We also strictly separate waste, which is disposed of by the competent municipal department. We recorded 120 m³ of separate waste in 2018 and used around 10 tonnes of paper. All waste is removed by the competent municipal service.¹⁰⁷

104 GRI GS 307-1

105 GRI GS 302-1

106 GRI GS 103-1, 103-2, 103-3, 303-1

107 GRI GS 306-2



2.9.5 SUPPLY CHAIN¹⁰⁸

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 and/or eliminate risks. To that end, we assess past cooperation and potential risks in the future. As a socially responsible company, we also expect suppliers to respect energy and environmental regulations, and regulations governing labour law and human rights.

Total turnover between Telekom Slovenije and its Slovenian subsidiaries and their business partners amounted to more than EUR 800 million in 2018, including VAT. The aforementioned amount includes sponsorships and donations.

We classify business partners as suppliers, operators and agents in the sale of goods and the conclusion of subscriptions.

Telekom Slovenije cooperates with more than 3,000 suppliers from more than 40 countries. The majority or 98.6% of those suppliers are from Europe. There were no major changes in the composition of domestic and foreign suppliers relative to the previous year.

Procurement practices at Telekom Slovenije



108 GRI GS 102-9, 102-10

LOGISTICS

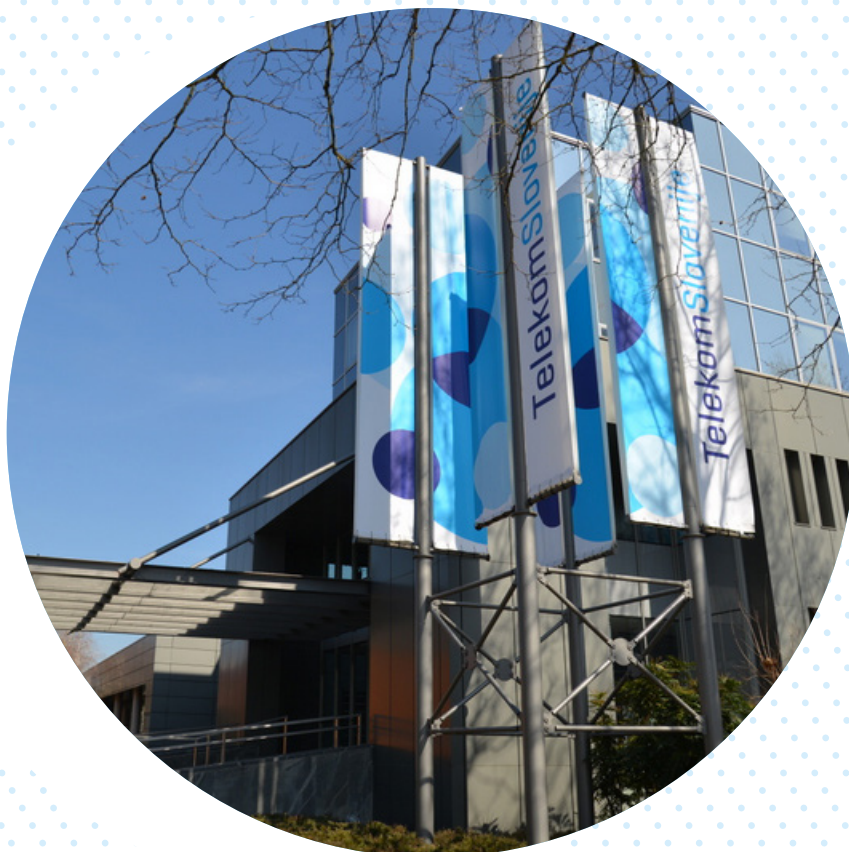
The logistics function represents one of the most important competitive factors in significantly changed market conditions. We therefore strive for constant improvements and the optimisation of processes in this area. Logistics processes are optimised so that the total costs of the logistics chain are as low as possible, inventory quantities are optimised, and delivery to internal and external customers is fast and reliable.

2.9.6 RESPONSIBILITY FOR THE SECURITY OF BUILDINGS, SYSTEMS, INFORMATION AND INFORMATION TECHNOLOGIES

We enhance corporate security through the standardisation of processes and the management of security risks within the Telekom Slovenije Group. We dedicate a great deal of attention to the security of services, with a special emphasis on the protection of users' business data.

We implement the security policy through the timely detection of security threats and vulnerabilities, the effective prevention of security incidents, by spreading a culture of security, through the continuous testing of existing security solutions and controls, and through the performance of regular controls with the help of the established information security management and business continuity management systems. 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. To that end, we also raise the awareness of users about the secure use of services.

In terms of the use of mobile electronic communications, we also placed additional emphasis in 2018 on challenges linked to the use of services in prepaid packages.



2.10 CONTENT ACCORDING TO GRI REPORTING STANDARDS¹⁰⁹

When defining the scope and content of the annual report in 2017, we performed materiality and stakeholder analyses. We repeated this process in 2018. We verified the appropriateness of scope of the 2017 annual report and the interests of stakeholders, which are defined in Telekom Slovenije's Corporate Governance Policy, using an online questionnaire on the corporate website at www.telekom.si. That questionnaire was completed by 140 participants broken down as follows: 59 employees of the Telekom Slovenije Group, 33 suppliers, 29 users, five shareholders, five representatives of local communities, two persons from a group of analysts and other financial publics, two investors, one person from a group of government regulators, one journalist and three individuals 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. The most important elements of the annual report to those surveyed were: the development strategy and plans, financial results, operating highlights from the previous year, the HR policy and concern for employees, and the Network, technologies and IT.

We posed additional questions to those who identified themselves as suppliers. Most important to suppliers in their cooperation with Telekom Slovenije is the consistent settlement of agreed liabilities. Also very important to them are compliance with business agreements, long-term cooperation, clear supplier selection criteria and e-commerce.

The results of analyses were reviewed on 23 November 2018 by 46 experts involved in the preparation of content for the annual report of the Telekom Slovenije Group and Telekom Slovenije. They were divided into five logical groups by the areas they cover [Sales and Marketing, Procurement and the Environment, HR, Networks and Compliance]. 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 2018 annual report, which are evident from the content according to the GRI Reporting Standards (we do not report on immaterial topics). We updated reporting in 2018 according to the GRI GS standards, in particular in the areas of security and occupational health and safety, where we applied the GRI 403 standards adopted in 2018.

Content according to GRI GS – core option The standard is valid 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 ¹¹⁰
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	2.7.2/p. 99–p. 100 2.7.3/p. 100–107	✓ 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. 20	✓ The Telekom Slovenije Group operates in eight countries.

¹⁰⁹ GRI 102-44, 102-47, 102-54, 102-55

¹¹⁰ GRI GS 102-56



102-5	Ownership and legal form	Telekom Slovenije Group	1.13/p. 56	✓
102-6	Markets served (geographical and sectoral breakdown and types of customers)	Telekom Slovenije Group	1.6/p. 20 2.7.1/p. 94-98	✓
102-7	Size of organisation	Telekom Slovenije Group	– number of employees: 2.9.2/p. 130, – sales revenue, debt-to-equity: 2.1/p. 62 – number of products and services: 2.7.2/p. 99-100	✓ We do not report on the number of organisational units.
102-8	Employees by type of employment, type of contract, region and gender	Telekom Slovenije Group	2.9.2/p. 131-132	✓ 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	2.9.5/p. 159	✓
102-10	Significant changes regarding the organisation's size, structure, ownership and supply chain	Telekom Slovenije Group, Telekom Slovenije	– size and structure of the organisation: 2.1/p. 64, – ownership: 1.13/p. 54-58, – supply chain: 2.9.5/p. 159	✓
102-11	Clarification whether and how the organisation takes into account the precautionary principle	Telekom Slovenije, local and wider environment	2.9.4/p. 151	
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. 22	✓
102-13	Membership in organisations	Telekom Slovenije Group	1.7/p. 22	✓
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/p. 14-16	✓ 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 http://www.telekom.si/o-podjetju/predstavitev/strateske-usmeritve .

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. 25, 2.5.1/p. 76, 2.9.2/p. 130	✓
Governance				
102-18	Governance structure of the organisation, including committees of the highest governance body	Telekom Slovenije Group	1.12.3/p. 45-46, 1.12.3/p. 47-50	✓
Stakeholder engagement				
102-40	List of stakeholder groups engaged by the organisation	Telekom Slovenije Group	1.9/p. 34-36	✓
102-41	Percentage of employees covered by collective agreements	Telekom Slovenije Group	2.9.2/p. 132	✓
102-42	Basis for identification and selection of stakeholder groups with whom to engage	Telekom Slovenije Group	1.9/p. 34	✓
102-43	Approaches to stakeholder engagement and frequency of engagement by stakeholder group	Telekom Slovenije Group	Key information 1.9/p. 34-37, more in sections 1.13/p. 58, 2.7.4/p. 108, 2.7.5/p. 111-113, 2.9.2/p. 143, 2.9.2/p. 146,	✓
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	Key information 1.9/p. 34-36, more in sections 2.7.4/p. 108-110, 2.7.5/p. 111-113, 2.9.2/p. 143, 146 2.9.2/p. 161	✓
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/p. 210.	
102-46	Process of defining report content and aspect boundaries	Telekom Slovenije Group	1.10/p. 38	
102-47	List of material topics	Telekom Slovenije Group	2.10/p. 161-170	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. 38	
102-49	Significant changes from previous reporting periods in the scope of reporting and aspect boundaries	Telekom Slovenije Group	1.10/p. 38	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. 38	✓



102-51	Date of most recent previous report	Telekom Slovenije Group	1.10/p. 38	✓	
102-52	Reporting cycle [annual, quarterly]	Telekom Slovenije Group	1.10/p. 38	✓	
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		2.10/p. 161-170	✓	
102-55	GRI content index		2.10/p. 161-169		
102-56	External assurance of reporting	Telekom Slovenije Group	1.10/p. 38 2.11/p. 172	✓	We regularly submit the annual report for external assurance since 2009, when the GRI Sustainability Reporting Guidelines were first included in the report. The scope and basis of external assurance are evident from the sustainability report verification statement.

SPECIFIC STANDARD DISCLOSURES

Management approaches and disclosures	Material topics	Reporting boundaries	Page	Reasons for omission/ explanations	External assurance

ECONOMIC IMPACTS

GRI 201: Economic performance 2016

103-1 103-2 103-3	Explanation of the material topic and its boundaries		1.8.3/p. 28-29		
201-1	Direct economic value generated and distributed	Telekom Slovenije Group, shareholders, local and wider community	– revenues, labour costs, payments to shareholders: 1.2/p. 10-13 – revenues: 2.7.3/p. 102, 2.6.3/p. 85, – donations and other investments in the community: 2.9.1/p. 128	We only report on taxes for the Telekom Slovenije Group.	✓
201-2	Financial implications and other risks and opportunities for the organisation's activities due to climate change	Telekom Slovenije Group, users		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. These risks are prevented in investments in new networks through underground construction.	✓
201-3	Defined benefit plan obligations and other retirement plans	Telekom Slovenije Group (employees)	2.9.2/p. 132		✓

GRI 202: Market presence 2016

103-1 103-2 103-3	Explanation of the material topic and its boundaries		1.3/p. 14-16, 1.8.3/p. 28-29	
202-1	Ratios of standard entry level wage by gender compared to local minimum wage	Telekom Slovenije Group	2.9.2/p. 140	We only report on ratios for IPKO.

GRI 203: Indirect economic impacts 2016

103-1 103-2 103-3	Explanation of the material topic and its boundaries	Telekom Slovenije Group	- 103-1, 103-2: 2.3/p. 67, - 103-3: 2.8.1/p. 118-119	
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. 67, 2.8.1/p. 118-119	✓

GRI 205: Anti-corruption 2016

103-1 103-2 103-3	Explanation of the material topic and its boundaries	Telekom Slovenije Group	2.5.1/p. 76	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	2.5.1/p. 76	✓
205-2	Communication and training about anti-corruption policies and procedures	Telekom Slovenije	2.9.2/p. 136	We report on the number of employee training hours.

GRI 206: Anti-competitive behaviour 2016

103-1 103-2 103-3	Explanation of the material topic and its boundaries	Telekom Slovenije Group	2.5.1/p. 76	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	2.5.2/p. 78-80	✓



ENVIRONMENTAL IMPACTS

GRI 302: Energy 2016

103-1 103-2 103-3	Explanation of the material topic and its boundaries	Telekom Slovenije Group	2.9.4/p. 149	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, Soline	2.9.4/p. 150, 152, 156, 158	✓
302-4	Reduction of energy consumption	Telekom Slovenije, TSmedia, Avtenta, IPKO, Soline	2.9.4/p. 150, 151, 156	✓

GRI 303: Water 2016

103-1 103-2 103-3			2.9.4/p. 158	
303-1	Water consumption	Soline	2.9.4/p. 157	

GRI 304: Biodiversity 2016

103-1 103-2 103-3	Explanation of the material topic and its boundaries	Soline	2.9.4/p. 157	
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	2.9.4/p. 149	The Slovenian government changed the boundary of the SSNP, such that the western boundary runs along the national border between Slovenia and Croatia, as defined in accordance with the final ruling of the court of arbitration. ✓
304-4	Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations	Soline, local and wider community	2.9.4/p. 157	✓

GRI 305: Emissions 2016

103-1 103-2 103-3	Explanation of the material topic and its boundaries	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	Telekom Slovenije	2.9.4/p. 153	
305-2	Energy indirect [Scope 2] GHG emissions	Telekom Slovenije	2.9.4/p. 153	
305-3	Other indirect [Scope 3] GHG emissions	Telekom Slovenije	2.9.4/p. 153	
305-5	Reduction of greenhouse gas [GHG] emissions	Telekom Slovenije, Soline, local and wider community	2.9.4/p. 153	✓

GRI 306: Effluents and waste 2016

103-1 103-2 103-3	Explanation of the material topic and its boundaries	Telekom Slovenije	2.9.4/p. 153	
306-2	Total weight of waste by type and disposal method	Telekom Slovenije, Soline	2.9.4/p. 153, p. 158	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 boundaries	Telekom Slovenije	2.5.2/p. 78, 2.9.4/p. 149	Regular and transparent reporting to the regulatory body and other government authorities [e.g. ARSO, SORS, FARS, AKOS and ETNO] 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	2.5.2/p. 78, 2.9.4/p. 149	Telekom Slovenije received a fine due to late notification regarding maintenance work on the telecommunications network. ✓

SOCIAL IMPACTS

GRI 401: Employment 2016

103-1 103-2 103-3	Explanation of the material topic and its boundaries	Telekom Slovenije Group	2.9.2/p. 130	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	2.9.2/p. 130	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	2.9.2/p. 130, 134	✓
401-3	Return to work and retention rates after parental leave, by gender	Telekom Slovenije Group, Telekom Slovenije	2.9.2/p. 130, 137	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 boundaries	Telekom Slovenije	2.9.2/p. 140, p. 143	
402-1	Minimum notice period regarding significant operational changes, including whether this is specified in the collective agreement	Telekom Slovenije	2.9.2/p. 130, 135	✓



GRI 403: Occupational health and safety 2018

103-1 103-2 103-3	Explanation of the material topic and its boundaries	Telekom Slovenije Group	2.9.2/p. 144	
403-1	Occupational health and safety management system	Telekom Slovenije Group	2.9.2/p. 130, 136	✓
403-2	Hazard identification, risk assessment and incident investigation	Telekom Slovenije Group	2.9.2/p. 130, 137	✓
403-3	Occupational health services	Telekom Slovenije Group	2.9.2/p. 130, 137	✓
403-4	Worker participation in the development, implementation and evaluation of the occupational health and safety system	Telekom Slovenije	2.9.2/p. 130, 136	✓
403-5	Training in the area of occupational health and safety	Telekom Slovenije Group	2.9.2/p. 130, 137	
403-6	Promotion of health	Telekom Slovenije Group	2.9.2/p. 130, 137	
403-7	Prevention and mitigation of occupational health and safety impacts directly linked to a company's services and products	Skupina Telekom Slovenije	2.9.2/p. 130, 137	We define electromagnetic radiation as one of the more significant impacts of our operations. We inform employees about this topic via the intranet, and agents who sell our services and users via brochures at points of sale.
403-9	Number of work-related injuries and rate	Telekom Slovenije Group	2.9.2/p. 130	Reporting relates to the number of incidents. ✓

GRI 404: Training and education 2016

103-1 103-2 103-3	Explanation of the material topic and its boundaries	Telekom Slovenije Group	2.9.2/p. 134	103-3: We evaluate education and training using a questionnaire after each event.
404-1	Average hours of training per year per employee by gender and by employee category	Telekom Slovenije Group, Telekom Slovenije	2.9.2/p. 130	✓
404-2	Programmes for training and lifelong learning	Telekom Slovenije Group	2.9.2/p. 130, 138	We do not report on lifelong learning programmes. ✓
404-3	Percentage of employees receiving regular performance and career development reviews by gender	Skupina Telekom Slovenije	2.9.2/p. 130	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 boundaries	Telekom Slovenije Group	2.9.2/p. 130	
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	1.12.1/p. 42 2.9.2/p. 130	We do not report data regarding employees by age. ✓
405-2	Ratio of basic salary and remuneration of women to men, by significant locations of operation	Telekom Slovenije Group	2.9.2/p. 130	✓

GRI 412: Human rights assessment 2016

103-1 103-2 103-3		Telekom Slovenije Group	2.9.2/p. 130	103-3: The Code of Ethics is amended on the basis of periodic reviews performed by the compliance and integrity officer.	
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	2.9.2/p. 130	Training on human rights focused on the protection of personal data and the Code of Ethics. 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 boundaries	Telekom Slovenije Group	2.9.2/p. 130	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	2.9.2/p. 130		✓

GRI 408: Child labour 2016

103-1 103-2 103-3	Explanation of the material topic and its boundaries	Telekom Slovenije Group	2.9.2/p. 130	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	2.9.2/p. 130	The majority of Telekom Slovenije's suppliers are from European countries. Every supplier must sign the general procurement terms and conditions of Telekom Slovenije, by which a supplier commits to respect human rights and the principle of equal opportunity in the workplace, and to implement employment practices that are fully compliant with the law and regulations in the execution of orders.	✓

GRI 409: Forced or compulsory labour 2016

103-1 103-2 103-3	Explanation of the material topic and its boundaries	Telekom Slovenije Group	2.9.2/p. 130	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	2.9.2/p. 130	See note 408-1.	✓



GRI 415: Public policy 2016

103-1 103-2 103-3	Explanation of the material topic and its boundaries	Telekom Slovenije Group	103-3: 2.5.1/p. 76	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 1.12 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	2.5.1/p. 76		✓

GRI 419: Socioeconomic compliance 2016

103-1 103-2 103-3	Explanation of the material topic and its boundaries	Telekom Slovenije Group	2.5.1/p. 76	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	2.5.2/p. 78-80		✓

GRI 417: Marketing and labelling of products

103-1 103-2 103-3	Explanation of the material topic and its boundaries	Telekom Slovenije, TSmedia, IPKO, users	2.7.6/p. 115		
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	2.7.6/p. 115		✓

SPECIFIC SECTOR INDICATORS [MEDIA]

Accessibility to media content

DMA		Telekom Slovenije, TSmedia, users, local and wider community	2.7.4/p. 108
G4-M4	Measures to improve accessibility to media content and the protection of vulnerable audiences	Telekom Slovenije, TSmedia, users, local and wider community	2.7.4/p. 108

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. 67 2.7.1/p. 94
I03	Health and safety measures for field personnel	Telekom Slovenije, IPKO, Blicnet	2.8.2/p. 120

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	2.7.4/p. 108, 110
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	2.7.4/p. 108, 110
PA4	Quantitative level of available telecommunication products and services in operating regions	Telekom Slovenije, IPKO	2.7.3/p. 100 2.7.4/p. 110
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. 123, 124
PA8	Policies and practices to publicly communicate on EMR-related issues	Telekom Slovenije, IPKO, users, local and wider community	2.9.4/p. 151
PA10	Initiatives to ensure the clarity of charges and tariffs	Telekom Slovenije, users	2.7.4/p. 108
Technological applications			
TA2	Examples of telecommunication products, services and applications that can replace some physical form of use [e.g. online telephone directories and video conferences].	TSmedia, users	2.7.3/p. 106, 2.9.4/p. 154,



2.11 STATEMENT OF THE INDEPENDENT AUDITOR REGARDING THE SUSTAINABILITY REPORT¹¹¹



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 2018. 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, d. d. or to the Telekom Slovenije Group. Stakeholders participated in a materiality analysis through a questionnaire that was accessible on the corporate website, while additional questions were formulated for suppliers. Based on the results of those questionnaires, the materiality analysis was performed by 46 experts in the scope of five working groups. Their work is described in sections 1.10 and 2.10. Because the data for the Telekom Slovenije Group were collected using specific-purpose questionnaires, we were unable to verify the direct source of certain data, as the assessment was carried out at the parent company's premises. 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 2.10).

Assurance methodology

Stakeholders did not participate in the assurance process, as this was not requested or ensured by the contracting authority. The assurance process therefore involved a review of the sustainability report included in the annual report of the parent company and the Telekom Slovenije 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 2019 to 2023. In its report, the Company presented 53 disclosures in 27 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 parent company and the Telekom Slovenije 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 2018, 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.



111 GRI GS 102-56



Recommendations

Several opportunities were identified during the assurance process to improve operations and reporting in the area of sustainable development. These are noted in the assurance report. In that respect, we highlight recommendations regarding a focus on references and the more graphic presentation of management approaches (GRI 103).

In the name and on behalf of SIQ

Ljubljana, 18 March 2019

Miloš Seražin
Management Systems Assessment



Igor Bizjak





FINANCIAL REPORT

A WORLD OF COMMON VISION

The path to discovering new worlds is far from near its end. Behind every newly discovered world lies another world, even more attractive. Even more inviting. The distant horizon of opportunities calls those with a vision. Those who dare to explore.



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3 ACCOUNTING REPORT, TELEKOM SLOVENIJE GROUP AND TELEKOM SLOVENIJE, D. D., 2018

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
- and Accounting Report of Telekom Slovenije, d. d.

The accounting report of the Telekom Slovenije Group and Telekom Slovenije d. d. was prepared in accordance with the 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 2018

EUR thousand	Note	2018	2017
Net sales revenue	7	715,051	716,174
Other operating income	8	16,169	9,867
Cost of goods sold		-89,205	-66,074
Costs of materials and energy costs		-15,700	-15,331
Costs of services	9	-298,500	-326,833
Labour costs	10	-112,672	-118,964
Depreciation	15, 16, 21	-167,592	-164,179
Other operating expenses	11	-29,619	-30,099
Total operating expenses		-713,288	-721,480
Operating profits		17,932	4,561
Finance income	12	23,234	5,461
Finance expenses	12	-7,264	-8,262
Share in profit or loss of associates and joint ventures	12, 17	-1	5
Profit before tax		33,901	1,765
Income tax expense	13	-651	-1,140
Deferred taxes	13	72	8,398
Profit for the period		33,322	9,023
Attributable to:			
Majority interest		34,628	11,203
Non-controlling interest		-1,306	-2,180
Earnings per share - basic and diluted in EUR	13	5.12	1.39

Notes on pages from [185](#) to [256](#) are a constituent part of these consolidated financial statements.

Consolidated Statement of Other Comprehensive Income for the period ended 31 December 2018

EUR thousand	Note	2018	2017
Profit for the period		33,322	9,023
<i>Other comprehensive income that may be reclassified subsequently to profit or loss</i>			
Translation reserve		16	24
Change in fair value of hedging instruments		-180	-583
Deferred tax		34	111
Change in fair value of hedging financial instruments (net)		-146	-472
<i>Other comprehensive income that may not be reclassified subsequently to profit or loss</i>			
Change in the fair value for actuarial deficits and surpluses		229	-603
Change in fair value of investments measured at fair value through other comprehensive income	26	72	342
Deferred tax	13	-14	-65
Change in fair value of investments measured at fair value through other comprehensive income		58	277
Other comprehensive income for the period after tax		157	-774
Total comprehensive income for the period		33,479	8,249
Total comprehensive income attributable to:			
Majority interest		34,700	10,429
Non-controlling interest		-1,221	-2,180

Notes on pages 185 to 256 are a constituent part of these consolidated financial statements.

Consolidated balance sheet as at 31 December 2018

EUR thousand	Note	2018	2017
ASSETS			
Intangible assets	15	189,007	214,412
Property, plant and equipment	16	655,640	679,239
Investments in associates and joint ventures	17	0	129
Other investments	18	5,116	4,952
Non-current contract assets	19	4,519	0
Other non-current assets	20	47,314	42,298
Investment property	21	4,039	4,006
Deferred tax assets	13	45,215	44,876
Total non-current assets		950,850	989,912
Assets held for sale	22	526	754
Inventories	23	27,467	22,239
Operating and other receivables	24	192,594	159,818
Current contract assets	25	12,099	0
Short-term deferred costs and accrued revenue	26	37,836	72,053
Income tax receivables		572	6
Current investments	18	91	77,967
Cash and cash equivalents	27	10,684	29,245
Total current assets		281,869	362,082
Total assets		1,232,719	1,351,994
EQUITY AND LIABILITIES			
Called-up capital	28	272,721	272,721
Capital surplus	28	181,488	181,488
Revenue reserves	28	123,492	106,479
<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>		17,026	13
Retained earnings or losses		47,938	125,039
<i>Retained earnings from previous periods</i>		30,324	113,836
<i>Profit for the period</i>		17,614	11,203
Fair value reserve	28	395	483
Reserves for actuarial deficits and surpluses	28	-2,356	-2,585
Translation reserve	28	16	0
Total equity attributable to owners of the parent company	28	623,694	683,625
Non-controlling interest		-4,066	-2,760
Equity, total		619,628	680,865
Long-term contractual obligations	29	13,450	0
Long-term deferred revenue	30	2,702	13,229
Provisions	31	21,776	57,501
Non-current operating liabilities	32	13,711	16,426
Interest-bearing borrowings	33	210,341	168,890
Other non-current financial liabilities	34	100,759	100,526
Deferred tax liabilities	13	1,910	1,882
Total non-current liabilities		364,649	358,454
Operating and other liabilities	35	146,391	135,211
Income tax payable		82	574
Current borrowings and loans	33	50,897	115,252
Other current financial liabilities	36	1,262	4,329
Current contractual liabilities	37	1,621	0
Short-term deferred revenue	38	6,797	8,678
Accrued costs and expenses	39	41,392	48,631
Total current liabilities		248,442	312,675
Total liabilities		613,091	671,129
Total equity and liabilities		1,232,719	1,351,994

Notes on pages 185 to 256 are a constituent part of these consolidated financial statements



Consolidated Statement of Changes in Equity for the period ended 31 December 2018

EUR thousand	Called-up capital	Capital surplus	Revenue reserves					Retained earnings or losses					Translation reserve	Total	Non-controlling interest	Total
			Legal reserves	Treasury share reserve	Treasury shares	Statutory reserve	Other revenue reserves	Retained earnings from previous periods	Profit for the period	Fair value reserve for financial instruments	Reserves for actuarial deficits and surpluses					
Balance at 1 Jan 2018	272,721	181,488	51,612	3,671	-3,671	54,854	13	113,836	11,203	483	-2,585	0	683,625	-2,760	680,865	
Impact of the transition to IFRS 15								-1,687					-1,687		-1,687	
Balance at 1 Jan 2018	272,721	181,488	51,612	3,671	-3,671	54,854	13	112,149	11,203	483	-2,585	0	681,938	-2,760	679,178	
Profit for the period									34,628				34,628	-1,306	33,322	
Other comprehensive profit or loss for the period										-88	229	16	157		157	
Total comprehensive income for the period	0	0	0	0	0	0	0	0	34,628	-88	229	16	34,785	-1,306	33,479	
Dividends paid								-93,028					-93,028		-93,028	
Transactions with owners	0	0	0	0	0	0	0	-93,028	0	0	0	0	-93,028	0	-93,028	
Transfer of profit or loss from previous period to retained earnings or losses								11,203	-11,203							
Transfer to reserves based on the decision of the Management Board							17,013		-17,013				0		0	
Other									-1				-1		-1	
Balance at 31 Dec 2018	272,721	181,488	51,612	3,671	-3,671	54,854	17,026	30,324	17,614	395	-2,356	16	623,694	-4,066	619,628	

* More details in note 28, Equity and reserves.



Consolidated Statement of Changes in Equity for the period ended 31 December 2017

EUR thousand	Called-up capital	Capital surplus	Revenue reserves					Retained earnings or losses				Translation reserve	Total	Non-controlling interest	Total
			Legal reserves	Treasury share reserve	Treasury shares	Statutory reserve	Other revenue reserves	Retained earnings from previous periods	Profit for the period	Fair value reserve for financial instruments	Reserves for actuarial deficits and surpluses				
Balance at 1 Jan 2017	272,721	181,488	51,612	3,671	-3,671	54,854	132,307	-4,922	19,710	678	-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										-195	-603	24	-774		-774
Total comprehensive income for the period	0	0	0	0	0	0	0	0	11,203	-195	-603	24	10,429	-2,180	8,249
Dividends paid								-32,514					-32,514		-32,514
Transactions with owners	0	0	0	0	0	0	0	-32,514	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
Balance at 31 Dec 2017	272,721	181,488	51,612	3,671	-3,671	54,854	13	113,836	11,203	483	-2,585	0	683,625	-2,760	680,865

Notes on pages from 185 to 256 are a constituent part of these consolidated financial statements.



Consolidated Statement of Cash Flows for the period ended 31 December 2018

EUR thousand	Note	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit for the period		33,322	9,023
Adjustments for:			
Depreciation and amortisation expense	15, 16, 21	167,592	164,179
Impairment and write-offs of property, plant and equipment, intangible assets, and investment property		26	547
Gain or loss on disposal of property, plant and equipment		-168	-70
Finance income	12	-23,234	-5,461
Finance expenses	12	7,265	8,257
Tax on profit with deferred taxes		579	-7,258
Cash flows from operating activities prior to changes in net operating current assets and provisions		185,382	169,217
Change in assets held for sale		2,623	0
Change in trade and other receivables		2,924	-8,995
Change in short-term deferred costs and accrued revenue and contract assets		19,528	-17,427
Change in other non-current assets		-7,157	-9,453
Change in inventories		-4,010	2,660
Change in provisions		-35,725	18,915
Change in deferred revenue and contractual liabilities		2,416	1,706
Change in accrued costs and expenses		-7,437	9,891
Change in operating and other liabilities		8,288	1,299
Income tax paid		-1,647	-746
Net cash from operating activities		165,185	167,068
CASH FLOWS FROM INVESTING ACTIVITIES			
Receipts from investing activities		78,760	124,646
Proceeds from sale of property, plant and equipment		1,266	4,049
Dividends received		170	253
Interest received		16	4
Disposal of non-current investments		448	338
Disposal of current investments		76,859	120,002
Disbursements from investing activities		-140,596	-244,231
Acquisition of property, plant and equipment		-87,812	-92,138
Acquisition of intangible non-current assets		-46,052	-66,796
Acquisition of investments		-284	-80,771
Investments in subsidiaries and associated companies		-6,447	-4,525
Investments in the form of loans provided		-1	-1
Net cash used in investing activities		-61,836	-119,585
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipts from financing activities		93,000	0
Non-current borrowings		65,000	0
Current borrowings		28,000	0
Disbursements from financing activities		-214,910	-60,792
Repayment of non-current borrowings		-115,447	-20,833
Interest paid		-6,435	-7,402
Dividends paid		-93,028	-32,551
Cash flow used in financing activities		-121,910	-60,792
Net increase/decrease in cash and cash equivalents		-18,561	-13,309
Opening balance of cash		29,245	42,554
Closing balance of cash		10,684	29,245

Notes on pages from 185 to 256 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 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 2018, 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).

The Management Board approved the consolidated financial statements for release on 18. 3. 2019.

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 associated companies	purchase cost
Other investments	
• of which investments in capital instruments	at fair value through other comprehensive income
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
Operating 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 liabilities	Method of measurement
Long-term contractual obligations	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
Non-current 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
Current 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.y;
- 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.s and 41.

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 and 3.e and Note 15 and 16;
- allowances for doubtful receivables – Note 3.n and 24;
- deferred taxes – Note 3.aa and 13;
- estimate of the amount of provisions – Note 3.s and 31.

e. ADOPTION OF NEW AND AMENDED ACCOUNTING STANDARDS

As of 1 January 2018, Telekom Slovenije Group began applying the new standards and duly implemented amendments to other standards, as follows:

- **IFRS 9 Financial Instruments** – specifies how an entity should classify and measure financial instruments, and supersedes IAS 39. The new standard sets out new rules on recognizing financial assets, based on fundamental business models and cash flow characteristics, and introduces a new model for recognizing expected losses at initial recognition of a financial instrument. The new standard's impact on the group's accounting statements is described below.
- **IFRS 15 Revenue from Contracts with Customers** – the Standard provides a framework that replaces existing revenue recognition guidance in IFRS. The Standard introduces a five-step model to determine when to recognize revenue, and at what amount. This standard replaces IAS 18 – Revenue and IAS 11 – Construction contracts. During the standard's first application, the changes must be fully asserted 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 apply the changes in the opening balance of equity during the standard's first use. The impacts of the transition to the new Standard are disclosed below.
- **Amendments and clarifications to IFRS 15 “Revenue from Contracts with Customers”** – mandatory implementation of the IFRS 15 and effective for annual periods beginning on or after 1 January 2018.
- **Amendments to IAS 40** – transfer to and from investment property. The Standard has no significant impact on the financial statements of the Telekom Slovenije Group.
- **Amendments to IFRS 2 “Share-based Payment”** – classification and measurement of share-based payment transactions. The Standard has no significant impact on the financial statements of the Telekom Slovenije Group.
- **IFRIC 22 “Foreign Currency Transactions and Advance Consideration”** – 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. The Standard has no significant impact on the financial statements of the Telekom Slovenije Group.

IFRS 9 - FINANCIAL INSTRUMENTS

The Standard introduces new criteria for how an entity should classify financial instruments, specifically based on the entity's business model and the instrument's characteristics, and under impairments it introduces an expected losses model.

The Group's retained earnings disclosed in its accounting statements were unaffected by the introduction of the new IFRS 9 Financial Instruments.

The table below illustrates the distribution of financial instruments according to IAS 39 and the new IFRS on 1 January 2018:

EUR thousand	note	Classification under IAS 39	Classification under IFRS 9	Value according to IAS 39	Value according to IFRS 9
Investments in quoted shares	a)	financial assets available for sale	FV through comprehensive income - investments in capital instruments	1,796	1,796
Investments in other shares and interests	b)	financial assets available for sale	FV through comprehensive income - investments in capital instruments	2,716	2,716
Loans given	c)	loans and receivables	amortized cost	889	889
Trade receivables	d)	loans and receivables	amortized cost	175,388	175,388
Cash and cash equivalents	e)	loans and receivables	purchase cost	106,536	106,536
Total value				287,325	287,325

*FV = Fair value

- The Group stated investments in capital instruments listed on the stock exchange and classified under the category of available-for-sale financial assets, measured at fair value through other comprehensive income. The Group will continue to value these assets in this manner in the future as well, as it has classified them into the category at fair value through comprehensive income, in accordance with IFRS 9.
- Investments in equity instruments, which according to IAS 39 were classified in the group of assets available for sale and stated at cost, were irrevocably classified into the category of financial assets managed at fair value through other comprehensive income upon initial recognition. Dividends are recognized in the income statement.
- 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.
- Trade receivables and assets from contracts with customers will be classified at amortised cost. For receivables, 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.

The new 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. 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.

IFRS 15 – REVENUE FROM CONTRACTS WITH CUSTOMERS

The Group has adopted 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.

The Group 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. 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.

In the case of contracts with customers with a length of 12 or 24 months that include several performance obligations (e.g. partially subsidized mobile phone or other communication device, bundled with the service), the Group allocates the price of the whole transaction to individual performance obligations on the basis of relative stand-alone selling prices of the device and service. Under the new rules, the revenue from device sales are recognized earlier, while overall revenue remains unchanged for the duration of the contractual term.

In transitioning to the new Standard IFRS 15 – Revenue from contracts with customers, the Group used the cumulative effect method. In accordance with this method, the cumulative effect due to the transition to this new standard was recognized as an adjustment of the initial balance of retained earnings on 1 Jan 2018. The Group therefore did not recalculate comparable figures for the year 2017, which are presented in accordance with IAS 18, and the effects of the changes are disclosed separately.

For the purposes of these financial statements of Telekom Slovenije Group, the period ended 31 December 2018 is disclosed in accordance with the applicable IFRS 15 – Revenue from contracts with customers, whereas the figures for the comparative period ended 31 December 2017 are disclosed in accordance with IAS 18 – Revenue.

The effects of the transition to IFRS 15 – Revenue from contracts with customers on retained earnings as a result of applying the new standard on 1 Jan 2018 are presented in the table below.

EUR thousand	note	1.1.2018 adjustments total
Costs of increasing the customer base	a)	84
Mobile and fixed telephony-related services and goods	b)	16,478
Reversal of sales incentives and other discounts	c)	-18,539
Deferred tax assets		290
Effect on retained earnings		-1,687

- a) In accordance with IFRS 15, the Group began consistently capitalizing sales commissions, which were recognized as costs of services prior to the change in accounting policies.
- b) The Group mainly sells telecommunications goods and services in the fixed and mobile telephony market segment. Contracts with customers include the subscription fee and mobile or fixed telephony goods. If buyers sign a long-term (usually a 12- or 24-month) contract, they receive a discount on the goods or subscription fees. In this case, the new standard requires that the price of the entire transaction is broken down to individual performance obligations based on relative standalone sales prices of goods or services. Revenues from subscription fees are recognized over the contract period, whereas the revenues from goods are recognized at the time of delivery to the customer. Revenues from installation services are recognized as service revenues at the time the service was rendered.
- c) Due to the transition to the new standard, the Group eliminated long-term and short-term deferred costs and accrued revenues attributable to sales incentives and other discounts, which were prior to the adoption of the standard deferred over the customer's commitment period.

Shown below are Telekom Slovenije Group's Income Statement and Balance Sheet for the financial year 2018, taking into account the currently applicable IFRS 15 and previously applicable IAS 18:

Income statement

EUR thousand	2018 IFRS 15	2018 Adjustments	2018
Net sales revenue	715,051	-539	714,512
Other operating income	16,169	-12	16,157
Cost of goods sold	-89,205	17,600	-71,605
Costs of materials and energy costs	-15,700	0	-15,700
Costs of services	-298,500	-17,715	-316,215
Labour costs	-112,672	0	-112,672
Depreciation	-167,592	0	-167,592
Other operating expenses	-29,619	1,176	-28,443
Total operating expenses	-713,288	1,061	-712,227
Operating profits	17,932	510	18,442
Finance income	23,234	0	23,234
Finance expenses	-7,264	0	-7,264
Share in profit or loss of associates and joint ventures	-1		-1
Profit before tax	33,901	510	34,411
Income tax expense	-651	9	-642
Deferred taxes	72	-74	-2
Profit for the period	33,322	445	33,767
Attributable to:			
Majority interest	34,628	445	35,073
Non-controlling interest	-1,306		-1,306
Earnings per share - basic and diluted in EUR	5.12	0	5.19

Statement of comprehensive income for the year ended 31 December 2018

EUR thousand	2018 IFRS 15	2018 Adjustments	2018
Profit for the period	33,322	445	33,767
<i>Other comprehensive income that may be reclassified subsequently to profit or loss</i>			
Translation reserve	16		16
Change in fair value of hedging instruments	-180		-180
Deferred tax	34		34
Change in fair value of hedging financial instruments (net)	-146	0	-146
<i>Other comprehensive income that may not be reclassified subsequently to profit or loss</i>			
Change in the fair value for actuarial deficits and surpluses	229		229
Change in fair value of investments measured at fair value through other comprehensive income.	72		72
Deferred tax	-14		-14
Change in deferred taxes due to tax rate recalculation			
Change in fair value of investments measured at fair value through other comprehensive income	58	0	58
Other comprehensive income for the period after tax	157	0	157
Total comprehensive income for the period	33,479	445	33,924



Balance sheet

EUR thousand	31.12.2018 IFRS 15	31.12.2018 adjustments	31.12.2018 IAS 18
ASSETS			
Intangible assets	189,007	0	189,007
Non-current tangible assets	655,640	0	655,640
Non-current contract assets	4,519	-4,519	0
Other non-current assets	56,469	3,214	59,683
Deferred tax assets	45,215	-364	44,851
Total non-current assets	950,850	-1,669	949,181
Other current assets	231,934	0	231,934
Current contract assets	12,099	-12,099	0
Short-term deferred costs and accrued revenue	37,836	15,722	53,558
Total current assets	281,869	3,623	285,492
Total assets	1,232,719	1,954	1,234,673
EQUITY AND LIABILITIES			
Called-up capital	272,721	0	272,721
Capital surplus	181,488	0	181,488
Revenue reserves	123,492	0	123,492
Retained earnings or losses	47,938	2,132	50,070
Retained earnings from previous periods	30,324	1,687	32,011
Profit for the period	17,614	445	18,059
Fair value reserve	-1,961	0	-1,961
Translation reserve	16	0	16
Total equity attributable to owners of the parent company	623,694	2,132	625,826
Non-controlling interest	-4,066	0	-4,066
Equity, total	619,628	2,132	621,760
Long-term contractual obligations	13,450	-13,450	0
Long-term deferred revenue	2,702	13,272	15,974
Other non-current liabilities	348,497	0	348,497
Total non-current liabilities	364,649	-178	364,471
Current contractual liabilities	1,621	-1,621	0
Income tax payable	82	0	82
Short-term deferred revenue	6,797	1,621	8,418
Other current liabilities	239,942	0	239,942
Total current liabilities	248,442	0	248,442
Total liabilities	613,091	-178	612,913
Total equity and liabilities	1,232,719	1,954	1,234,673

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. BASIS FOR CONSOLIDATION

The consolidated financial statements comprise the financial statements of Telekom Slovenije and its subsidiaries as at 31 December 2018. 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 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.

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 are 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.

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 remeasurement of capital instruments present in fair value in other comprehensive income, 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 2018. According to the report of the certified appraiser, it is established that on 31 December 2018 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	3 to 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 46).

Sales commissions are costs directly connected with obtaining 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.

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.

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 2018, the Group reduced the useful life of base station surveillance systems and of television sets. The change has no significant impact on the financial statements of the Group.

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 expenses.

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.

As the Group recognizes a financial asset for the first time, the classification will depend on the Company's business model for managing financial assets and their contractual cash flow characteristics, and the asset will be classified into one of the following categories:

- financial assets measured at amortized cost,
- financial assets measured at fair value through other comprehensive income, or
- financial assets measured at fair value through profit or loss.

Financial assets measured at amortised cost are financial instruments which the Group holds within a business model whose objective is to hold financial assets in order to collect contractual cash flows and the financial asset gives rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The Group holds loans, receivables and deposits in this category.

Financial assets are recognized at the date of their accrual (settlement date). Upon initial recognition, they are measured at amortised cost using the effective interest rate method.

Any profits and losses are recognized in the profit or loss:

- if the financial asset is derecognized,
- if the financial assets is reclassified into a category measured at fair value through profit or loss,
- as a result of impairment.

Loans are recognized at the date of their accrual and are disclosed at fair value upon initial recognition. After initial recognition, they are measured at amortized cost using the effective interest method, minus any impairment losses.

Trade receivables without a significant financing component must be measured at the transaction price upon initial recognition.

Financial assets measured at fair value through other comprehensive income

This category includes investments in equity instruments or shares of equity of other companies.

Upon initial recognition of investments in equity instruments not held for trading, the Group irrevocably decides to measure these investments at fair value through other comprehensive income. This decision is adopted individually for each asset.

The fair value of investments that are listed on the stock exchange is measured at the closing stock market price on each reporting date.

Assets are recognised or derecognised at the date of purchase or sale.

Any gains or losses arising from changes in fair value are recognised in other comprehensive income and presented directly in capital within the financial instruments fair value reserve in the net amount. Amounts presented in other comprehensive income shall not be subsequently transferred to profit or loss. However, the entity may transfer the cumulative gain or loss within equity.

Dividends on such investments are recognised in profit or loss only when:

- the entity's right to receive payment of the dividend is established;
- it is probable that the economic benefits associated with the dividend will flow to the entity, and
- the amount of the dividend can be measured reliably.

Except if the dividend clearly represents a recovery of part of the cost of the investment.

Financial assets measured at fair value through profit and loss comprise assets held for trading and assets which have not been classified under the business model into the second category of financial instruments. Dividends are recognized as financial revenue or expenses in the income statement.

Derivative financial instruments are used to hedge a companies' 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.

IMPAIRMENT OF FINANCIAL ASSETS

The group must recognize the value adjustment for expected credit losses associated with financial assets measured at amortised cost, and debt instruments classified into the category at fair value through comprehensive income.

At each reporting date, the Group measures the value adjustment for the loss incurred for each financial instrument at an amount equal to lifetime expected credit losses if the credit risk on the financial instrument has increased significantly since initial recognition.

Credit loss is equal to the present value of the difference between:

- contractual cash flows the Group is entitled to under the contract, and
- cash flows the company expects to receive.

In measuring the expected credit loss, the following is factored into the calculation:

- probability-weighted amount determined by evaluating the range of possible outcomes,
- time value of money, and
- all relevant and provable information available on the reporting date.

On each reporting date an assessment is performed to determine whether the credit risk of the financial instrument has increased significantly since initial recognition. The group must recognize expected credit losses equal to lifetime expected credit losses if the credit risk on the financial instrument has increased significantly since initial recognition. In this context, it must consider all relevant and provable information, including future-facing information.

If at the reporting date, the credit risk on a financial instrument has not increased significantly since initial recognition, an entity shall measure the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses.

For trade receivables and contracts with customers that do not include a significant financing component, the Group will measure the loss allowance at an amount equal to lifetime expected credit losses.

The carrying amount of financial assets is decreased in the revaluation adjustment account.

DERECOGNITION OF FINANCIAL ASSETS

A financial asset is derecognized when the Group:

- transfers its contractual rights to receive cash flows stemming from the financial asset,
- retains contractual rights to receiving cash flows, but assumed an obligation to pay those cash flows to one or more recipients (ultimate beneficiaries) and has no obligation to pay any amounts unless they receive the relevant amounts from the underlying asset.

On derecognition of a financial asset, the difference between the carrying amount (on the date of derecognition) and the consideration received (including any newly acquired asset, minus any newly-undertaken liability) is recognised in profit or loss, with the exception of investments in shares of other companies, for which the Group irrevocably decides that it will recognize later changes in fair value in other comprehensive income.

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.

i. NON-CURRENT CONTRACT ASSETS

A non-current asset from contracts with customers is the Group's right to consideration in exchange for goods or services the Group has transferred to a customer, that is conditional on something other than the passage of time (e.g., the performance of another obligation). A contract asset arises if an entity performs by transferring goods or services to a customer before the consideration is paid.

A check should be performed on the reporting date to determine whether contract assets should be impaired. For the purposes of determining impairment of assets from 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 amount equal to lifetime expected credit losses. Impairment of contract assets is recognized in the assets from contracts with customers account (i.e. not on the revaluation adjustment account).

j. 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.

k. ASSETS HELD FOR SALE

Assets held for sale 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 are 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.

l. 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.

m. CURRENT ASSETS FROM CONTRACTS WITH CUSTOMERS

Current assets from contracts with customers are the Group's right to consideration in exchange for goods or services the Group has transferred to a customer and which the Group expects to be executed sooner than in 12 months.

n. TRADE AND OTHER RECEIVABLES

On initial recognition, trade receivables are measured at the transaction price, less impairment losses. Thereafter they are measured at amortised cost.

The Group forms allowances for current trade receivables based on previous experience and expectations for the future, and based on the creditworthiness of individual customers assessed by means of an internal credit rating model, which is based on the combination of an external credit rating and the payment discipline of corporate customers, as well as the payment history of individual customers (Note 45 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 collectibility 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.

o. 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.

p. 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.

q. NON-CURRENT LIABILITIES FROM CONTRACTS WITH CUSTOMERS

Non-current liabilities from contracts with customers are the Group's obligations to transfer goods or services to the customer, for which the Group received a consideration from the customer [or for which the amount of the consideration has fallen due] and which are expected to be transferred over a period longer than 12 months.

Co-locations billed in advance are categorized under the category of non-current contractual liabilities and are transferred among operating revenue according to the contractually agreed term of co-location.

r. LONG-TERM DEFERRED REVENUE

Long-term deferred revenue comprises the lease of fibre optics network and co-financed projects. Long-term deferred revenue from leases is recognised among operating revenue over the contractually agreed term of lease. Long-term deferred revenue for co-funded projects refers to cash received from projects, which is not yet revenue, as the costs which these amounts are meant to cover have not been incurred yet. Recognition of such accruals and deferrals is reversed by calculation of eligible costs.

s. 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. 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 [31, 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 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 [31, 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 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.

t. 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 using the effective interest rate method. Any differences between initial cost and the redemption value are recognised in the income statement over the period of the loans.

Interest-bearing borrowings are derecognised when all contractual obligations and liabilities are fulfilled, annulled or statute-barred.

u. OTHER FINANCIAL LIABILITIES

The item of other financial liabilities includes liabilities arising on bonds, interest rate swap liabilities, profit distribution [dividends].

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.

v. 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.

w. LIABILITIES FROM CONTRACTS WITH CUSTOMERS

Liabilities from contracts with customers are the Group's obligations to transfer goods or services to the customer, for which the Group received a consideration from the customer (or for which the amount of the consideration has fallen due). The Group recognizes the short-term portion of co-locations under liabilities from contracts with customers.

x. 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, 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.

y. REVENUE

Revenue from contracts with customers are recognized solely on the basis of the contract executed with the customer. It is recognized when goods and services are passed by the Group to the customer in the amount that reflects the compensation to which it 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 has identified the following performance obligations:

- service,
- goods,

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 (SSP – stand-alone selling price). SSP 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. This occurs when customer can direct the use of the asset and receives all of the material benefits from the asset and can also prevent others from using and receiving benefits from the asset.

Discounts granted at contract execution are categorized to all performance obligations and are delineated over the contract period. All discounts applied subsequently are recognized in the period for which they were granted, as a revenue decline.

Revenue is recognised in a net amount, 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. If the customer don't use the services, 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. 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 comprise income from electricity and finance income [Moneta]. In the sale of electricity, the Group acts as the principal, therefore revenues 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.

z. 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 is recognised on the day when the company becomes entitled to the dividend.

aa. 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.

ab. 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 2018 and 31 December 2017, the income statement for the period 31 December 2018, and additional information necessary to make adjustments of cash inflows and outflows.

ac. 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 new standards, amendments to the existing standards and new interpretations issued by the International Accounting Standards Board (IASB) and adopted by the EU, are effective for the current reporting period:

IFRS 9 - Financial Instruments - adopted by the EU on 22 November 2016 [effective for annual periods beginning on or after 1 January 2018].

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].

Amendments to IFRS 2 - Share-based Payment - Classification and Measurement of Share-based Payment Transactions, which the EU adopted on 26 February 2018 [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 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].

Amendments to IAS 40 - Investment Property - Transfers of Investment Property, which the EU adopted on 14 March 2018 [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.

Amendments to IFRS 1 and IAS 28 - 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, which the EU adopted on 7 February 2018 [changes of IFRS 1 and IAS 28 should be applied to annual periods beginning on or after 1 January 2018]. Amendments to various standards due to resulting from the annual improvement project of IFRS [IFRS 1, IFRS 12 and IAS 28] primarily with a view to removing inconsistencies and clarifying wording. The amendments include: [i] removal of short-term exemptions in E3-E7 of IFRS 1, because their intended purpose was served, [ii] 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.

IFRIC 22 - Foreign Currency Transactions and Advance Consideration, which the EU adopted on 28 March 2018 [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. In the event of a large number of early payments or delayed receipts, the transaction date shall be determined separately for each payment/revenue.

The effects of the new Standards - i.e. IFRS 9 Financial instruments and IFRS 15 Revenue from contracts with customers - are explained in section [2.e Adoption of new and amended accounting standards](#).

Adoption of other new Standards, amendments to existing Standards and notes did not result in any material changes to the Group's financial statements.

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 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.

The Standard sets out the principles for the recognition, measurement, presentation and disclosure of leases, and instead requires **lessees** to bring most leases on-balance sheet under a single model, eliminating the distinction between operating and finance leases. The Standard supersedes the old IAS 17 - 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 at the start of the lease. 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.

Under the new standard, lessees will be required to report lease interest expense separately from the amortization of the right-of-use asset. Furthermore, lessees will have to remeasure the lease liability upon the occurrence of certain events [e.g., change in the lease term, change in variable rents based on an index or rate], which is generally recognised as an adjustment to the right-of-use asset.

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.

The new standard IFRS 16 requires more detailed disclosure compared to its predecessor, for both lessees and lessors.

The new Standard provides two options to adoption, namely so that the lessee uses this Standard:

- retrospectively for each prior reporting period presented using IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, or
- retrospectively with a cumulative effect of introducing this Standard, recognized on the date of introduction.

TRANSITION TO IFRS 16

For the transition to a new standard, the Group will use the cumulative effect method at 1 January 2019. The Group will therefore not recalculate comparative data for 2018, but will instead report all changes resulting from the transition to the new Standard as an adjustment to the opening balance as at the date of first application.

The Group will not use exemptions envisaged by the Standard for low-value lease contracts and for leases expiring earlier than 12 months from initial application.

The Group expects the right-of-use assets [ROU] and lease liabilities to increase by EUR 67,238 thousand, as a result of the transition to the new standard on 1 January 2019.

Amendments to IFRS 9 - Financial Instruments – Prepayment Features with Negative Compensation, which the EU adopted on 22 March 2018 [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. The Group anticipates that the adoption of these amendments to the Standard will have no material impact on the financial statements in the period of initial application.

IFRIC 23 - Uncertainty over Income Tax Treatments, which the EU adopted on 23 October 2018 [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 this interpretation will have no material impact on the financial statements.

The Group opted not to apply this new standard, amendments to the existing standard and new interpretations ahead of their effective dates.

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 the date of publication of financial statements apply to IFRS, as published by the IASB.

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 3 - Business Combinations – Definition of a Business [applies to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1 2020, and to asset acquisitions that occur on or after the beginning of that period]. The aim of these changes is to improve the definition of a business. The emphasis of this changed definition is on the fact that the main output of the business entity's activities is to provide goods and services to customers, whereas the prior definition focused more on returns in the form of dividends, lower costs and other economic benefits for investors and other parties. Besides changing the wording of the definition, the Committee also provided additional guidance.

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 1 - Presentation of Financial Statements and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" - definition of Material [effective for annual periods beginning on or after 1 January 2020]. The amendments explain the definition of materiality, seeking to develop application guidance or educational material on materiality.

Amendments to IAS 19 - Employee Benefits - regarding plan amendments, curtailments, and settlements [effective for annual periods beginning on or after 1 January 2019]. The amendments require application of updated assumptions used for the remeasurement to determine the current service cost and the net interest for the reporting period after the change of the plan.

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 various standards due to - Improvements to IFRS (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], and the purpose is mainly to eliminate conceptual inconsistencies and inconsistent interpretations. 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].

Amendments to References to the Conceptual Framework in IFRS [effective for annual periods beginning on or after 1 January 2020]. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22 and SIC-32. The aim of the amendments is to support the transition to the revised Conceptual Framework for companies, who use this framework to develop their accounting policies where no IFRS standard applies to a specific transaction.

The Group anticipates that the adoption of these new standards and amendments to the existing standards 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. The Group anticipates that the use of the general hedge accounting model in reference to financial assets and liabilities, as required under IAS 39: "Financial instruments: Recognition and measurement", does not have a material effect on the Group's financial statements, if applied at the balance sheet date.



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 IN EQUITY INSTRUMENTS

Fair value of investments in equity instruments that are listed on the stock exchange is defined on the basis of the closing stock exchange rate as at the reporting date.

OPERATING AND OTHER RECEIVABLES

Current trade claims 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

SUBSIDIARIES¹¹²

As of the reporting date, Telekom Slovenije Group comprises the parent company Telekom Slovenije and following subsidiaries:

112 GRI GS 102-45

SUBSIDIARIES

						Share in voting rights in % 2018	Share in voting rights in % 2017	Carrying amount of equity, in EUR thousand		Profit or loss in EUR thousand		
Name	Address	Country	Activity	Tax rate in %	Share in equity in %			2018	2017	2018	2017	
SLOVENIA												
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	24,752	22,715	2,011	3,657
2	Avtenta, napredne poslovne rešitve, d.o.o.	Stegne 19, Ljubljana	Slovenia	system integrator	19	100	100	100	2,505	2,090	380	325
3	TSmedia, medijske vsebine in storitve, d.o.o.	Cigaletova 15, Ljubljana	Slovenia	multimedia and internet contents	19	100	100	100	-374	-67	-341	-768
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	2,639	2,729	-91	61
5	Antenna TV SL, d.o.o.	Stegne 19, Ljubljana	Slovenia	television activity	19	66	66	66	-11,991	-8,117	-3,841	-6,413
6	TSinpo, d.o.o.	Litostrojska cesta 58 A	Slovenia	paper and cardboard tubes	19	100	100	100	72	53	19	-1
7	Optic-Tel, d.o.o.	Cigaletova 10, 1000 Ljubljana	Slovenia	telecommunication services	19	100	100	100	5,116	5,109	7	0
8	Infratel, d.o.o.*	Cigaletova 10, 1000 Ljubljana	Slovenia	telecommunication services	19	100	100	0	4,974	0	4	0

* part of the group since 1 January 2018.





SUBSIDIARIES

	Name	Address	Country	Activity	Tax rate in %	Share in equity in %	Share in voting rights in % 2018	Share in voting rights in % 2017	Carrying amount of equity, in EUR thousand		Profit or loss in EUR thousand	
									2018	2017	2018	2017
ABROAD												
6	IPKO Telecommunications LLC	Lagija Ulpiana, Rruga "Zija Shemsiu", nr 34, Prishtina	Kosovo	telecommunications services	10	100	100	93	6,895	-6,991	-518	-2,594
7	Blicnet d.o.o., Banja Luka**	Majke Jugovića 25, Banja Luka	Bosnia and Herzegovina	telecommunications services	10	100	100	100	16,943	16,144	715	1,314
10	SIOL, d.o.o., Zagreb	Margaretska 3, Zagreb	Croatia	telecommunications services	20	100	100	100	807	720	65	109
11	SiOL d.o.o., Sarajevo	Fra Anđela Zvizdovića 1, Sarajevo	Bosnia and Herzegovina	telecommunications services	10	100	100	100	1,764	1,749	15	2
12	SIOL, d.o.o., Podgorica	Bulevar Svetog Petra Cetinjskog br.106, Podgorica	Montenegro	telecommunication services	9	100	100	100	2,859	2,789	70	88
13	SIOL, d.o.o., Skopje	Dimitrie Chupovski no. 4-1/14, Skopje	North Macedonia	telecommunications services	10	100	100	100	1,574	1,372	212	159
14	SIOL DOO BEOGRAD-PALILULA	Dvadesetsedmog Marta 11, Beograd Palilula	Serbia	telecommunications services	15	100	100	100	369	329	36	94
15	GVO Telekommunikation GmbH	Daimlerstr. 3, Stadtlohn,	Germany	building and maintenance works on telecommunication networks	15	100	100	100	-55	-59	4	-1

** Part of the group until 31 December 2018.



CHANGES IN THE COMPOSITION OF THE GROUP

Blicnet

On 2 October 2018, the Group signed a contract with the company Telekomunikacije Republike Srpske akcionarsko društvo Banja Luka, in reference to the sale of 100% share of Blicnet d.o.o., Banja Luka, from Bosnia Herzegovina.

The sale of Blicnet d.o.o. is in keeping with the adopted 2018 business plan of Telekom Slovenije Group, and strategic business plan of Telekom Slovenije Group for the period 2018-2022.

EUR thousand	Net asset values
ASSETS	
Intangible assets	3,925
Property, plant and equipment	13,906
Other fixed assets	328
Current Assets	2,632
- of which cash and cash equivalents	121
Total assets	20,791
Non-current liabilities	78
Current liabilities	3,770
Total liabilities	3,848
Fair value of net assets	16,943
Compensation received - fair value of the investment in the company Blicnet	35,700
Profit from sale of equity	18,757
Excluded cash	-121

Telekom Slovenije d.d. will announce the final purchase price after all the adjustment items are determined.

M-PAY D.O.O.

On 31 December 2018, the company and the other shareholder wound down the operations of the company M-Pay and filed a motion to remove the company from the trade registry. The company was removed from the register effective 10 January 2019. The company is included in the consolidated financial statements until 31 December 2018.

IPKO TELECOMMUNICATION

Based on the Agreement on the Sale and Purchase of Interests, concluded on 15 December 2009 between the minority shareholders of the Kosovan company IPKO Telecommunication and Telekom Slovenije, which defined the exit of minority owners from the company, the Group executed an agreement to purchase a 6.89-percent supplementary share of equity of the aforementioned company for a fee of EUR 2.98 million, formally making the Group the sole [100%] shareholder of IPKO. Prior to this, the Group held a 100% beneficial ownership stake in the company IPKO based on an agreement on the purchase of the residual stake with minority shareholders. Even prior to this, the company had been fully included in the Group's consolidated accounts.

THE COMPANY INFRATEL (GVO)

In January 2018, the Group, through its subsidiary GVO, bought a 100% share in the company INFRATEL telekomunikacijska infrastruktura, d.o.o. The change of ownership was entered in the companies register on 24 January 2018.

The Group included INFRATEL in the statements of the Telekom Slovenije Group on 1 January 2018.

The purchase price for the 100% share was 3,469 thousand EUR.

Through the acquisition, the Telekom Slovenije Group has generated gains from the negotiated purchase in the amount of EUR 1,501 thousand, and recognized the gains in the income statement under other financial income.

Fair value of identifiable assets and liabilities of INFRATEL, d.o.o. on the day of acquisition

EUR thousand	Carrying amount and fair value
ASSETS	
Property, plant and equipment	4,819
Operating receivables	96
Cash	44
Other assets	78
Total assets	5,037
Trade payables	-33
Other liabilities	-34
Total liabilities	-67
Fair value of net assets	4,970
Purchase price paid and liabilities assumed	3,469
Gains from the negotiated purchase	1,501
Purchase price paid	-3,469
Cash receipts	44
Net cash from acquisition	-3,425

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 each product and service or each group of similar products and services, is provided in Note 7, [Revenue from contracts with customers](#).

Segment's accounting policies equals those applied by the Group, as outlined in Section 3.

Operating segments 2018

EUR thousand	Slovenia	Other countries*	Eliminations and adjustments	Consolidated
External sales	644,107	70,932	12	715,051
Intersegment sales	75,822	19,874	-95,696	0
Total segment revenue	719,929	90,806	-95,684	715,051
Other revenue	16,143	1,267	-1,241	16,169
Cost of goods and material sold	-96,407	-2,939	10,141	-89,205
Costs of materials and energy costs	-19,781	-2,120	6,201	-15,700
Costs of services	-322,511	-43,505	67,516	-298,500
Labour costs	-114,657	-7,418	9,403	-112,672
Depreciation	-136,769	-31,717	894	-167,592
Other operating expenses	-31,186	-621	2,188	-29,619
Total operating expenses	-721,311	-88,320	96,343	-713,288
Operating profit per segment	14,761	3,753	-582	17,932
Share in profit or loss of associates and joint ventures**	-1			-1
Finance income				23,234
Finance expenses				-7,264
Profit before tax				33,901
Income tax expense				-651
Deferred taxes				72
Net profit for the period				33,322

*Blicnet is included in the consolidated financial statements until 31 December 2018.

**M-pay is included in the consolidated financial statements until 31 December 2018.

Other data by segment 31 December 2018	Slovenia	Other countries	Eliminations and adjustments	Consolidated
Segment assets	1,314,913	142,677	-224,871	1,232,719
Impairment and write-off of non-financial assets	1,655	579	0	2,234
Carrying amount of goodwill	3,718	0	0	3,718
Investments in associates and the joint venture by applying equity method	-1	0	0	-1
Investments in intangible assets	36,867	9,116	0	45,983
Investments in property, plant and equipment	81,554*	12,215	0	93,769
Segment liabilities	653,023	107,673	-147,606	613,090

* includes assets acquired through business combination



Revenue by segment in 2018

EUR thousand	Slovenia	Other countries	Eliminations and adjustments	Consolidated
Mobile services on end-customer market	225,064	33,520	-1,569	257,015
Fixed-line telephone services on end-customer market	218,958	36,529	-1,479	254,008
New sources of revenue	4,568	0	-2	4,566
Wholesale market	176,296	20,487	-29,164	167,619
Other revenue and merchandise	95,043	270	-63,470	31,843
Total net sales revenue	719,929	90,806	-95,684	715,051

EUR thousand	Slovenia	Other countries	Eliminations and adjustments	Consolidated
Revenue from services rendered	624,666	88,586	-87,787	625,465
Sales revenue - goods	95,263	2,220	-7,897	89,586
Total net sales revenue	719,929	90,806	-95,684	715,051

Operating segments 2017

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
Total segment revenue	735,239	91,758	-110,823	716,174
Other revenue	10,021	926	-1,080	9,867
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
Total operating expenses	-744,117	-88,995	111,632	-721,480
Operating profit per segment	1,143	3,689	-271	4,561
Share in profit or loss of associates and joint ventures	5			5
Finance income				5,461
Finance expenses				-8,262
Profit before tax				1,765
Income tax expense				-1,140
Deferred tax				8,398
Net profit for the period				9,023

Other data by segment 31 December 2017	Slovenia	Other countries	Eliminations and adjustments	Consolidated
Segment assets	1,420,726	154,336	-223,068	1,351,994
Impairment and write-off of non-financial assets	2,331	103	0	2,434
Carrying amount of goodwill	3,718	373	0	4,091
Investments in associates and the joint venture by applying equity method	5	0	0	5
Investments in intangible assets	61,791	5,108	0	66,899
Investments in property, plant and equipment	87,477	11,104	0	98,581
Segment liabilities	701,859	138,283	-169,013	671,129

Revenue by segment in 2017 - reclassified [note 7, Revenue from contracts with customers]

EUR thousand	Slovenia	Other countries	Eliminations and adjustments	Consolidated
Mobile services on end-customer market	228,092	33,657	-1,340	260,409
Fixed-line telephone services on end-customer market	199,912	35,856	-1,015	234,753
New sources of revenue	2,789	0	0	2,789
Wholesale market	183,030	21,947	-29,169	175,808
Other revenue and merchandise	121,416	298	-79,299	42,415
Total net sales revenue	735,239	91,758	-110,823	716,174

EUR thousand	Slovenia	Other countries	Eliminations and adjustments	Consolidated
Revenue from services	657,750	89,501	-101,809	645,442
Sales revenue - goods	77,489	2,257	-9,014	70,732
Total net sales revenue	735,239	91,758	-110,823	716,174

7. REVENUE FROM CONTRACTS WITH CUSTOMERS

EUR thousand	2018	2017 reclassified
Mobile services on end-customer market	257,015	260,409
Fixed-line telephone services on end-customer market	254,008	234,753
New sources of revenue	4,566	2,789
Wholesale market	167,619	175,808
Other revenue and merchandise	31,843	42,415
Total net revenue	715,051	716,174

In 2018, Telekom Slovenije Group discloses revenue from incoming traffic under Revenue relating to the mobile/fixed segment on end-customer market. Accordingly, it also reclassified the 2017 revenues, specifically from the wholesale market to Revenue relating to the mobile/fixed segment on end-customer market.

In 2018, the Group recognized 1,495 thousand euros in revenues, which were included at the start of the period under the balance of liabilities from contracts with customers.

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 the case of contracts with customers with a length of 12 or 24 months that include several performance obligations (e.g. partially subsidized mobile phone or other communication device, bundled with the service), the Group allocates the price of the whole transaction to individual performance obligations on the basis of relative stand-alone selling prices of the device and service. Under the new rules, the revenue from device sales are recognized immediately, while overall revenue from services (subscription fees) is recognized over the contractual term. In this context, the Group recognizes contract assets associated with the right to consideration for sold goods or services which were rendered, but not billed on the reporting date. Contract assets are transferred under receivables when the Group bills the customer.

The Group used the practical expedient provided under IFRS 15.121, and chose not to disclose information about the unsatisfied performance obligations, with the exception of revenue from contracts with customers, which have a term of 12 or 24 months and include multiple performance obligations.

EUR thousand	2018	2017
Revenue from services rendered	625,465	645,442
Sales revenue - goods	89,586	70,732
Total net revenue	715,051	716,174

Revenue from services sold is recognized over the contract period, whereas revenue from goods sold are recognized at the time of the transfer of control of the goods to the customer.

Sales revenue from contracts with customers decreased in 2018 by EUR 1,123 thousand as compared to 2017.

As for the **mobile services on end-customer market**, revenue has decreased over the previous year due to lower revenue from mobile subscribers in Slovenia [fewer subscribers, transition to the new and for customer more favourable packages with included contents and the EU regulation].

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 services in Slovenia, Kosovo and BiH, and IT services in Slovenia.

New sources of revenue include revenue from financial services, energy services, eHealth and insurance, and this revenue in 2018 exceeded that from the previous year mostly due to higher energy-related revenue.

Revenue from the **wholesale market** was lower than in 2017. As for the domestic market, revenue increased as a result of more broadband access connections. The decline in revenue on the international market is the result of lower revenue from transit. 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 decreased mostly due to diminished revenue from e-tolls, as the majority of revenue stemming from introduction of e-tolling was recognized in 2017.

8. OTHER OPERATING REVENUE

EUR thousand	2018	2017
Reversal of provisions	997	191
Government grants and other aids	1,083	2,162
Gains on disposal of property, plant and equipment	669	940
Revaluation operating revenue	9,454	3,535
Revenue from write-off of liabilities from contracts with customers	12	0
Other revenue	3,954	3,039
Total other operating revenue	16,169	9,867

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	2018	2017
Telecommunications services	130,286	140,201
• Network interconnection	35,459	35,799
• Roaming	11,869	11,285
• International services	82,242	92,293
• Other telecommunications services	716	824
Costs of leased lines, networks and platforms	8,919	11,074
Multimedia contents	33,902	28,989
Sales incentives	0	18,597
Costs of increasing the customer base	3,213	3,728
Maintenance of property, plant and equipment	22,059	22,991
Lease of property, plant and equipment	13,698	13,736
Cost of fairs, advertising, sponsorships and hospitality	13,577	12,548
Cost of intellectual and personal services	10,974	12,412
Reimbursement of work-related costs	1,084	793
Insurance premiums	3,355	3,666
Cost of communications services	3,429	3,598
Banking services	1,139	1,122
Costs of other services	52,865	53,376
Total costs of services	298,500	326,833

In 2018, costs of services decreased by EUR 28,333 thousand compared to 2017, of which EUR 18,597 thousand was attributable to the change in recognition of sales incentive expenses introduced by IFRS 15.

As compared to 2017, the costs of telecommunications services grew due to decreased volume of international calls. Costs of leased lines also diminished.

Costs of maintenance of property, plant and equipment are lower as a result of optimisation of the costs of access and core network and IT solutions.

Cost of other services in the amount of EUR 52,865 thousand include mainly costs of sub-contractors in the amount EUR 42,207 thousand.

10. LABOUR COSTS

EUR thousand	2018	2017
Salaries and compensations	96,387	96,956
Social security contributions	19,240	19,526
• of which pension insurance contributions	12,741	12,766
Other labour costs	11,111	11,776
Provisions for jubilee benefits and termination benefits	498	5,870
Capitalised own products and services	-14,564	-15,164
Total labour costs	112,672	118,964

Of the total of EUR 16,439 thousand capitalised own products and services (2017: EUR 17,141 thousand), EUR 14,564 thousand are disclosed under labour costs (2017: EUR 15,164 thousand). Residual value is disclosed under Other operating expenses (Note 11). Services rendered for the needs of the Group are capitalised among intangible assets and property, plant and equipment (Note 15 and 16).

In the 2018 reporting period, the average number of employees based on the working hours equalled 3,360.67 (2017: 3,577.80 employees). The average number and structure of employees by actual level of education attained is disclosed in Section [2.9.2 Responsibility to employees](#).

11. OTHER OPERATING EXPENSES

EUR thousand	2018	2017
Provisions	423	26,011
Loss on disposal of intangible assets and property, plant and equipment	501	870
Write-off of inventories	1,058	1,887
Adjustment and write-off of contract assets	1,176	0
Impairment of intangible assets and property, plant and equipment	26	547
Capitalised own products and services	-1,875	-1,977
Other expenses	28,310	2,761
Total other operating expenses	29,619	30,099

Expenses for provisions have decreased in 2018 due the fact that, unlike in 2017, the Group did not form additional provisions for probable liabilities from legal actions [Note 31].

In contracts with customers on long-term [12- or 24-month] subscription contracts, contract terminations are recorded as a write-off of contract assets.

Other expenses related mainly to payments of settlements.

12. FINANCE REVENUE AND FINANCE EXPENSES

EUR thousand	2018	2017
Dividend revenue	170	253
Other revenue from shares and interests	18,754	0
Interest revenue	2,607	1,573
Net exchange gains	0	1,536
Revenue from derivative financial instruments	0	1,103
Other finance revenue	1,703	996
Total finance revenue	23,234	5,461
Interest on bonds issued	1,992	1,992
Interest expense	4,682	5,955
Foreign exchange net losses	362	0
Impairment and write-off of loans	30	0
Other finance expenses	198	315
Total finance expenses	7,264	8,262
Financial result	15,970	-2,801
Share in the results of associated and jointly controlled companies	-1	5

Financial revenues from shares in 2018 were the result of the sale of the company Blicnet.

Other financial revenue in 2018 is mainly attributable to recognition of gain upon acquisition of the company INFRATEL.

Interest expenses are lower than compared to last year, due to the lower borrowing balance.

13. INCOME TAX, DEFERRED TAX ASSETS AND LIABILITIES

EUR thousand	2018	2017
Current tax payable	-651	-1,140
Deferred tax assets/ liabilities	224	8,616
Other taxes not disclosed under other items	-152	-218
Total tax	-579	7,258

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	2018	2017
Profit or loss before tax	33,901	1,765
Income tax using the prescribed tax rate	-6,441	-335
Tax-free dividends received	134	51
Non-taxable profit from disposal of equity interest	1,915	0
Tax incentives used in the current period	886	1,594
Reversal of tax incentives used in previous periods	-106	-540
Non-deductible expenses	-2,867	-4,135
Deductible expenses/revenues that were non-deductible in previous years	2,201	-296
Tax loss and unused reliefs	4,444	11,091
Change in the accounting policy	-15	0
Other items [corrections, WHT...]	-730	-172
Total tax	-579	7,258
Effective tax rate	1.71%	0.00%

The tax loss as at 31 December 2018 stands at EUR 140,861 thousand [31 December 2017: EUR 145,262 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 [2017: 19%].

Deferred tax assets

EUR thousand	2018	2017	Through profit or loss	Through comprehensive income
Intangible assets, and property, plant and equipment	15,271	13,315	1,956	
Investments	1,115	1,080		35
Operating receivables	2,961	5,575	-2,614	
Tax loss	24,959	22,639	2,320	
Provisions	909	2,267	-1,358	
Deferred tax assets	45,215	44,876	304	35

Movement of deferred tax assets

EUR thousand	
Balance at 1 Jan 2017	36,141
Elimination/use	-9,703
Formation	18,437
Balance at 31 Dec 2017	44,876
Transition to the new standard IFRS 15	290
Elimination of a subsidiary	-105
Elimination/use	-9,715
Formation	9,870
Balance at 31 Dec 2018	45,215

Deferred tax liabilities

EUR thousand	2018	2017	Through profit or loss	Through comprehensive income
Intangible assets, and property, plant and equipment	1,672	1,658	-14	0
Investments	238	224	0	-14
Deferred tax liabilities	1,910	1,882	-14	-14

Movement of deferred tax liabilities

EUR thousand	
Balance at 1 Jan 2017	1,280
Elimination/use	0
Formation	602
Balance at 31 Dec 2017	1,882
Elimination/use	0
Formation	28
Balance at 31 Dec 2018	1,910

As at the reporting date, unused tax reliefs amounted to EUR 72,478 thousand (2017: EUR 60,041 thousand).

In 2018, the Group formed no deferred tax assets for deductible temporary differences in the amount of EUR 646 thousand (2017: EUR 3,422 thousand).

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	2018	2017
Net profit or loss used attributable to shareholders, owners of ordinary shares of the parent company	33,322	9,023
Weighted average number of ordinary shares for earnings per share	6,505,478	6,505,478
Earnings per share	5.12	1.39

Weighted average number of ordinary shares

EUR thousand	2018	2017
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

15. INTANGIBLE ASSETS

Concessions relate to the rights 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 76,244 thousand (2017: EUR 90,955 thousand). Useful lives of individual concessions are disclosed in Note 46, in the table [Concessions for mobile phone services](#).

As at 31 December 2018, the carrying amounts of concessions obtained in Slovenia for UMTS amounted to EUR 11,745 thousand (2017: EUR 15,761 thousand), for GSM EUR 30,164 thousand (2017: EUR 32,678 thousand), and for LTE EUR 18,590 thousand (2017: EUR 20,374 thousand). The carrying amounts of concessions for GSM in Kosovo amounted to EUR 14,898 thousand (2017: EUR 19,602 thousand), and for LTE EUR 847 thousand (2017: EUR 2,540 thousand).

Under concessions and licences, the Group also discloses programme rights and licences for use of computer software.

As at 31 December 2018, the Group's intangible assets include the value of the customer list from the takeover of the company Debitel in the amount of EUR 2,136 thousand (2017: EUR 3,204 thousand) and the customer list of Intell in the amount of EUR 715 thousand (2017: EUR 839 thousand), and the customer list of IZImobil in the amount of EUR 5,874 thousand.

Goodwill of EUR 3,718 thousand occurred during the takeover of companies TSinpo (EUR 115 thousand) in 2017 and the takeover of the company Debitel in 2015 (EUR 3,603 thousand).

The Group performed a valuation 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 list is assessed at EUR 6,376 thousand with the estimate ranging between EUR 6,087 thousand and EUR 6,678 thousand. The discount rate used was 10.50% and the required yield on assets 10.5%. It was established that the recoverable value of the customer list exceeds its carrying amount, thus requiring no impairment.

The Group determined that the Intell and IZImobil customer lists do not show any signs of impairment.

The Group also performed an assessment of the replacement value of goodwill occurring in the acquisition of the company Debitel. For the purpose of valuation, the Group applied earnings-based valuation with the discounted cash flows method. The relevant calculations are based on future cash flow projections made for the company for the period from 4Q 2018 to 2023. The main assumptions used include the growth rate of 2.5% and the discount rate of 9.85%. 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 2018, the Group disclosed contractual commitments for intangible assets in the amount of EUR 6,661 thousand (2017: EUR 10,416 thousand), which relate to the set-up of computer systems and to software licences.

Movement of intangible assets in 2018

EUR thousand	Goodwill	Concessions and licences	Cost of attracting contracts with customers	Software	Other intangible assets	Intangible assets under construction	Other	Total
Cost								
Balance at 31 Dec 2017	109,227	324,293	19,413	179,022	53,181	26,387	288	711,811
Effect of the change in the accounting policy	0	0	156	0	0	0	-38	118
Balance at 1 Jan 2018	109,227	324,293	19,569	179,022	53,181	26,387	250	711,929
Increases	0	5,160	0	401	3	38,439	0	44,003
Assets generated in the Group	0	0	0	90	0	1,890	0	1,980
Transfer into use	-373	8,065	8,634	25,204	7,490	-49,393	0	-373
Decreases	0	-14,579	-9,780	-2,238	0	-26	-11	-26,634
Write-offs	-1,200	-253	0	-21	0	0	0	-1,474
Other transfers*	0	-138	0	50,197	5,246	-1,393	-239	53,673
Balance at 31 Dec 2018	107,654	322,548	18,423	252,655	65,920	15,904	0	783,104
Allowances								
Balance at 31 Dec 2017	105,136	204,447	9,308	143,953	34,232	267	56	497,399
Effect of the change in the accounting policy	0	0	72	0	0	0	0	72
Balance at 1 Jan 2018	105,136	204,447	9,380	143,953	34,232	267	56	497,471
Decreases	0	-11,488	-9,780	-1,802	0	0	-9	-23,079
Write-offs	-1,200	-247	0	-21	0	0	0	-1,468
Other transfers*	0	51	0	48,817	0	0	-48	48,820
Depreciation	0	35,268	9,588	22,111	5,385	0	1	72,353
Balance at 31 Dec 2018	103,936	228,031	9,188	213,058	39,617	267	0	594,097
Carrying amount								
Balance at 31 Dec 2017	4,091	119,846	10,105	35,069	18,949	26,120	232	214,412
Balance at 1 Jan 2018	4,091	119,846	10,189	35,069	18,949	26,120	194	214,458
Balance at 31 Dec 2018	3,718	94,517	9,235	39,597	26,303	15,637	0	189,007

* 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 2017

EUR thousand	Goodwill	Concessions and licences	Sales commissions	Software	Other intangible assets	Intangible assets under construction	Other	Total
Cost								
Balance at 1 Jan 2017	109,356	329,453	25,514	137,598	52,111	27,381	269	681,682
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
Balance at 31 Dec 2017	109,227	324,293	19,413	179,022	53,181	26,386	289	711,811
Accumulated amortisation								
Balance at 1 Jan 2017	105,173	198,884	15,969	121,133	30,986	267	38	472,450
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
Balance at 31 Dec 2017	105,136	204,447	9,308	143,953	34,232	267	56	497,399
Carrying amount								
Balance at 1 Jan 2017	4,183	130,569	9,545	16,465	21,125	27,114	231	209,232
Balance at 31 Dec 2017	4,091	119,846	10,105	35,069	18,949	26,119	233	214,412

* 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 2018 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 Group relate to services that are rendered for the Group and mostly refer to the set-up of equipment at base stations and in tech rooms, and set-up of telecommunications equipment on the subscribers' premises.

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 2018 disclosed at EUR 4,206 thousand [2017: EUR 2,638 thousand] and largely refer to the set-up of telecommunications network.



Movement of property, plant and equipment in 2018

EUR thousand	Land, buildings, cables and lines	Cable network	Telephone exchanges	Equipment for mobile telephony	Other equipment	Assets under construction	Other	Total
Cost								
Balance at 1 Jan 2018	449,514	1,005,477	230,960	610,218	429,420	44,215	40	2,769,844
Difference from the translation to the presentation currency	0	-8	0	0	0	0	0	-8
Increases	21	3,804	3	1,760	3,927	64,976	0	74,491
Fixed assets generated in the Group	0	74	0	81	320	13,984	0	14,459
Increase on business combinations	0	4,819	0	0	0	0	0	4,819
Transfer from assets under construction	11,158	28,140	3,635	7,257	31,038	-81,228	0	0
Decreases	-10,468	-349	-109,101	-32,697	-35,442	-3,143	0	-191,200
Write-offs	-315	-1	-414	-19,898	-24,542	-7	0	-45,177
Other transfers*	19	-3,701	-75	-48,044	-153	-1,762	127	-53,589
Balance at 31 Dec 2018	449,929	1,038,255	125,008	518,677	404,568	37,035	167	2,573,639
Allowances								
Balance at 1 Jan 2018	169,507	809,477	218,399	537,834	343,919	11,469	0	2,090,605
Difference from the translation to the presentation currency	2	-1	0	0	4	-1	0	4
Increases	0	0	0	-100	5	0	0	-95
Decreases	-2,949	-1,686	-109,086	-32,508	-27,799	-30	0	-174,058
Write-offs	-315	0	-413	-19,898	-24,099	0	0	-44,725
Impairment	1	0	0	9	-1	15	0	24
Depreciation	14,143	22,978	4,824	19,765	33,478	0	0	95,188
Other transfers*	2	-1	-57	-48,835	10	-63	0	-48,944
Balance at 31 Dec 2018	180,391	830,767	113,667	456,267	325,517	11,390	0	1,917,999
Carrying amount								
Balance at 1 Jan 2018	280,007	196,000	12,561	72,384	85,501	32,746	40	679,239
Balance at 31 Dec 2018	269,538	207,488	11,341	62,410	79,051	25,645	167	655,640

* 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 2017

EUR thousand	Land, buildings, cables and lines	Cable network	Telephone exchanges	Equipment for mobile telephony	Other equipment	Assets under construction	Other	Total
Cost								
Balance at 1 Jan 2017	442,984	982,702	277,885	625,844	445,587	35,662	152	2,810,816
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
Balance at 31 Dec 2017	449,514	1,005,477	230,960	610,218	429,420	44,215	40	2,769,844
Accumulated depreciation								
Balance at 1 Jan 2017	156,409	791,218	265,994	535,693	359,972	11,390	0	2,120,676
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
Balance at 31 Dec 2017	169,507	809,477	218,399	537,834	343,919	11,469	0	2,090,605
Carrying amount								
Balance at 1 Jan 2017	286,575	191,484	11,891	90,151	85,615	24,272	152	690,140
Balance at 31 Dec 2017	280,007	196,000	12,561	72,384	85,501	32,746	40	679,239

* 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

On 31 December 2018, the company and the other shareholder wound down the operations of the company M-Pay and filed a motion to remove the company from the trade registry. The company was removed from the register effective 10 January 2019. In this context, the Group recognized EUR 125 thousand in receivables for 50% of the assets it is entitled to after the company is wound down, and an EUR 3 thousand loss resulting from the deregistration of the company.

The company was not listed on any public stock exchange.

18. OTHER INVESTMENTS

Long-term investments

EUR thousand	2018	2017
Investments in shares of banks	248	247
Investments in other shares and interests	4,619	4,265
Total investments in shares and interests	4,867	4,512
Loans to companies	0	108
Loans to employees	242	324
Total loans given	242	432
Other non-current financial assets	7	8
Total long-term investments	5,116	4,952

All investments in shares and interests are classified as investments measured at fair value through other comprehensive income through other comprehensive income.

Of the total amount of EUR 4,867 thousand, EUR 1,867 thousand [2017: EUR 1,796 thousand] relates to investments that are listed on the stock exchange.

Investments are not pledged as collateral and are free of encumbrances.

Short-term investments

EUR thousand	2018	2017
Other short-term loans	89	457
Other current financial assets	2	227
Bank deposits	0	77,283
Total short-term investments	91	77,967

As at the reporting date, the Group holds no deposits.

Table of loans

EUR thousand	2018	2017
Long-term loans given	242	432
Loans given	0	108
Loans to employees	242	324
Short-term loans given	89	457
Long-term loan portion falling due in 12 months - loans given	0	311
Long-term loan portion falling due in 12 months - loans to employees	89	113
Short-term interest receivables	0	33
Balance of loans given at the end of the period	331	889

The maturity of short-term and long-term loans as well as other data are disclosed in Note 45, [Financial risk management](#).

The interest rate for loans given to employees ranges between 3.70% and 6.23%.

19. NON-CURRENT CONTRACT ASSETS

EUR thousand	31.12.2018	1.01.2018
Non-current contract assets	4,519	5,389
Total other non-current contract assets	4,519	5,389

Non-current assets arise if an entity performs by transferring goods or services to a customer before the consideration is paid. Buyers of telecommunication goods and services may commit to a certain subscription period [e.g. 24 months] in order to become eligible for discounts on goods and/or services. Due to reclassification of revenue based on the relative standalone price, the revenues from goods are recognized sooner under the new standard, giving rise to contract assets.

20. OTHER NON-CURRENT ASSETS

EUR thousand	2018	2017
Prepaid rents	10,435	11,366
Long-term deferred costs of sales incentives	0	2,659
Long-term operating receivables	23,798	15,570
Programming rights [TV content, TV channels]	12,527	11,691
Other long-term deferred costs	554	1,012
Total other non-current assets	47,314	42,298

The item of non-current operating receivables includes the sale of goods with maturity of over one year. As for receivables arising from instalment payments, the relevant allowances are formed for the short-term portion.

Due to the transition to the new standard IFRS 15, the Group eliminated long-term deferred costs of sales incentives, which it previously delineated over the customer's commitment period.

Movements in prepaid rents

EUR thousand	Rents
Balance at 1 Jan 2017	12,853
Increase	1,291
Transfer to costs	-2,778
Balance at 31 Dec 2017	11,366
Increase on business combinations	-34
Increase	2,801
Transfer to costs	-3,698
Balance at 31 Dec 2018	10,435

Prepaid rents include primarily leases of premises and land for setting up base stations, and lease of optical fibres.

21. INVESTMENT PROPERTY

Movement of investment property in 2018

EUR thousand	Land	Buildings	Total
Cost			
Balance at 1 Jan 2018	4,865	1,813	6,678
Increases	0	84	84
Balance at 31 Dec 2018	4,865	1,897	6,762
Accumulated depreciation			
Balance at 1 Jan 2018	1,689	983	2,672
Depreciation	0	51	51
Balance at 31 Dec 2018	1,689	1,034	2,723
Carrying amount			
Balance at 1 Jan 2018	3,176	830	4,006
Balance at 31 Dec 2018	3,176	863	4,039

Movement of investment property in 2017

EUR thousand	Land	Buildings	Total
Cost			
Balance at 1 Jan 2017	4,865	1,810	6,675
Increases	0	3	3
Balance at 31 Dec 2017	4,865	1,813	6,678
Accumulated depreciation			
Balance at 1 Jan 2017	1,572	923	2,495
Impairment	117	9	126
Depreciation	0	51	51
Balance at 31 Dec 2017	1,689	983	2,672
Carrying amount			
Balance at 1 Jan 2017	3,293	887	4,180
Balance at 31 Dec 2017	3,176	830	4,006

The Group carries investment property at cost less accumulated depreciation and impairment losses. Fair value of investment property is presented in Note [40, Carrying amounts and fair values](#).

As at 31 December 2018, the Group'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 984 thousand.

These items of property were assessed by a certified property appraiser on 31 December 2018. The market comparison approach was used in the assessment of fair value, decreased by the cost of use of the land and building in the Sečovlje salt-pans. The fair value amounts to EUR 3,067 thousand. 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. The fair value of the property, landscaping, waste treatment facility and the Pohorje Hotel Tisa building amounts to EUR 1,136 thousand.

Revenue generated on investment property in 2018 is recognised in profit or loss in the amount of EUR 359 thousand (2017: EUR 292 thousand). The Group recognised expenses relating to investment property in the income statement for 2018 in the amount of EUR 165 thousand (2017: EUR 174 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.

22. ASSETS HELD FOR SALE

As at 31 December 2018, 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
Balance at 1 Jan 2017	1,818
Increases	2
Sale	-925
Impairment	-141
Balance at 31 Dec 2017	754
Increases	215
Sale	-426
Transfer to property, plant and equipment	-17
Balance at 31 Dec 2018	526

In 2018, assets held for sale decreased by EUR 426 thousand due to disposal of land and buildings. The Group thus generated EUR 190 thousand gains on sale, which were recognised in the income statement under Gains on disposal of property, plant and equipment [Note 8].

23. INVENTORIES

EUR thousand	2018	2017
Material	10,836	10,573
Products	994	773
Merchandise	15,637	10,858
Advances for inventories	0	35
Total inventories	27,467	22,239

In 2018, the Group wrote off EUR 1,058 thousand of inventories (2017: EUR 1,887 thousand). Merchandise was valued at its net realisable value at EUR 3,099 thousand and material at EUR 1,442 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.

24. OPERATING AND OTHER RECEIVABLES

EUR thousand	2018			2017
	Gross value	Allowances	Net value	Net value
Trade receivables	145,200	-18,988	126,212	121,968
Operating receivables due from foreign operators	15,348	-1,907	13,441	14,736
Operating receivables due from domestic operators	8,029	-274	7,755	15,135
Total operating receivables	168,577	-21,169	147,408	151,839
Advances given	2,204	0	2,204	1,698
VAT and other tax receivables	5,968	0	5,968	4,998
Other receivables	37,022	-8	37,014	1,283
Total other receivables	45,194	-8	45,186	7,979
Total operating and other receivables	213,771	-21,177	192,594	159,818

Operating receivables do not bear interest.

Allowance for receivables

EUR thousand	2018	2017
Balance at 1 Jan	-36,409	-43,733
Exclusion of companies	1,698	0
Allowances during the year	-7,249	-5,990
Reversal of allowances	16,798	9,805
Write-offs	3,985	3,509
Balance at the end of the period	-21,177	-36,409

Exclusion of companies in the amount of EUR 1,698 thousand refers to the exclusion of the company Blicnet on 31 December 2018.

25. CURRENT CONTRACT ASSETS

EUR thousand	31.12.2018	01.01.2018
Current contract assets	12,099	11,337
Total current contract assets	12,099	11,337

The Group's short-term contract assets arise mainly from the sale of telecommunications services and goods, where customer contracts comprise the subscription fee and a subsidized service or good, where customers commit to a 12-month contract period.

26. SHORT-TERM DEFERRED COSTS AND ACCRUED REVENUE

EUR thousand	2018	2017
Deferred costs	10,199	10,966
Accrued revenue for services rendered and goods supplied (not yet invoiced)	5,732	25,936
Accrued revenue and deferred costs – international services	20,780	22,057
Short-term portion of sales incentives	0	11,974
Other	1,125	1,120
Total short-term deferred costs and accrued revenue	37,836	72,053

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.

Due to the transition to the new standard IFRS 15, the Group eliminated long-term deferred costs of sales incentives, which it previously delineated over the customer's commitment period.

27. CASH AND CASH EQUIVALENTS

EUR thousand	2018	2017
Cash on hand and bank balances	10,301	27,229
Short-term bank deposits with maturity up to three months	383	2,016
Total cash and cash equivalents	10,684	29,245

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 2018, these short-term revolving loans and credit lines were utilised in the amount of EUR 28 million. As at 31 December 2018, long-term credit lines or revolving loans were not utilised.

Credit lines are outlined by the Group in Note [33, Borrowings](#).

28. EQUITY AND RESERVES

EUR thousand	2018	2017
EQUITY AND RESERVES		
Called-up capital	272,721	272,721
Capital surplus	181,488	181,488
Revenue reserves	123,492	106,479
Legal reserves	51,612	51,612
Reserves for treasury shares and interests	3,671	3,671
Treasury shares and interests	-3,671	-3,671
Statutory reserves	54,854	54,854
Other revenue reserves	17,026	13
Retained earnings or losses	47,938	125,039
Retained earnings from previous periods	30,324	113,836
Profit for the period	17,614	11,203
Change in fair value of investments measured at fair value through comprehensive income	1,013	955
Fair value reserve for hedging instruments in net amount	-618	-472
Revaluation surplus for actuarial deficits and surpluses	-2,356	-2,585
Translation reserve	16	0
Total equity attributable to owners of the parent company	623,694	683,625
Non-controlling interest	-4,066	-2,760
Total equity and reserves	619,628	680,865

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	31.12.2018		31.12.2017	
	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	845,686	12.94	822,060	12.58
Other domestic legal entities	222,048	3.40	212,876	3.26
Kapitalska družba d.d.	365,175	5.59	365,175	5.59
Domestic financial companies and funds	320,925	4.91	356,525	5.46
Foreign legal entities	386,236	5.91	383,434	5.87
Treasury shares	30,000	0.46	30,000	0.46
Total	6,535,478	100.00	6,535,478	100.00

The balances and changes in equity are presented in the Statement of Changes in Equity. There were no changes in the number of issued shares in 2018.

At the end of 2018, 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 2018, 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 2018, 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 11 May 2018 by the General Meeting of Shareholders, the accumulated profit for 2017 in the amount of EUR 115,366 thousand was used in for dividend pay-out in the amount of EUR 93,028 thousand, i.e. EUR 14.30 per share. [In 2017, dividends for the fiscal year 2016 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 22,338 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 9 July 2018 as stock holders with the right to dividends or to other parties entitled to dividends. Dividends were paid out on 10 July 2018.

Proposed dividend pay-out for 2018

Amount of dividend paid:	EUR 29,274,651.00
Dividend per ordinary share:	EUR 4.50

FAIR VALUE RESERVE FOR FINANCIAL INSTRUMENTS

Fair value reserve for financial instruments includes the change in fair value of investments available for sale, measured at fair value through other comprehensive income through other comprehensive income, and the change in fair value of hedging instruments.

Fair value reserve for financial instruments is shown in the statement of other comprehensive income.

RESERVE FOR ACTUARIAL DEFICITS AND SURPLUSES

Reserve for actuarial deficits and surpluses includes changes in the present value of payables to employees due to changed actuarial assumptions and on the basis of experience-based adjustments.

In 2018, this reserve increased by EUR 229 thousand [2017: decline of EUR -603 thousand] and equalled EUR -2,356 thousand at the end of 2018 [2017: EUR -2,585 thousand].

29. LONG-TERM CONTRACT LIABILITIES

EUR thousand	2018	2017
Long-term contract liabilities	178	0
Co-location billed in advance	13,272	0
Total long-term contract liabilities	13,450	0

Long-term contract liabilities represent the Group's obligation to either transfer the goods or services to the buyer in future, or to refund the consideration received. In both cases, the obligation is measured as the amount of the consideration received from the customer. The Group reclassified the billed co-locations from long-term deferred income.

30. LONG-TERM DEFERRED REVENUE

EUR thousand	2018	2017
Co-location billed in advance	0	10,404
Other long-term deferred revenue	2,702	2,825
Total long-term deferred revenue	2,702	13,229

31. PROVISIONS

EUR thousand	2017	Company exclusion	Utilisation	Reversal	Formation	Change in discount rate	2018
Provisions for probable liabilities resulting from legal actions	34,301	-77	-29,730	-125	305	0	4,674
Provisions for termination benefits upon retirement and jubilee benefits	11,997		-189	-262	528	152	12,226
Provisions for estimated costs of the removal of base stations	3,453		-12	-9	61	-82	3,411
Other provisions	1,921		-152	-794	377	0	1,352
Provisions for restructuring	5,829		-5,716	0	0	0	113
Total provisions	57,501	-77	-35,799	-1,190	1,271	70	21,776

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
Total provisions	38,586	272	-13,701	-785	32,877	252	57,501

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 liability due date cannot be determined. 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. In 2018, the Group reversed provisions in the amount of EUR 29,730 thousand due to the court settlement with T-2. By virtue of signing the court settlement, the companies reached a final resolution of the commercial dispute brought against the plaintiff T-2 against the company Telekom Slovenije, as well as all other unresolved mutual relationships. Telekom will not disclose the details of the court settlement.

On the basis of the management's estimate and obtained legal opinions, provisions in the amount of EUR 4,674 thousand were formed.

Total damages claimed by pending legal actions brought against Telekom Slovenije Group companies amount to EUR 83,882 thousand [2017: EUR 268,396 thousand] – Note 41, [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 1.89% or 2.34, which equals the 2018 year-end yield on 15-year or 10-year gilt-edged bonds from euro area issuers (in 2017, the discount rate was 1.92% and 1.44%, respectively). The employee turnover rate is taken into account according to age intervals and ranges from 0% to 3.5% (2017: the employee turnover 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 2.34% p.a. (2017: 1.92% p.a.), which corresponds to the 15-year yield on gilt-edged bonds from euro area issuers as of December 2018.

PROVISIONS FOR RESTRUCTURING

In 2018, the Group used provisions for restructuring in the amount of EUR 5,716 thousand that were created in the previous reporting period.

32. NON-CURRENT OPERATING LIABILITIES

EUR thousand	2018	2017
Contractual liabilities for programme rights	2,876	9,684
Other	10,835	6,742
Total non-current operating liabilities	13,711	16,426

33. 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 45, [Financial risk management](#).

EUR thousand	2018	2017
Non-current borrowings		
Borrowings from banks	233,157	284,142
• Current portion of long-term borrowings	-22,816	-115,252
Total long-term portion	210,341	168,890
Current borrowings		
Borrowings from banks	28,062	0
Current portion of long-term borrowings	22,816	115,252
Interest	19	0
Total short-term portion	50,897	115,252

The Telekom Slovenije Group has non-current financial liabilities in the form of a long-term syndicated loan and long-term loan with a domestic bank. The syndicated loan comprises three tranches, two of which with a respective maturity in 2023 and 2025. One of the tranches has not been fully drawn at the end of 2018. The loan is linked to a variable interest rate with mark-ups for individual tranches ranging from 1.35% to 1.65% and is secured by blank bills of exchange. The long-term loan with a domestic bank has a maturity in 2020, a variable interest rate and a mark-up of 3.75%. The loan is secured by right of lien on property. Current financial liabilities to banks in the form of short-term liquidity revolving loans have a fixed or a variable interest rate with mark-ups ranging from 0.62% to 0.72%. Short-term loans are also secured by blank bills of exchange.

The Telekom Slovenia Group, in addition to drawn credit lines, also has open undrawn credit lines and long-term backup credit lines or revolving loans with banks that are secured by blank bills of exchange. Short-term revolving loans mature in 2019 and have a fixed or a variable interest rate with mark-ups ranging from 0.60% to 2.80%. Long-term revolving loans mature in 2020 and have a variable interest rate with mark-ups of 0.80% to 1.1%. A transaction account overdraft contract has also been signed with one of the banks, with a 3.50% interest rate.

Banks that have approved long-term loans require that Telekom Slovenije Group's financial ratios specified in loan agreements be maintained, including 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 2018, all financial covenants on the Group level were achieved.

34. OTHER NON-CURRENT FINANCIAL LIABILITIES

EUR thousand	2018	2017
Bonds	99,940	99,898
Liabilities for interest rate swap	763	583
Other	56	45
Total other non-current financial liabilities	100,759	100,526

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 2018 equalled EUR 763 thousand (2017: EUR 583 thousand). For a more detailed explanation, see Note 45, [Financial risk management](#).

35. OPERATING AND OTHER LIABILITIES

EUR thousand	2018	2017
Trade payables	90,242	94,753
Liabilities to domestic operators	4,721	4,166
Liabilities to foreign operators	7,103	5,970
VAT and other tax liabilities	5,672	5,352
Liabilities to employees	8,942	7,875
Liabilities for advances and securities	2,525	2,154
Other liabilities	27,186	14,941
Total operating and other liabilities	146,391	135,211

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.

36. OTHER CURRENT FINANCIAL LIABILITIES

EUR thousand	2018	2017
Liabilities under bonds issued	1,053	1,053
Other financial liabilities	209	3,276
Total other current financial liabilities	1,262	4,329

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, which Telekom believes not to have been invoked correctly, and as a result, it refused to pay the requested amount. The ensuing dispute is already being resolved in arbitration proceedings before the International Court of Arbitration in Geneva, where the customers exchanged writs in 2018. Thus, both the put option of Antenne Slovenia B.V. Amsterdam, and the call option of Telekom Slovenije were extended until the end of the arbitration proceedings, which is expected to come to an end in 2019.

37. CURRENT CONTRACT LIABILITIES

EUR thousand	2018	2017
Short-term co-locations	1,621	0
Total current contract liabilities	1,621	0

38. SHORT-TERM DEFERRED REVENUE

EUR thousand	2018	2017
Deferred revenue from sale of prepaid cards	4,781	5,585
Short-term co-locations	0	1,537
Short-term portion of government grants for property, plant and equipment	72	83
Other deferred revenue	1,944	1,473
Total short-term deferred revenue	6,797	8,678

Due to the transition to the new standard IFRS 15, the Group reports co-locations in the category of contractual liabilities.



39. ACCRUED COSTS AND EXPENSES

EUR thousand	2018	2017
Accrued costs and expenses for services rendered and goods supplied	18,934	25,266
Accrued costs and deferred revenue – international services	15,065	15,582
Accrued wages and bonuses	3,358	2,697
Accrued costs for unused vacation days	4,035	4,200
Other	0	886
Total accrued costs and expenses	41,392	48,631

40. 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 2018

EUR thousand	Carrying amount	Fair value	Level 1	Level 2	Level 3
Non-current financial assets					
All investments in shares and interests listed on the stock exchange, measured at fair value through other comprehensive income	1,867	1,867	1,867		
All investments in shares and interests not listed on the stock exchange, measured at fair value through other comprehensive income	3,000	3,000			3,000
Loans given	242	242			242
Current financial assets					
Loans given	89	89			89
Other current financial assets	2	2			2
Non-current financial liabilities					
Bonds	99,940	101,000	101,000		
Borrowings	210,341	210,341			210,341
Liabilities for interest rate swap	763	763		763	
Current financial liabilities					
Bonds	-42	-42			-42
Interest on bonds	1,095	1,095			1,095
Borrowings	50,897	50,897			50,897
Other financial liabilities	209	209			209

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
Non-current financial assets					
Available-for-sale financial assets	1,796	1,796	1,796		
Loans given	432	432			432
Current financial assets					
Loans given	457	457			457
Non-current financial liabilities					
Bonds	99,898	101,000	101,000		
Borrowings	168,890	168,890			168,890
Liabilities for interest rate swap	583	583		583	
Current financial liabilities					
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

The Group did not have any transfers between fair value levels in 2018.

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.

Assets that are not measured at fair value, but for which fair value is disclosed:

Carrying amounts and fair values at 31 December 2018

EUR thousand	Carrying amount	Fair value	Level 1	Level 2	Level 3
Investment property	4,039	4,203			4,203

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

The Group did not classify those assets and liabilities for which fair value is not measured into any of the fair value categories.



41. 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 renewals periods. The customer can cancel the contract or order in accordance with terms of the contract or order. Customers are charged penalties in case of early 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 renewals 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 terms of the concluded contract;
- the possibility of termination by the owner within 1 year in accordance with the 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.

Payable in - EUR thousand	2018	2017
• up to 1 year	10,001	11,105
• from 1 to including 5 years	29,803	33,904
• more than 5 years	18,710	28,696

For the reporting period, total costs of operating leases recognised in the income statement amounted to EUR 12,351 thousand [2017: EUR 12,263 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.

Payable in - EUR thousand	2018	2017
• up to 1 year	10,385	9,351
• from 1 to including 5 years	32,514	31,118
• more than 5 years	30,739	28,267

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 10,248 thousand [2017: EUR 9,240 thousand].

AMOUNTS CLAIMED IN LITIGATION

EUR thousand	2018	2017
Amounts claimed in litigation	83,882	268,396

At the reporting date, the Group recorded 80 [2017: 75] pending legal actions brought against it, whereof the largest refers to SKY NET in the amount of EUR 33,047 thousand.

The relevant cases are at various stages as follows:

- in the commercial dispute brought against Telekom Slovenije by SKY NET, the competent court will decide in a retrial also on the subordinate claim, i.e. fulfilment of contract. 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, which Telekom believes not to have been invoked correctly, and as a result, it refused to pay the requested amount. The ensuing dispute is already being resolved in arbitration proceedings before the International Court of Arbitration in Geneva, where the customers exchanged writs in 2018.

Based on the obtained legal opinions and the estimate of the management, the Company formed provisions for legal actions in the amount of EUR 4,674 thousand [Note 31, Provisions]. As at the reporting date, contingent liabilities amount to EUR 25,637 thousand [2017: EUR 105,278 thousand].

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	2018	2017
Performance bonds and guarantees for repairs	6,247	7,400
Other securities	545	1,263
Total guarantees issued	6,792	8,663

SUPPORTING LETTER GIVEN TO THE SUBSIDIARIES

The parent 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.



42. RELATED PARTY TRANSACTIONS

Related entities are individuals or companies that are related to the Telekom Slovenije Group.

TRANSACTIONS WITH INDIVIDUALS

Related individuals [the chairman and members of the Management Board, and members of the Supervisory Board] hold a total of 553 shares in the Company, representing an equity holding of 0.00846%.

No loans were extended to related individuals in 2018.

Data on groups of persons in 2018

EUR thousand	Total gross receipts	Receipts as profit pay-outs based on the resolution of the Shareholders' Meeting	Loans	
			Unpaid portion at 31 Dec 2018	Repayments in 2018
Members of the Management Board	919	-	-	-
Members of the Supervisory Board	258	-	-	-
Members of the Supervisory Board commissions	21	-	-	-
Other managerial staff employed under contracts that are not subject to the tariff part of the collective agreement	5,711	-	21	7

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
Members of the Management Board	824	-	-	-
Members of the Supervisory Board	263	-	-	-
Members of the Supervisory Board commissions	20	-	-	-
Other managerial staff employed under contracts that are not subject to the tariff part of the collective agreement	6,437	-	28	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 2018 - breakdown

in EUR	Salary	Variable pay*	Other personal earnings	Reimbursement of costs	Holiday allowance	Insurance premiums	Benefits	PDPZ	Total gross**	Total net***
Rudolf Skobe (1 Jan - 31 Dec)	149,874	19,907		1,804	1,161	663	16,626	2,819	192,854	74,885
Tomaž Seljak (1 Jan - 31 Dec)	149,874	19,907		1,705	1,161	663	10,827	2,819	186,956	78,377
Ranko Jelača (1 Jan - 31 Dec)	149,874	16,337		1,662	1,161	792	7,196	2,819	179,841	82,433
Aleš Aberšek (1 Jan - 31 Aug)	99,575	34,599	62,876	967	774	5,223	4,523	1,879	210,416	84,898
Dean Žigon (24 Apr - 31 Dec)	72,517			882		473	4,882	1,936	80,690	35,684
Vesna Lednik (1 Jan - 22 Apr)	31,980	32,774	689	367	290	162	1,221	940	68,423	34,702
Total	653,694	123,524	63,565	7,387	4,547	7,976	45,275	13,212	919,180	390,979

* Variable pay refers to the performance bonus for 2015, 2016 and 2017.

** 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 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
Total	682,546	64,776	8,524	5,790	15,370	33,172	14,095	824,273	355,508

* 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.

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:

EUR thousand	Total amount of all liabilities 2018	Total amount of all liabilities 2017
Total Management Board members	216	227
Other managerial staff employed under contracts that are not subject to the tariff part of the collective agreement	528	518

Remuneration of the Supervisory Board members in 2018 (breakdown)

in EUR	Attendance fees	Monthly pay	Commissions	Travel expenses	Liability insurance	Total gross*	Total net**
External members							
Lidija Glavina (1 Jan - 31 Dec)	4,620	28,000	2,068		233	34,921	25,170
Barbara Gorjup (1 Jan - 31 Dec)	3,575	21,000	3,425		233	28,233	20,306
Barbara Kürner Čad (1 Jan - 31 Dec)	4,345	21,000	2,068		233	27,646	19,879
Bernarda Babič (1 Jan - 31 Dec)	3,850	20,650	3,150		233	27,883	20,051
Dimitrij Marjanović (1 Jan - 31 Dec)	3,575	21,000	3,425		233	28,233	20,306
Ljubomir Rajšić (1 Jan - 31 Dec)	4,070	21,000	1,100	8,054	233	34,457	20,854
Internal members							
Primož Per (1 Jan - 18 Sep)	2,805	12,927	836		233	16,801	11,992
Samo Podgornik (1 Jan - 18 Sep)	2,530	15,622	2,112		233	20,497	14,680
Dean Žigon (1 Jan - 22 Jan)	220	1,325	396			1,941	1,411
Urban Škrjanc (14 Feb - 18 Sep)	1,815	10,250	220		233	12,518	8,877
Drago Kijevčanin (19 Sep - 31 Dec)	1,815	6,141	1,892			9,848	7,162
Dušan Pišek (19 Sep - 31 Dec)	1,815	4,958	660			7,433	5,406
Jana Žižek Kuhar (19 Sep - 31 Dec)	1,815	4,958	440			7,213	5,246
Total	36,850	188,831	21,792	8,054	2,097	257,624	181,340

* 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 supervisory board members' net earnings, inclusive of liability insurance, which actually reduce net earnings, together with travel expenses.

Remuneration of the Supervisory Board members in 2017 (breakdown)

in EUR	Attendance fees	Monthly pay	Commissions	Travel expenses	Liability insurance	Total gross*	Total net**
External members							
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 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
Internal members							
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
Total	34,228	192,121	23,177	10,896	2,610	263,032	185,806

* 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 supervisory board members' net earnings, inclusive of liability insurance, which actually reduce net earnings, together with travel expenses.

Members of the Supervisory Board were trained in various areas of supervisory board activities. The total cost of education was 2,202.50 euros. Members of the Supervisory Board received no other payments.

Remuneration of members of the Supervisory Board commissions in 2018 (breakdown)

in EUR	Attendance fees	Monthly pay	Commissions	Travel expenses	Liability insurance	Total gross*	Total net**
External commission members							
Barbara Nose [1 Jan - 31 Dec]	0	10,500	2,728	0	0	13,228	9,621
Slavko Ovčina [1 Jan - 31 Dec]	0	7,000	1,100	50	0	8,150	5,927
Total	0	17,500	3,828	50	0	21,378	15,548

* 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 2017 (breakdown)

in EUR	Attendance fees	Monthly pay	Commissions	Travel expenses	Liability insurance	Total gross*	Total net**
External commission members							
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
Total	0	14,466	5,324	0	0	19,790	14,395

* Skupaj bruto predstavlja vsoto osnovnega plačila za opravljanje funkcije in plačilo komisij.

** Skupaj neto predstavlja neto prejemek članov komisije nadzornega sveta.

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 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	2018	2017
Outstanding operating receivables	4,980	3,875
Short-term accrued revenue	0	20,558
Outstanding operating liabilities	2,660	1,561

The short-term accrued revenue in 2017 arose from the e-tolls project.

Revenue and expenses

EUR thousand	2018	2017
Operating revenue	22,532	32,369
Purchase costs of material and services	11,763	10,382

All related party transactions are carried out under market prices.

43. AUDITOR'S FEE

EUR thousand	2018	2017
Audit services	144	116
Other assurance engagements	29	8
Other non-audit services	3	0
Total auditor's fees	176	124

44. CATEGORIES OF FINANCIAL INSTRUMENTS

The Group classified financial instruments into groups as shown in the table below.

EUR thousand	2018	2017
Financial assets		
Cash and cash equivalents	10,684	29,245
Bank deposits	0	77,283
Financial assets measured at fair value through profit or loss	2	227
Other short-term investments	2	227
Investments in loans and receivables	192,925	160,707
Loans given	331	889
Operating and other receivables	192,594	159,818
Financial assets measured at fair value through other comprehensive income	4,867	0
Available-for-sale financial assets	0	4,649
Investments in shares and interests of companies	0	4,520
Investments in associates and the joint venture	0	129
Financial liabilities		
Financial derivatives	763	3,642
Derivative financial instrument	0	3,059
Liabilities for interest rate swap	763	583
Held to maturity	508,807	520,566
Operating liabilities	146,391	135,211
Borrowings	261,238	284,142
Liabilities under bonds issued	100,993	100,951
Liabilities for dividends	185	262

The Company did not reclassify these instruments to other groups during the year.

45. 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 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	2018	2017
Loans given	331	889
Investments	2	77,518
Operating and other receivables	192,594	159,818
• of which trade receivables	147,408	151,839
Cash and cash equivalents	10,684	29,245
TOTAL	203,611	267,470

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 2018, these amounted to EUR 147,408 thousand and indicate a decrease of EUR 4,431 thousand vs. 2017. 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 a pre-defined time schedule (reminders and disconnection) and via specialised outsourced collectors. At Telekom Slovenije, entering or changing a subscription, purchasing goods and deferring payment requires 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 credit 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 employees and investments in short-term deposits. The lending risk is low, as these loan repayments are for the most part settled through payroll, whereas risk in other investments is managed by applying proper portfolio diversification principles and tracking the individual banks' credit rating.

Ageing analysis of receivables as at the reporting date

EUR thousand	2018			2017		
	Gross value	Allowances	Net value	Gross value	Allowances	Net value
Total trade receivables	168,576	-21,168	147,408	188,240	-36,401	151,839
Not past due trade receivables	127,065	0	127,065	126,075	0	126,075
Overdue						
Up to and including 30 days	13,978	-6	13,972	14,076	-4	14,072
31 to and including 60 days	3,095	-7	3,088	4,689	-11	4,678
61 to and including 90 days	1,522	-16	1,506	1,766	-13	1,753
91 to and including 120 days	878	-489	389	1,212	-480	732
121 days and more	22,038	-20,650	1,388	40,422	-35,893	4,529
Total overdue trade receivables	41,511	-21,168	20,343	62,165	-36,401	25,764
Other operating receivables	45,194	-8	45,186	7,987	-8	7,979
Total receivables	213,770	-21,176	192,594	196,227	-36,409	159,818

Maturity profile of loans given

EUR thousand	2018	2017
Overdue	9	137
Due in:	322	752
• less than 3 months	21	82
• 3 to 12 months	59	238
• 1 to 2 years	70	189
• 2 to 5 years	126	171
• more than 5 years	46	72
Total	331	889

Ageing analysis of loans given as at 31 December 2018

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	322	9	0	0	0	0	331

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

The management of the Company has assessed that the above financial assets not impaired or past due as at 31 December 2018 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 December 2018, the parent company Telekom Slovenije d.d. signed an annex to the existing long-term syndicated loan agreement, which was signed with the syndicate of banks in 2016. The Annex extended the agreed maturity of one of the tranches of the existing long-term loan, in the amount of EUR 100 million by two years, while at the same time providing a new loan in the amount of EUR 100 million with a 7-year maturity, which was not yet fully drawn-down as of the end of 2018. By signing the Annex, the Group thus ensured the continued stability of its financing structure.

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 the outstanding principal of EUR 234.2 million and the issue of bonds of EUR 100 million. The Group is regularly repaying its financing obligations; EUR 115.4 million of long-term loan obligations were repaid in 2018.

Even in 2017, long-term credit lines in the amount of EUR 70 million were obtained to provide stand-by liquidity, which ensure, together with short-term revolving lines, a high level of liquidity for the Group. Short-term credit lines are regularly renewed. The total liquidity reserve in the form of granted, but unutilised long-term and short-term revolving credit lines amounted to EUR 142 million at the end of 2018 (EUR 170 million at 31 December 2017). The Group also has at its disposal the unutilised part of the new long-term loan in the amount of EUR 35 million.

Maturity profile of liabilities of the Telekom Slovenije Group as at 31 December 2018 and 31 December 2017 based on contractual, undiscounted payments

Not yet due								
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
2018								
Loans and borrowings	0	0	0	51,158	30,769	180,416	0	262,343
Anticipated interest on loans	0	0	31	3,605	3,199	6,723	0	13,558
Other financial liabilities	185	0	0	1,119	8	100,811	0	102,123
Anticipated interest on bonds	0	0	0	1,950	3,900	0	0	5,850
Trade payables and other operating liabilities	7,400	2,480	100,920	35,591	3,684	9,228	799	160,102
Total	7,585	2,480	100,951	93,423	41,560	297,178	799	543,976
2017								
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
Total	10,960	3,841	203,269	42,405	36,362	254,565	8,039	559,441

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 2018, the Group's interest rate exposure arises from the possible increase in the Euribor reference interest rate, as the Group records only interest-sensitive liabilities, without interest rate-sensitive 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 68.8% as at 31 December 2018. The remaining liabilities arise from utilised short-term revolving loans, bonds issued, and finance leasing with a fixed interest rate.



In order to hedge against interest exposure arising from the long-term syndicated loan, the Group has an interest rate swap in place. The amount of hedged principal as at 31 December 2018 was EUR 84.6 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 54.5% of interest-bearing financial debt.

Exposure to interest rate risk

EUR thousand	2018	2017
Financial instruments with variable interest rate		
Financial receivables	0	344
Financial liabilities	164,762	192,540
Net financial liabilities	164,762	192,196

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
2018		
EURO	+100 bps	-1,050
EURO	-100 bps	-845
Interest rate increase/decrease		Effect on profit before tax in EUR thousand
2017		
EURO	+100 bps	-1,150
EURO	-100 bps	-926

EURIBOR interest rate values

EURIBOR	Value at 31 Dec 2018	Value at 31 Dec 2017	Change as %
3-month	-0.309	-0.329	6.08
6-month	-0.237	-0.271	12.55

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	2018	2017
Borrowings and other financial liabilities	363,259	388,997
Less short-term investments and cash with short-term deposits	-10,775	-107,212
Net liabilities	352,484	281,785
Equity	619,628	680,865
Total assets	1,232,719	1,351,994
Debt/equity ratio	56.9%	41.4%
Equity/total assets ratio	50.3%	50.4%

46. 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 notification.

The Group is obliged to pay an annual compensation in the amount of EUR 521 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.

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 2018 equalled EUR 3,376 thousand [2017: EUR 3,448 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. 11. 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	26.05.2014	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	26.05.2014	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. 3. 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 1800 Mhz] in the territory of Kosovo	6. 12. 2015	to 30 July 2019	Initial amount of the compensation at EUR 5,926 thousand

47. EVENTS AFTER THE REPORTING DATE

FEBRUARY

- The credit rating agency S&P Global Ratings confirmed Telekom Slovenije's existing credit rating of BB+ and assessed the future outlook as negative. The Agency claims the negative outlook is due to the increase in planned investment expenditure, combined with the company's performance in a highly competitive market.
- Telekom Slovenije received the order of the Ljubljana District Court of 4 December 2018 concerning the commercial dispute between the plaintiff Telekom Slovenije d.d. and the defendants Bojan Dremelj, Dušan Mitič, Filip Ogris Martič, Željko Puljić and Darja Senica, for payment of EUR 7,635,500.00 plus charges, accrued interest and other fees. The Ljubljana District Court ruled that the action claim is denied in its entirety, mandating Telekom Slovenije d.d. to pay the cost of litigation incurred by the defendants and intervenients. Telekom Slovenije is currently in the process of reviewing the ruling and will communicate further developments to the shareholders and general public as new developments occur.

3.2.3 INDEPENDENT AUDITOR'S REPORT FOR THE TELEKOM SLOVENIJE GROUP

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INDEPENDENT AUDITOR'S REPORT to the owners of Telekom Slovenije d.d.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of the Telekom Slovenije d.d. and its subsidiaries (hereinafter 'the Group'), which comprise the balance sheet as at 31 December 2018, 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 financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (hereinafter 'IFRS').

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and Regulation (EU) 537/2014 of the European Parliament and of the Council, dated 16 April 2014, on specific requirements regarding statutory audit of public-interest entities. Our responsibilities under those rules 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 consolidated 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 consolidated financial statements of the year ended 31 December 2018. 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
Provisions for Lawsuits	
Telekom Slovenije Group is involved in legal and regulatory proceedings regarding its operations and had claims amounting to EUR 83,882 thousand as at 31 December 2018. The Group has a balance of EUR 4,674 thousand of provisions for lawsuits recorded.	Our audit procedures focused on the evaluation of judgments used to record provisions. Among others, our audit procedures included: We have evaluated and tested the design and implementation of key internal controls

Ime Deloitte se nanaša na Deloitte Touche Tohmatsu Limited, pravno osebo, ustanovljeno v skladu z zakonodajo Združenega kraljestva Velike Britanije in Severne Irske (v nadaljevanju "UK private company limited by guarantee"), in mrežo njenih firm, od katerih je vsaka ločena in samostojna uradna oseba. Podroben opis pravne organizacije združenja Deloitte Touche Tohmatsu Limited in njenih družb članic je na voljo na <http://www.deloitte.com/si>.

V Sloveniji storitve zagotavlja Deloitte revizijska d.o.o. in Deloitte svetovanje d.o.o. (pod skupnim imenom Deloitte Slovenija), ki sta članici Deloitte Central Europe Holdings Limited. Deloitte Slovenija sodi in deluje kot delnice za slovenske storitve v Sloveniji, ki nudijo storitve mrežne, davčnega, poslovnega, finančnega in pravnega svetovanja ter svetovanja na področju svetovanja, ki jih zagotavlja vsi kot "On demand" in tuji strokovnjaki.

Deloitte revizijska d.o.o. - Družba vpisana pri Okrožnem sodišču v Ljubljani - Matična številka: 1547105 - ID št. za DDV: SI62560085 - Osnovni kapital: 74.214,300 EUR.

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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.	regarding the recognition of provisions for lawsuits. • We have obtained and reviewed the Supervisory Board, the Audit Committee and the Management Board minutes, and correspondence with the regulators. • 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. • We have reviewed the appropriateness of estimates and assumptions used by the Group regarding the recognition of provisions for lawsuits. We have also evaluated whether the disclosures regarding provisions for lawsuits were appropriate. Accounting for provisions for lawsuits is disclosed in Notes 31 and 41.

Other information

Management is responsible for the other information. The other information comprises the information, included in Annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we express no assurance thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, assess 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. If based on our work performed we conclude that other information include material misstatement we need to report such circumstances.

In relation to this and based on our procedures performed, we report that:

- other information are, in all material respects, consistent with the consolidated financial statements;
- other information are prepared in compliance with applicable law or regulation; and
- based on our knowledge and understanding of the Group and its environment obtained in the audit, we did not identify any material misstatement of fact related to the other information.

Responsibilities of Management, 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 of the Group, management is responsible for assessing its ability to continue as a going concern, disclosing 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

Supervisory Board and the Audit Committee are responsible for overseeing the Group's consolidated financial reporting process and for approving audited annual report.

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 auditing rules 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 auditing rules, 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 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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 organization 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 information of the entities or business activities within the Group 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 Supervisory Board and the Audit Committee we communicate the planned scope and timing of the audit and significant findings from the audit, including deficiencies in internal control we have identified during our audit.

We also provide 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.

From the matters communicated Supervisory Board and the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period, and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Report on Other Legal and Regulatory Requirements

Appointment of the Auditor and the Period of Engagement

Deloitte revizija d.o.o. was appointed as the statutory auditor of the Company on General Shareholders' Meeting held on 21 April 2017 for the financial years 2017, 2018 and 2019. Our total uninterrupted engagement has lasted for 2 years.

Confirmation to the Audit Committee

We confirm that our audit opinion on the consolidated financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 20 March 2019 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services

We declare that no prohibited non-audit services referred to in the Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided. 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.

Engagement partner responsible for the audit on behalf of Deloitte revizija d.o.o. is Barbara Žibret Kralj, certified auditor.

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, March 20 2019

TRANSLATION ONLY, SLOVENE 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 2018

Separate Income Statement of Telekom Slovenije, d. d.
for the period ended 31 December 2018

EUR thousand	Note	2018	2017
Net sales revenue	5	639,672	645,190
Other operating income	6	13,598	8,034
Cost of goods sold		-95,933	-75,110
Costs of materials and energy costs		-10,909	-10,195
Costs of services	7	-276,808	-301,963
Labour costs	8	-91,847	-98,514
Depreciation	13, 14, 19	-132,813	-134,814
Other operating expenses	9	-29,657	-29,113
Total operating expenses		-637,967	-649,709
Operating profits		15,303	3,515
Finance income	10	27,915	9,335
Finance expenses	10	-9,280	-19,281
Profit before tax		33,938	-6,431
Income tax expense	11	0	0
Deferred taxes	11	89	8,151
Profit for the period		34,027	1,720
Earnings per share - basic and diluted in EUR	12	5.23	0.26

Notes on pages from [267](#) to [338](#) are a constituent part of these financial statements



Statement of Other Comprehensive Income of Telekom Slovenije, d.d.
for the period ended 31 December 2018

EUR thousand	Note	2018	2017
Profit for the period		34,027	1,720
<i>Other comprehensive income that may be reclassified subsequently to profit or loss</i>			
Change in fair value of hedging instruments		-180	-583
Deferred tax on change in fair value of hedging instruments		34	111
Change in fair value of hedging financial instruments (net)		-146	-472
<i>Other comprehensive income that may not be reclassified subsequently to profit or loss</i>			
Change in the fair value for actuarial deficits and surpluses		166	-711
Change in fair value of investments measured at fair value through other comprehensive income.	24	72	342
Deferred tax	11	-14	-65
Change in fair value of investments measured at fair value through other comprehensive income		58	277
Other comprehensive income for the period after tax		78	-906
Total comprehensive income for the period		34,105	814

Notes on pages from 267 to 338 are a constituent part of these financial statements Slovenije.

Separate Balance Sheet of Telekom Slovenije, d. d. as at 31 December 2018

EUR thousand	Note	2018	2017
ASSETS			
Intangible assets	13	155,371	174,413
Property, plant and equipment	14	576,896	582,178
Investments in subsidiaries	15	36,548	36,079
Investment in a joint venture	15	0	63
Other investments	16	99,032	85,407
Non-current contract assets	17	4,029	0
Other non-current assets	18	34,840	33,097
Investment property	19	4,039	4,006
Deferred tax assets	11	44,701	44,136
Total non-current assets		955,456	959,379
Assets held for sale	20	526	754
Inventories	21	22,546	18,106
Operating and other receivables	22	185,222	151,302
Current contract assets	23	12,099	0
Short-term deferred costs and accrued revenue	24	34,486	68,929
Current investments	16	11,180	121,731
Cash and cash equivalents	25	2,011	17,358
Total current assets		268,070	378,180
Total assets		1,223,526	1,337,559
EQUITY AND LIABILITIES			
Called-up capital	26	272,721	272,721
Capital surplus	26	180,956	180,956
Revenue reserves	26	121,991	104,978
<i>Legal reserves</i>	26	50,434	50,434
<i>Treasury share reserve</i>	26	3,671	3,671
<i>Treasury shares and interests</i>	26	-3,671	-3,671
<i>Statutory reserve</i>	26	54,544	54,544
<i>Other revenue reserves</i>	26	17,013	0
Retained earnings or losses	26	60,506	137,756
<i>Retained earnings from previous periods</i>	26	43,493	136,036
<i>Profit for the period</i>	26	17,013	1,720
Fair value reserve		395	483
Reserves for actuarial deficits and surpluses		-2,373	-2,539
Total equity and reserves		634,196	694,355
Long-term contractual obligations	27	13,405	0
Long-term deferred revenue	28	2,054	12,547
Provisions	29	18,431	53,229
Non-current operating liabilities	30	12,910	16,358
Interest-bearing borrowings	31	210,310	168,796
Other non-current financial liabilities	32	100,703	100,481
Deferred tax liabilities	11	238	224
Total non-current liabilities		358,051	351,635
Operating and other liabilities	33	132,537	121,195
Current borrowings and loans	31	51,335	115,189
Other current financial liabilities	34	1,238	4,296
Current contractual liabilities	35	1,621	0
Short-term deferred revenue	36	3,653	4,307
Accrued costs and expenses	37	40,895	46,582
Total current liabilities		231,279	291,569
Total liabilities		589,330	643,204
Total equity and liabilities		1,223,526	1,337,559

Notes on pages from 267 to 338 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 2018*

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 reserves	Retained earnings from previous periods	Profit for the period				
Balance at 31 Dec 2017	272,721	180,956	50,434	3,671	-3,671	54,544	0	133,566	1,720	955	-472	-2,539	691,885
Impact of the transition to IFRS 15								1,235					1,235
Balance at 1 Jan 2018	272,721	180,956	50,434	3,671	-3,671	54,544	0	134,801	1,720	955	-472	-2,539	693,120
Profit for the period									34,027				34,027
Other comprehensive profit or loss for the period										58	-146	166	78
Total comprehensive income for the period	0	0	0	0	0	0	0	0	34,027	58	-146	166	34,105
Dividends paid								-93,028					-93,028
Transactions with owners	0	0	0	0	0	0	0	-93,028	0	0	0	0	-93,028
Transfer of profit or loss from previous period to retained earnings or losses								1,720	-1,720				0
Transfer to reserves, pursuant to Management's decision							17,013		-17,013				0
Other									-1				-1
Balance at 31 Dec 2018	272,721	180,956	50,434	3,671	-3,671	54,544	17,013	43,493	17,013	1,013	-618	-2,373	634,196

* More details in note 26.



Separate Statement of Changes in Equity of Telekom Slovenije, d. d. for the period ended 31 December 2017

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 reserves	Retained earnings from previous periods	Profit for the period				
Balance at 1 Jan 2017	272,721	180,956	50,434	3,671	-3,671	54,544	132,294	16,026	20,230	678	0	-1,828	726,055
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 Dec 2017	272,721	180,956	50,434	3,671	-3,671	54,544	0	136,036	1,720	955	-472	-2,539	694,355

Notes on pages from 267 to 338 are a constituent part of these financial statements.



Separate Statement of Cash Flows of Telekom Slovenije, d. d. for the period ended 31 December 2018

EUR thousand	Note	2018	2017
Cash flows from operating activities			
Net profit		34,027	1,720
Adjustments for:			
Depreciation and amortisation expense	13, 14, 19	132,813	134,814
Impairment and write-offs of property, plant and equipment, intangible assets, and investment property		1	518
Gain or loss on disposal of property, plant and equipment		-137	8
Finance income	10	-27,915	-9,335
Finance expenses	10	9,280	19,281
Tax on profit with deferred taxes		-89	-8,151
Cash flows from operating activities prior to changes in net operating current assets and provisions		147,980	138,855
Change in assets held for sale	17	0	0
Change in trade and other receivables	22	1,780	-6,104
Change in short-term deferred costs and accrued revenue and contract assets	23, 24	22,222	-21,562
Change in other non-current assets	17	-4,210	349
Change in inventories	21	-3,222	2,539
Change in provisions	29	-34,798	17,237
Change in deferred revenue and contractual liabilities	27, 35, 36	3,643	2,375
Change in accrued costs and expenses		-5,916	8,185
Change in operating and other liabilities	35	7,891	452
Income tax paid		0	115
Net cash from operating activities		135,370	142,441
Cash flows from investing activities			
Receipts from investing activities		113,323	146,441
Proceeds from sale of property, plant and equipment		1,243	1,853
Dividends received		170	253
Interest received		3,421	4,382
Disposal of non-current investments		31,630	10,331
Disposal of current investments		76,859	129,622
Disbursements from investing activities		-142,700	-243,246
Acquisition of property, plant and equipment		-74,649	-80,185
Acquisition of intangible non-current assets		-36,056	-61,197
Acquisition of investments		-284	-81,866
Investments in subsidiaries and associated companies		-17,980	-3,789
Investments in the form of loans provided		-13,731	-16,209
Net cash used in investing activities		-29,377	-96,805
Cash flows from financing activities			
Receipts from financing activities		93,500	0
Non-current borrowings		65,000	0
Current borrowings		28,500	0
Disbursements from financing activities		-214,840	-62,726
Costs of loan approval and issue of bonds		0	-5
Repayment of current borrowings		0	-2,000
Repayment of non-current borrowings		-115,385	-20,771
Interest paid		-6,427	-7,399
Dividends paid		-93,028	-32,551
Cash flow used in financing activities		-121,340	-62,726
Net increase/decrease in cash and cash equivalents		-15,347	-17,090
Opening balance of cash	25	17,358	34,448
Closing balance of cash	25	2,011	17,358

Notes on pages from 267 to 338 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 with its registered office at Cigaletova 15, Ljubljana, Slovenia, is a public limited company. Its shares are listed on the Ljubljana Stock Exchange. As at 31 December 2018, 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 18. 03. 2019.

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 associated companies	purchase cost
Other investments	
• of which investments in capital instruments	at fair value through other comprehensive income
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
Operating 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 liabilities	Method of measurement
Long-term contractual obligations	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
Non-current 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

Current 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.w;
- assessment whether contingent liabilities or provisions are considered in the claims – Note 3.q and 39.

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 and 3.c and Notes 13 and 14;
- allowances for doubtful receivables – Note 3.l and 22;
- impairment of loans extended to Group companies – Note 3.e, 15 and 16;
- deferred taxes – Note 3.y and 11;
- estimate of the amount of provisions – Note 3.q and 29.

e. ADOPTION OF NEW AND AMENDED ACCOUNTING STANDARDS

As of 1 January 2018, Telekom Slovenije began applying the new standards and duly implemented amendments to other standards, as follows:

- **IFRS 9 - Financial Instruments** - specifies how an entity should classify and measure financial instruments, and supersedes IAS 39. The new standard sets out new rules on recognizing financial assets, based on fundamental business models and cash flow characteristics, and introduces a new model for recognizing expected losses at initial recognition of a financial instrument. The new standard's impact on the company's accounting statements is described below.
- **IFRS 15 - Revenue from Contracts with Customers** - the Standard provides a framework that replaces existing revenue recognition guidance in IFRS. The Standard introduces a five-step model to determine when to recognize revenue, and at what amount. This standard replaces IAS 18 - Revenue and IAS 11 - Construction contracts. During the standard's first application, the changes must be fully asserted 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 apply the changes in the opening balance of equity during the standard's first use. The impacts of the transition to the new Standard are disclosed below.
- **Amendments and clarifications to IFRS 15 - Revenue from Contracts with Customers** - mandatory implementation of the IFRS 15 and effective for annual periods beginning on or after 1 January 2018.
- **Amendments to IAS 40** - transfer to and from investment property. The Standard has no significant impact on the financial statements of Telekom Slovenije.
- **Amendments to IFRS 2 - Share-based Payment** - classification and measurement of share-based payment transactions. The Standard has no significant impact on the financial statements of Telekom Slovenije.
- **IFRIC 22 - Foreign Currency Transactions and Advance Consideration** - 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. The Standard has no significant impact on the financial statements of Telekom Slovenije.

IFRS 9 - Financial Instruments

The Standard introduces new criteria for how an entity should classify financial instruments, specifically based on the entity's business model and the instrument's characteristics, and under impairments it introduces an expected losses model.

Telekom Slovenije's retained earnings disclosed in its accounting statements were unaffected by the introduction of the new IFRS 9 Financial Instruments.

EUR thousand	note	Classification under IAS 39	Classification under IFRS 9	Value according to IAS 39	Value according to IFRS 9
Investments in quoted shares	a)	financial assets available for sale.	FV through comprehensive income - investments in capital instruments	1,796	1,796
Investments in other shares and interests	b)	financial assets available for sale.	FV through comprehensive income - investments in capital instruments	2,714	2,714
Loans given	c)	loans and receivables	amortized cost	125,345	125,345
Trade receivables	d)	loans and receivables	amortized cost	151,302	151,302
Cash and cash equivalents and deposits		loans and receivables	purchase cost	94,641	94,641
Total value				375,798	375,798

*FV = Fair value

- a) The Company stated investments in capital instruments listed on the stock exchange and classified under the category of available-for-sale financial assets, measured at fair value through other comprehensive income. The company will continue to value these assets in this manner in the future as well, as it has classified them into the category at fair value through comprehensive income, in accordance with IFRS 9.
- b) Investments in equity instruments, which according to IAS 39 were classified in the group of assets available for sale and stated at cost, were irrevocably classified into the category of financial assets managed at fair value through other comprehensive income upon initial recognition. Dividends are recognized in the income statement.
- c) 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.
- d) Trade receivables and assets from contracts with customers will be classified at amortised cost. For receivables, 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.

The new 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. 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.

IFRS 15 – Revenue from contracts with customers

The Telekom Slovenije has adopted 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 or
- at a point in time.

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. Each promised good or service is a separate performance obligation if it is distinct. It is distinct when the customer can benefit from goods 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, and has identified the following performance obligations:

- service and
- goods.

In the case of contracts with customers with a length of 12 or 24 months that include several performance obligations (e.g. partially subsidized mobile phone or other communication device, bundled with the service), the company allocates the price of the whole transaction to individual performance obligations on the basis of relative stand-alone selling prices of the device and service. Under the new rules, the revenue from device sales are recognized earlier, while overall revenue remains unchanged for the duration of the contractual term.

In transitioning to the new Standard IFRS 15 – Revenue from contracts with customers, Telekom Slovenije used the cumulative effect method. In accordance with this method, the cumulative effect due to the transition to this new standard was recognized as an adjustment of the initial balance of retained earnings on 1 Jan 2018. The company therefore did not recalculate comparable figures for the year 2017, which are presented in accordance with IAS 18, and the effects of the changes are disclosed separately.

For the purposes of these financial statements of Telekom Slovenije, the period ended 31 December 2018 is disclosed in accordance with the applicable IFRS 15 – Revenue from contracts with customers, whereas the figures for the comparative period ended 31 December 2017 are disclosed in accordance with IAS 18 – Revenue.

The effects of the transition to IFRS 15 – Revenue from contracts with customers on retained earnings as a result of applying the new standard on 1 Jan 2018 are presented in the table below.

EUR thousand	Note	1 Jan 2017 Adjustments TS
Costs of increasing the customer base	a]	84
Mobile and fixed telephony-related services and goods	b]	15,624
Reversal of sales incentives and other discounts	c]	-17,233
Deferred tax assets		290
Effect on retained earnings		-1,235

- a) In accordance with IFRS 15, the company began consistently capitalizing sales commissions, which were recognized as costs of services prior to the change in accounting policies.
- b) the Company mainly sells telecommunications goods and services in the fixed and mobile telephony market segment. Contracts with customers include the subscription fee and mobile or fixed telephony goods. If buyers sign a long-term (usually a 12 or 24 month) contract, they receive a discount on the goods or subscription fees. In this case, the new standard requires that the price of the entire transaction is broken down to individual performance obligations based on relative standalone sales prices of goods or services. Revenues from subscription fees are recognized over the contract period, whereas the revenues from goods are recognized at the time of delivery to the customer. Revenues from installation services are recognized as service revenues at the time the service was rendered.
- c) Due to the transition to the new standard, the company eliminated long-term and short-term deferred costs and accrued revenues attributable to sales incentives and other discounts, which it previously delineated over the customer's commitment period.

Shown below are Telekom Slovenije's Income Statement and Balance Sheet for the financial year 2018, taking into account the currently applicable IFRS 15 and previously applicable IAS 18:

Income Statement of Telekom Slovenije

EUR thousand	2018 IFRS 15	2018 Adjustments	2018 IAS 18
Net sales revenue	639,672	-864	638,808
Other operating income	13,598	-12	13,586
Cost of goods sold	-95,933	16,453	-79,480
Costs of materials and energy costs	-10,909		-10,909
Costs of services	-276,808	-16,364	-293,172
Labour costs	-91,847		-91,847
Depreciation	-132,813		-132,813
Other operating expenses	-29,657	1,176	-28,481
Total operating expenses	-637,967	1,265	-636,702
Operating profits	15,303	389	15,692
Finance income	27,915		27,915
Finance expenses	-9,280		-9,280
Profit before tax	33,938	389	34,327
Income tax expense	0	0	0
Deferred taxes	89	-74	15
Profit for the period	34,027	315	34,342
Earnings per share - basic and diluted in EUR	5.23	0.05	5.28

Statement of comprehensive income of Telekom Slovenije d.d.

EUR thousand	2018 IFRS 15	2018 Adjustments	2018 IAS 18
Profit for the period	34,027	315	34,342
<i>Other comprehensive income that may be reclassified subsequently to profit or loss</i>			
Change in fair value of hedging instruments	-180		-180
Deferred tax on change in fair value of hedging instruments	34		34
Change in fair value of hedging financial instruments (net)	-146		-146
<i>Other comprehensive income that may not be reclassified subsequently to profit or loss</i>			
Change in the fair value for actuarial deficits and surpluses	166		166
Change in fair value of investments measured at fair value through other comprehensive income.	72		72
Deferred tax	-14		-14
Change in fair value of investments measured at fair value through other comprehensive income	58		58
Other comprehensive income for the period after tax	78	0	78
Total comprehensive income for the period	34,105	315	34,420



Balance sheet

EUR thousand	2018 IFRS 15	2018 Adjustments	2018 IAS 18
ASSETS			
Other fixed assets	871,886	0	871,886
Non-current contract assets	4,029	-4,029	0
Other non-current assets	34,840	3,227	38,067
Deferred tax assets	44,701	-364	44,337
Total non-current assets	955,456	-1,166	954,290
Other current assets	221,485	0	221,485
Current contract assets	12,099	-12,099	0
Short-term deferred costs and accrued revenue	34,486	14,682	49,168
Total current assets	268,070	2,583	270,653
Total assets	1,223,526	1,417	1,224,943
EQUITY AND LIABILITIES			
Called-up capital	272,721	0	272,721
Capital surplus	180,956	0	180,956
Revenue reserves	121,991	0	121,991
Retained earnings or losses	60,506	1,550	62,056
<i>Retained earnings from previous periods</i>	43,493	1,235	44,728
<i>Profit for the period</i>	17,013	315	17,328
Fair value reserve	395	0	395
Reserves for actuarial deficits and surpluses	-2,373	0	-2,373
Equity, total	634,196	1,550	635,746
Long-term contractual obligations	13,405	-13,405	0
Long-term deferred revenue	2,054	13,272	15,326
Other non-current liabilities	342,592	0	342,592
Total non-current liabilities	358,051	-133	357,918
Current contractual liabilities	1,621	-1,621	0
Short-term deferred revenue	3,653	1,621	5,274
Other current liabilities	226,005	0	226,005
Total current liabilities	231,279	0	231,279
Total liabilities	589,330	-133	589,197
Total equity and liabilities	1,223,526	1,417	1,224,943

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, 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 remeasurement of capital instruments present in fair value in other comprehensive income, 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	3–5
• 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 44].

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 asset's recoverable amount is measured. 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 requires appraisal. 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 10%.

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 2018, the Company reduced the useful life of base station surveillance systems and of television sets. The change has no significant impact on the financial statements of the Company.

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.

As the Company recognizes a financial asset for the first time, the classification will depend on the Company's business model for managing financial assets and their contractual cash flow characteristics, and the financial asset will be classified into one of the following categories:

- financial assets measured at amortized cost,
- financial assets measured at fair value through other comprehensive income, or
- financial assets measured at fair value through profit or loss.

Financial assets measured at amortised cost are financial instruments which the company holds within a business model whose objective is to hold financial assets in order to collect contractual cash flows and the financial asset gives rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The company holds loans, receivables and deposits in this category.

They are recognized at the date of their accrual [settlement date]. Upon initial recognition, they are measured at amortised cost using the effective interest rate method.

Any profits and losses are recognized in the profit or loss:

- if the financial asset is derecognized,
- if the financial assets is reclassified into a category measured at fair value through profit or loss,
- as a result of impairment.

If financial assets measured at amortized cost are reclassified into a category measured at fair value through other comprehensive income, any gains and losses arisen from the difference between the previous amortized cost of the debt and the new fair value are recognized through comprehensive income.

The Company recognises loans at the date of their accrual.

Upon initial recognition, loans are measured at amortized cost using the effective interest method, less any impairment losses, whereas after initial recognition, they are measured at amortized cost using the effective interest method, less any impairment losses.

Trade receivables without a significant financing component must be measured at the transaction price upon initial recognition.

Financial assets measured at fair value through other comprehensive income

This category includes investments in equity instruments or shares of equity of other companies.

Upon initial recognition of investments in equity instruments not held for trading, the Company irrevocably decides to measure these investments at fair value through other comprehensive income. This decision is adopted individually for each asset.

The fair value of investments that are listed on the stock exchange is measured at the closing stock market price on each reporting date. Assets are recognised or derecognised at the date of purchase or sale.

Any gains or losses arising from changes in fair value are recognised in other comprehensive income and presented directly in capital within the financial instruments fair value reserve in the net amount. Amounts presented in other comprehensive income shall not be subsequently transferred to profit or loss. However, the company may transfer the cumulative gain or loss within equity.

Dividends on such investments are recognised in profit or loss only when:

- the entity's right to receive payment of the dividend is established;
- it is probable that the economic benefits associated with the dividend will flow to the entity; and
- the amount of the dividend can be measured reliably,

except if the dividend clearly represents a recovery of part of the cost of the investment.

Financial assets measured at fair value through profit and loss comprise assets held for trading and assets which have not been classified under the business model into the second category of financial instruments. Gains or losses are recognized as financial revenue or expenses in the income statement.

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.

IMPAIRMENT OF FINANCIAL ASSETS

The Company must recognize the value adjustment for expected credit losses associated with financial assets measured at amortised cost, and debt instruments classified into the category at fair value through comprehensive income.

At each reporting date, the Company measures the value adjustment for the loss incurred for each financial instrument at an amount equal to lifetime expected credit losses if the credit risk on the financial instrument has increased significantly since initial recognition.

Credit loss is equal to the present value of the difference between:

- contractual cash flows the Company is entitled to under the contract, and
- cash flows the company expects to receive.

In measuring the expected credit loss, the following is factored into the calculation:

- probability-weighted amount determined by evaluating the range of possible outcomes,
- time value of money and
- all relevant and provable information available on the reporting date.

On each reporting date an assessment is performed to determine whether the credit risk of the financial instrument has increased significantly since initial recognition. The Company must recognize expected credit losses equal to lifetime expected credit losses if the credit risk on the financial instrument has increased significantly since initial recognition. In this context, it must consider all relevant and provable information, including future-facing information.

If at the reporting date, the credit risk on a financial instrument has not increased significantly since initial recognition, the Company shall measure the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses.

For trade receivables and contracts with customers that do not include a significant financing component, the Company will measure the loss allowance at an amount equal to lifetime expected credit losses.

The carrying amount of financial assets is decreased in the revaluation adjustment account.

DERECOGNITION OF FINANCIAL ASSETS

A financial asset is derecognized when the company:

- transfers its contractual rights to receive cash flows stemming from the financial asset,
- retains contractual rights to receiving cash flows, but assumed an obligation to pay those cash flows to one or more recipients [ultimate beneficiaries] and has no obligation to pay any amounts unless they receive the relevant amounts from the underlying asset.

On derecognition of a financial asset, the difference between the carrying amount (on the date of derecognition) and the consideration received (including any newly acquired asset, minus any newly-undertaken liability) is recognised in profit or loss, with the exception of investments in shares of other companies, for which the Company irrevocably decides that it will recognize later changes in fair value in other comprehensive income.

INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries are disclosed in the parent company's separate financial statements 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. Assets are recognised or derecognised at the date of purchase or sale. An 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. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Telekom Slovenije is a party in a joint arrangement with joint control over said arrangement.

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 business 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.

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 effective 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.

g. NON-CURRENT CONTRACT ASSETS

A non-current asset from contracts with customers is the Company's right to consideration in exchange for goods or services the Company has transferred to a customer, that is conditional on something other than the passage of time [e.g., the performance of another obligation]. A contract asset arises if the Company performs by transferring goods or services to a customer before the consideration is paid.

A check should be performed on the reporting date to determine whether contract assets should be impaired. For the purposes of determining impairment of assets from 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. Impairment of contract assets is recognized in the assets from contracts with customers account [i.e. not on the revaluation adjustment account].

h. 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 individually, 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.

i. 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.

j. 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.

k. CURRENT ASSETS FROM CONTRACTS WITH CUSTOMERS

Current assets from contracts with customers are the Company's right to consideration in exchange for goods or services the Company has transferred to a customer and which the Group expects to be executed sooner than in 12 months.

l. TRADE AND OTHER RECEIVABLES

Trade receivables are recognised at transaction price, less impairment losses. Thereafter they are measured at amortised cost.

The Company forms allowances for current trade receivables based on experience from past years and future expectations, and based on the creditworthiness of specific customers. It calculates the customer's creditworthiness by means of an internal credit rating model, which is based on the combination of an external credit rating and the payment discipline of corporate customers, as well as the payment history of individual customers [Note 43, [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.

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. NON-CURRENT LIABILITIES FROM CONTRACTS WITH CUSTOMERS

Non-current liabilities from contracts with customers are the Company's obligations to transfer goods or services to the customer, for which the Company received a consideration from the customer [or for which the amount of the consideration has fallen due] and which are expected to be transferred over a period longer than 12 months.

Co-locations billed in advance are categorized under the category of non-current contractual liabilities and are transferred among operating revenue according to the contractually agreed term of co-location.

p. LONG-TERM DEFERRED REVENUE

Long-term deferred revenue comprises the lease of fibre optics network and co-financed projects. Long-term deferred revenue from leases is recognised among operating revenue over the contractually agreed term of lease. Long-term deferred revenue for co-funded projects refers to cash received from projects, which is not yet revenue, as the costs which these amounts are meant to cover have not been incurred yet. Recognition of such accruals and deferrals is reversed by calculation of eligible costs.

q. 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 [29, 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 [29, 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.

r. 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 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.

s. OTHER FINANCIAL LIABILITIES

The item of other financial liabilities includes liabilities arising on bonds, interest rate swap liabilities, profit distribution [dividends].

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.

t. 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.

u. LIABILITIES FROM CONTRACTS WITH CUSTOMERS

Liabilities from contracts with customers are the Company's obligations to transfer goods or services to the customer, for which the Company received a consideration from the customer [or for which the amount of the consideration has fallen due]. The Company recognizes the short-term portion of co-locations under liabilities from contracts with customers.

v. 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, 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.

w. REVENUE

Revenue from contracts with customers are recognized solely on the basis of the contract executed with the customer. It is recognized when goods and services are passed by the Company to the customer in the amount that reflects the compensation to which it 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 has identified the following performance obligations:

- service,
- goods.

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 (SSP – stand-alone selling price). SSP 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 a performance obligation is satisfied, i.e. when control of a good or service is transferred to a customer. This occurs when control of a good or service is transferred to a customer.

Discounts granted at contract execution are categorized to all performance obligations and are delineated over the contract period. All discounts applied subsequently are recognized in the period for which they were granted, as a revenue decline.

Revenue is recognised in a net amount, 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]. In the sale of electricity, the Company acts as the principal, therefore revenues 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.

x. 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.

y. 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.

z. 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 2018 and 31 December 2017, the income statement for the period 31 December 2018, and additional information necessary to make adjustments of cash inflows and outflows.

aa. 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 new standards, amendments to the existing standards and new interpretations issued by the International Accounting Standards Board (IASB) and adopted by the EU, are effective for the current reporting period:

IFRS 9 - Financial Instruments - adopted by the EU on 22 November 2016 [effective for annual periods beginning on or after 1 January 2018].

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].

Amendments to IFRS 2 - Share-based Payment - Classification and Measurement of Share-based Payment Transactions, which the EU adopted on 26 February 2018 [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 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].

Amendments to IAS 40 - Investment Property - Transfers of Investment Property, which the EU adopted on 14 March 2018 [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.

Amendments to IFRS 1 and IAS 28 - 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, which the EU adopted on 7 February 2018 [changes of IFRS 1 and IAS 28 should be applied to annual periods beginning on or after 1 January 2018]. Amendments to various standards due to resulting from the annual improvement project of IFRS [IFRS 1, IFRS 12 and IAS 28] primarily with a view to removing inconsistencies and clarifying wording. The amendments include: [i] removal of short-term exemptions in E3–E7 of IFRS 1, because their intended purpose was served, [ii] 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.

IFRIC 22 - Foreign Currency Transactions and Advance Consideration, which the EU adopted on 28 March 2018 [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. In the event of a large number of early payments or delayed receipts, the transaction date shall be determined separately for each payment/revenue.

The effects of the new Standards - i.e. IFRS 9 Financial instruments and IFRS 15 Revenue from contracts with customers - are explained in section [2.e Adoption of new and amended accounting standards](#).

Adoption of other new Standards, amendments to existing Standards and notes did not result in any material changes to the Company's financial statements.

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:

FRS 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.

The Standard sets out the principles for the recognition, measurement, presentation and disclosure of leases, and instead requires **lessees** to bring most leases on-balance sheet under a single model, eliminating the distinction between operating and finance leases. The Standard supersedes the old IAS 17 - 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 at the start of the lease. 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.

Under the new standard, lessees will be required to report lease interest expense separately from the amortization of the right-of-use asset. Furthermore, lessees will have to remeasure the lease liability upon the occurrence of certain events [e.g., change in the lease term, change in variable rents based on an index or rate], which is generally recognised as an adjustment to the right-of-use asset.

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.

The new standard IFRS 16 requires more detailed disclosure compared to its predecessor, for both lessees and lessors.

The new Standard provides two options to adoption, namely so that the lessee uses this Standard:

- retrospectively for each prior reporting period presented using IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, or
- retrospectively with a cumulative effect of introducing this Standard, recognized on the date of introduction.

TRANSITION TO IFRS 16

For the transition to a new standard, the Company will use the cumulative effect method at 1 January 2019. The Company will therefore not recalculate comparative data for 2018, but will instead report all changes resulting from the transition to the new Standard as an adjustment to the opening balance as at the date of first application.

The Company will not use exemptions envisaged by the Standard for low-value lease contracts and for leases expiring earlier than 12 months from initial application.

The Company expects the right-of-use assets (ROU) and lease liabilities to increase by EUR 71,700 thousand, as a result of the transition to the new standard on 1 January 2019.

Amendments to IFRS 9 - Financial Instruments - Prepayment Features with Negative Compensation, which the EU adopted on 22 March 2018 [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. The Company anticipates that the adoption of these amendments to the Standard will have no material impact on the financial statements in the period of initial application.

IFRIC 23 “Uncertainty over Income Tax Treatments”, which the EU adopted on 23 October 2018 [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 this interpretation will have no material impact on the financial statements.

The Company opted not to apply this new standard, amendments to the existing standard and new interpretations ahead of their effective dates.

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 the date of publication of financial statements apply to IFRS, as published by the IASB):

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 3 - Business Combinations – Definition of a Business [applies to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020, and to asset acquisitions that occur on or after the beginning of that period]. The aim of these changes is to improve the definition of a business. The emphasis of this changed definition is on the fact that the main output of the business entity's activities is to provide goods and services to customers, whereas the prior definition focused more on returns in the form of dividends, lower costs and other economic benefits for investors and other parties. Besides changing the wording of the definition, the Committee also provided additional guidance.

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 1 - Presentation of Financial Statements and IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors - Definition of Material – [effective for annual periods beginning on or after 1 January 2020]. The amendments explain the definition of materiality, seeking to develop application guidance or educational material on materiality.

Amendments to IAS 19 - Employee Benefits – regarding plan amendments, curtailments, and settlements [effective for annual periods beginning on or after 1 January 2019]. The amendments require application of updated assumptions used for the remeasurement to determine the current service cost and the net interest for the reporting period after the change of the plan.

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 various standards due to Improvements to IFRS [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], and the purpose is mainly to eliminate conceptual inconsistencies and inconsistent interpretations. 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].

Amendments to References to the Conceptual Framework in IFRS [effective for annual periods beginning on or after 1 January 2020]. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22 and SIC-32. The aim of the amendments is to support the transition to the revised Conceptual Framework for companies, who use this framework to develop their accounting policies where no IFRS standard applies to a specific transaction.

The Company anticipates that the adoption of these new standards and amendments to the existing standards 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. The Company anticipates that the use of the general hedge accounting model in reference to financial assets and liabilities, as required under IAS 39: "Financial instruments: Recognition and measurement", does not have a material effect on the Company's financial statements, if applied at the balance sheet date.

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 IN EQUITY INSTRUMENTS

Fair value of investments in equity instruments that are listed on the stock exchange is defined on the basis of the closing stock exchange rate as at the reporting date.

OPERATING 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. REVENUE FROM CONTRACTS WITH CUSTOMERS

EUR thousand	2018	2017 reclassification
Mobile services on end-customer market	225,064	228,092
Fixed-line telephone services on end-customer market	218,958	199,912
New sources of revenue	4,568	2,789
Wholesale market	174,704	183,030
Other revenue and other merchandise	16,378	31,367
Total net revenue	639,672	645,190

In 2018, the Company discloses revenue from incoming traffic under Revenue relating to the mobile/fixed segment on end-customer market. Accordingly, it also reclassified the 2017 revenues, specifically from the wholesale market to Revenue relating to the mobile/fixed segment on end-customer market.

In 2018, the Company recognized 1,495 thousand euros in revenues, which were included at the start of the period under the balance of liabilities from contracts with customers.

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 the case of contracts with customers with a length of 12 or 24 months that include several performance obligations [e.g. partially subsidized mobile phone or other communication device, bundled with the service], the company allocates the price of the whole transaction to individual performance obligations on the basis of relative stand-alone selling prices of the device and service. Under the new rules, the revenue from device sales are recognized immediately, while overall revenue from services [subscription fees] is recognized over the contractual term. In this context, the company recognizes contract assets associated with the right to consideration for sold goods or services which were rendered, but not billed on the reporting date. Contract assets are transferred under receivables when the Company bills the customer.

Telekom Slovenije used the practical expedient provided under IFRS 15.121, and chose not to disclose information about the unsatisfied performance obligations, with the exception of revenue from contracts with customers, which have a term of 12 or 24 months and include multiple performance obligations.

EUR thousand	2018	2017
Revenue from services sold on the domestic market	426,081	443,221
Revenue from services sold abroad	119,288	125,509
Revenue from domestic sales of merchandise and material	93,029	75,199
Revenue from international sales of merchandise and material	1,274	1,261
Total net revenue	639,672	645,190

Revenue from services sold is recognized over the contract period, whereas revenue from goods sold are recognized at the time of the transfer of control of the goods to the customer.

As for the **mobile services on end-customer market**, revenue has decreased over the previous year due to lower revenue from mobile subscribers [fewer subscribers, transition to the new and for customer more favourable packages with included contents and the EU regulation].

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.

New sources of revenue include revenue from financial services, energy services, eHealth and insurance, and this revenue in 2018 exceeded that from the previous year mostly due to higher energy-related revenue.

Revenue from the **wholesale market** was lower than in 2017. As for the domestic market, revenue increased as a result of more broadband access connections. The decline in revenue on the international market is the result of lower revenue from transit.

Other revenue and merchandise decreased mostly due to diminished revenue from e-tolls, as the majority of revenue stemming from introduction of e-tolling was recognized in 2017.

6. OTHER OPERATING REVENUE

EUR thousand	2018	2017
Government grants and other aids	484	1,180
Gains on disposal of property, plant and equipment	630	857
Revaluation operating revenue	10,113	4,226
Revenue from write-off of contractual liabilities from contracts with customers	12	0
Other revenue	2,359	1,771
Total other operating revenue	13,598	8,034

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	2018	2017
Telecommunications services	138,962	148,869
• Network interconnection	28,594	27,455
• Roaming	13,915	12,611
• International services	96,453	108,803
Costs of leased lines, networks and platforms	13,143	15,392
Multimedia contents	19,451	11,733
Sales incentives	0	15,666
Costs of increasing the customer base	828	1,039
Maintenance of property, plant and equipment	24,156	25,722
Lease of property, plant and equipment	9,306	9,350
Cost of fairs, advertising, sponsorships and hospitality	11,942	10,688
Cost of intellectual and personal services	8,257	7,415
Reimbursement of work-related costs	640	451
Insurance premiums	2,915	3,200
Cost of communications services	3,174	3,322
Banking services	671	689
Costs of other services	43,363	48,427
Total costs of services	276,808	301,963



In 2018, costs of services decreased by EUR 25,155 thousand compared to 2017, of which EUR 15,666 thousand was attributable to the change in recognition of sales incentive expenses introduced by IFRS 15.

As compared to 2017, the costs of telecommunications services grew due to decreased volume of international calls. Costs of leased lines also diminished.

Costs of maintenance of property, plant and equipment are lower as a result of optimisation of the costs of access and core network and IT solutions.

The majority of costs of other services refers to the costs of sub-contractors, which decreased mainly as a result of the electronic toll collection project.

8. LABOUR COSTS

EUR thousand	2018	2017
Salaries and compensations	73,261	74,303
Social security contributions	15,059	15,550
- of which pension insurance contributions	10,010	10,199
Other labour costs	7,922	8,493
Provisions for termination benefits upon retirement, jubilee benefits and restructuring	403	5,166
Capitalised own products and services	-4,798	-4,998
Total labour costs	91,847	98,514

Of the total of EUR 5,682 thousand capitalised own products and services (2017: EUR 5,956 thousand), EUR 4,798 thousand is 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 2018	End of 2018	Changes in 2018	Average no. of employees in terms of education in 2018	Average no. of employees in terms of education in 2017
Level I	8	8	0	8.0	8.5
Level II	0	0	0	0.0	0.0
Level III	9	6	-3	7.5	10.0
Level IV	138	120	-18	129.0	144.5
Level V	815	748	-67	781.5	838.5
Level VI	412	393	-19	402.5	417.0
Level VII	825	798	-27	811.5	821.5
Master's and PhD degree	131	123	-8	127.0	130.5
Total	2,338	2,196	-142	2,267.0	2,370.5

* Calculation on the basis of balances of employees recorded at beginning and end of the reporting period

In the 2018 reporting period, the average number of employees based on the working hours equalled 2,196.00 (2017: 2,299.56 employees).

9. OTHER OPERATING EXPENSES

EUR thousand	2018	2017
Provisions	0	24,513
Loss on disposal of intangible assets and property, plant and equipment	493	865
Impairment and write-off of inventories	1,052	1,777
Adjustment and write-off of contract assets	1,176	0
Impairment of intangible assets and property, plant and equipment	1	518
Capitalised own products and services	-884	-958
Other expenses	27,819	2,398
Total other operating expenses	29,657	29,113

Of the total of EUR 5,682 thousand capitalised own products and services, EUR 884 thousand are disclosed under other operating expenses [2017: EUR 5,956 thousand]. 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	2018	2017
Dividend revenue	170	253
Other revenue from shares and interests	21,285	0
Interest revenue	6,267	6,306
Net exchange gains	0	1,064
Revenue from derivative financial instruments	0	1,103
Other finance revenue	193	609
Total finance revenue	27,915	9,335
Interest on bonds issued	1,992	1,992
Interest expense	4,706	5,885
Foreign exchange net losses	233	0
Impairment of investments in subsidiaries	54	1,081
Impairment and write-off of loans	2,132	10,085
Other finance expenses	163	238
Total finance expenses	9,280	19,281
Financial result	18,635	-9,946

Financial revenues from shares in 2018 were the result of the sale of the company Blicnet.

Interest expenses are lower than compared to last year, due to the lower borrowing balance.

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 54 thousand and loans given to Antenna TV SL in the amount of EUR 2,102 thousand at the end of 2018. 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, DEFERRED TAX ASSETS AND LIABILITIES

Tax expense disclosed in the income statement

EUR thousand	2018	2017
Current tax payable	0	0
Deferred tax assets/ liabilities	241	8,369
Other taxes not disclosed under other items	-152	-218
Total tax	89	8,151

Other taxes for 2018 not disclosed under other items include the write-off of the withholding tax paid by the Company abroad, which the Company can not 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	31.12.2018	31.12.2017
Profit before tax	33,938	-6,431
Tax rate	19%	19%
Income tax using the prescribed tax rate	-6,448	1,222
Tax-free dividends received	134	51
Non-taxable profit from disposal of equity interest	1,915	0
Tax incentives used in the current period	693	1,281
Reversal of tax incentives used in previous periods	-104	-521
Non-deductible expenses	-2,593	-4,518
- <i>non-deductible expenses from previous periods</i>	6	-1,592
- <i>currently non-deductible expenses</i>	-2,599	-2,926
Deductible expenses/revenues that were non-deductible in previous years	2,200	-296
Tax loss/covering the tax loss	4,444	11,150
Other items	-152	-218
Total tax	89	8,151
Effective tax rate	0.00%	0.00%

The tax loss as at 31 December 2018 stands at EUR 60,069 thousand [31 December 2017: EUR 60,069 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 [2017: 19%].

Deferred tax assets

EUR thousand	2018	2017	Through profit or loss	Through comprehensive income
Intangible assets, and property, plant and equipment	15,260	13,238	2,022	
Investments	1,115	1,080		34
Operating receivables	2,790	5,362	-2,572	
Inventories	0	0	0	
Tax loss	24,934	22,563	2,371	
Provisions	602	1,893	-1,291	
Deferred tax assets	44,701	44,136	530	34

Deferred tax liabilities

EUR thousand	2018	2017	Through profit or loss	Through comprehensive income
Investments	238	224		-14
Deferred tax liabilities	238	224	0	-14

Movement of deferred tax assets

EUR thousand	
Balance at 1 Jan 2017	35,656
Elimination/use	-9,604
Formation	18,084
Balance at 31 Dec 2017	44,136
Transition to the new standard IFRS15	290
Elimination/use	-9,490
Formation	9,765
Balance at 31 Dec 2018	44,701

As at the reporting date, unused tax reliefs amounted to EUR 71,164 thousand [2017: EUR 58,684 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	2018	2017
Net profit or loss used attributable to shareholders, owners of ordinary shares of the parent company	34,027	1,720
Weighted average number of ordinary shares for earnings per share	6,505,478	6,505,478
	5.23	0.26

Weighted average number of ordinary shares

EUR thousand	2018	2017
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 2018 amounted to EUR 11,745 thousand [2017: EUR 15,761 thousand], the carrying amount of the GSM concession EUR 30,164 thousand [2017: EUR 32,678 thousand] and the carrying amount of the LTE concession EUR 18,590 thousand [2017: EUR 20,374 thousand]. Useful lives of individual concessions are disclosed in Note [44, 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 2018, the Company's intangible assets include the value of the customer list from the takeover of the company Debitel in the amount of EUR 2,136 thousand [2017: EUR 3,204 thousand] and the customer list of Intell in the amount of EUR 715 thousand [2017: EUR 839 thousand], and the customer list of IZImobil in the amount of EUR 5,874 thousand.

The Company performed a valuation of the customer list that occurred with the takeover of the company Debitel. For the purpose of valuation, applied earnings-based valuation with the excess earnings method was applied. 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 list is assessed at EUR 6,376 thousand with the estimate ranging between EUR 6,087 thousand and EUR 6,678 thousand. The discount rate used was 10.5% and the required yield on assets 10.5%. 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 determined that the Intell and IZImobil customer lists do not show any signs of impairment.

The Company has unlimited property rights on intangible assets, which are free of encumbrances.

Contractual obligations for intangible assets equalled EUR 7,039 thousand as at 31 December 2018 [31 December 2017: EUR 10,817 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 2018

EUR thousand	Goodwill	Concessions and licences	Cost of attracting contracts with customers	Software	Other intangible assets	Intangible assets under construction	Total
Cost							
Balance at 1 Jan 2018	3,602	216,729	19,413	160,652	10,881	25,378	436,655
Effect of the change in the accounting policy			156				156
Balance at 1 Jan 2018 - adjusted	3,602	216,729	19,569	160,652	10,881	25,378	436,811
Increases	0	-69	0	0	0	34,597	34,528
Fixed assets generated in the Company	0	0	0	0	0	1,528	1,528
Transfer into use	0	6,060	8,634	24,901	7,100	-46,695	0
Decreases	0	-9,587	-9,780	-984	0	0	-20,351
Other transfers	0	-94	0	49,922	0	0	49,828
Balance at 31 Dec 2018	3,602	213,039	18,423	234,491	17,981	14,808	502,344
Allowances							
Balance at 1 Jan 2018	0	123,215	9,308	126,247	3,472	0	262,242
Effect of the change in the accounting policy			72				72
Balance at 1 Jan 2018 - adjusted	0	123,215	9,380	126,247	3,472	0	262,314
Decreases	0	-9,588	-9,780	-982	0	0	-20,350
Other transfers	0	-3	0	48,829	0	0	48,826
Depreciation	0	22,927	9,588	19,981	3,687	0	56,183
Balance at 31 Dec 2018	0	136,551	9,188	194,075	7,159	0	346,973
Carrying amount							
Balance at 1 Jan 2018	3,602	93,514	10,105	34,405	7,409	25,378	174,413
Balance at 1 Jan 2018 - adjusted	3,602	93,514	10,189	34,405	7,409	25,378	174,497
Balance at 31 Dec 2018	3,602	76,488	9,235	40,416	10,822	14,808	155,371



Movement of intangible assets in 2017

EUR thousand	Goodwill	Concessions and licences	Sales commissions	Software	Other intangible assets	Intangible assets under construction	Total
Cost							
Balance at 1 Jan 2017	3,602	223,677	25,514	121,038	10,141	25,244	409,216
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
Balance at 31 Dec 2017	3,602	216,729	19,413	160,652	10,881	25,378	436,655
Accumulated amortisation							
Balance at 1 Jan 2017	0	124,347	15,969	105,608	1,517	0	247,441
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
Balance at 31 Dec 2017	0	123,215	9,308	126,247	3,472	0	262,242
Carrying amount							
Balance at 1 Jan 2017	3,602	99,330	9,545	15,430	8,624	25,244	161,775
Balance at 31 Dec 2017	3,602	93,514	10,105	34,405	7,409	25,378	174,413

Major increases in intangible assets mostly relate to purchase and development of software.

14. PROPERTY, PLANT AND EQUIPMENT

Significant increases in property, plant and equipment in use refer in 2018 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 2018 amounted to EUR 18,483 thousand [31 December 2017: EUR 13,407 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 2018

EUR thousand	Land, buildings, cables and lines	Cable network	Telephone exchanges	Equipment for mobile telephony	Other equipment	Assets under construction	Total
Cost							
Balance at 1 Jan 2018	414,430	941,178	229,794	489,579	399,928	38,745	2,513,654
Increases	0	0	3	0	1,135	70,495	71,633
Fixed assets generated in the Company	0	0	0	0	0	4,154	4,154
Transfer from assets under construction	10,816	27,951	3,635	7,257	28,059	-77,718	0
Decreases	-369	0	-109,101	-32,446	-20,276	0	-162,192
Write-offs	-315	0	-414	-19,898	-23,699	-6	-44,332
Other transfers	0	0	-75	-49,835	82	0	-49,828
Balance at 31 Dec 2018	424,562	969,129	123,842	394,657	385,229	35,670	2,333,089
Allowances							
Balance at 1 Jan 2018	161,177	770,720	217,184	454,986	327,409	0	1,931,476
Increases	0	0	0	-100	5	0	-95
Decreases	-61	0	-109,086	-32,302	-17,572	0	-159,021
Write-offs	-315	0	-413	-19,898	-23,295	0	-43,921
Impairment	1	0	0	0	0	0	1
Depreciation	13,121	17,676	4,824	11,803	29,155	0	76,579
Other transfers	0	0	-57	-48,835	66	0	-48,826
Balance at 31 Dec 2018	173,923	788,396	112,452	365,654	315,768	0	1,756,193
Carrying amount							
Balance at 1 Jan 2018	253,253	170,458	12,610	34,593	72,519	38,745	582,178
Balance at 31 Dec 2018	250,639	180,733	11,390	29,003	69,461	35,670	576,896



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
Cost							
Balance at 1 Jan 2017	405,255	923,129	276,719	510,149	419,341	30,247	2,564,840
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
Balance at 31 Dec 2017	414,430	941,178	229,794	489,579	399,928	38,745	2,513,654
Allowances							
Balance at 1 Jan 2017	148,347	754,586	264,779	460,109	346,193	0	1,974,014
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
Balance at 31 Dec 2017	161,177	770,720	217,184	454,986	327,409	0	1,931,476
Carrying amount							
Balance at 1 Jan 2017	256,908	168,543	11,940	50,040	73,148	30,247	590,826
Balance at 31 Dec 2017	253,253	170,458	12,610	34,593	72,519	38,745	582,178

15. INVESTMENTS IN SUBSIDIARIES

SUBSIDIARIES

Name	Address	Country	Activity	Tax rate In %	Share in equity in %	Share in voting rights in % 2018	Share in voting rights in % 2017	Carrying amount of equity, in EUR thousand		Profit or loss in EUR thousand	
								2018	2017	2018	2017
SLOVENIA											
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	24,752	22,715	2,011	3,657
Avtenta, napredne poslovne rešitve, d.o.o.	Stegne 19, Ljubljana	Slovenia	system integrator	19	100	100	100	2,505	2,090	380	325
TSmedia, medijske vsebine in storitve, d.o.o.	Cigaletova 15, Ljubljana	Slovenia	multimedia and internet contents	19	100	100	100	-374	-67	-341	-768
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	2,639	2,729	-91	61
Antenna TV SL, d.o.o.	Stegne 19, Ljubljana	Slovenia	television activity	19	66	66	66	-11,991	-8,117	-3,841	-6,413
TSinpo, d.o.o.	Litostrojska cesta 58 A	Slovenia	paper and cardboard tubes	19	100	100	100	72	53	19	-1
Optic-Tel, d.o.o.	Cigaletova 10, 1000 Ljubljana	Slovenia	telecommunication services	19	100	100	100	5,116	5,109	7	0
Infratel, d.o.o.*	Cigaletova 10, 1000 Ljubljana	Slovenia	telecommunication services	19	100	100	0	4,974	0	4	0

* part of the group since 1 January 2018



SUBSIDIARIES

Name	Address	Country	Activity	Tax rate In %	Share in equity in %	Share in voting rights in % 2018	Share in voting rights in % 2017	Carrying amount of equity, in EUR thousand		Profit or loss in EUR thousand	
								2018	2017	2018	2017
ABROAD											
IPKO Telecommunications LLC	Lagija Ulpiana, Rruga »Zija Shemsiu«, nr 34, Prishtina	Kosovo	telecommunications services	10	100	100	93	6,895	-6,991	-518	-2,594
Blicnet d.o.o., Banja Luka**	Majke Jugovića 25, Banja Luka	Bosnia and Herzegovina	telecommunications services	10	100	100	100	16,943	16,144	715	1,314
SIOL, d.o.o., Zagreb	Margaretska 3, Zagreb	Croatia	telecommunications services	20	100	100	100	807	720	65	109
SIOL d.o.o., Sarajevo	Fra Anđela Zvizdovića 1, Sarajevo	Bosnia and Herzegovina	telecommunications services	10	100	100	100	1,764	1,749	15	2
SIOL, d.o.o., Podgorica	Bulevar Svetog Petra Cetinjskog br.106, Podgorica	Montenegro	telecommunication services	9	100	100	100	2,859	2,789	70	88
SIOL, d.o.o., Skopje	Dimitrie Chupovski no. 4-1/14, Skopje	North Macedonia	telecommunications services	10	100	100	100	1,574	1,372	212	159
SIOL DOO BEOGRAD- PALILULA	Dvadesetsedmog Marta 11, Beograd Palilula	Serbia	telecommunications services	15	100	100	100	369	329	36	94
GVO Telekommunikation GmbH	Daimlerstr. 3, Stadtlohn,	Germany	building and maintenance works on telecommunication networks	15	100	100	100	-55	-59	4	-1

** Part of the group until 31 December 2018



Investments in subsidiaries

EUR thousand	31.12.2017	Increase	Decrease	Impairment	31.12.2018
GVO	5,758	0	0	0	5,758
TSmedia	2,539	0	0	-54	2,485
Avtenta	1,323	0	0	0	1,323
Soline	147	0	0	0	147
Antenna TV	0	0	0	0	0
TSinpo	169	0	0	0	169
Ipko	5,730	15,000	0	0	20,730
Blicnet	14,477	0	-14,477	0	0
SIOL Zagreb	501	0	0	0	501
SIOL Podgorica	2,620	0	0	0	2,620
SIOL Sarajevo	1,710	0	0	0	1,710
Siol Skopje	1,005	0	0	0	1,005
Siol Beograd	100	0	0	0	100
Investments in subsidiaries	36,079	15,000	-14,477	-54	36,548
M-Pay	63	0	-63	0	0
Investments in joint ventures	63	0	-63	0	0
Total investments in subsidiaries and joint ventures	36,142	15,000	-14,540	-54	36,548

On 2 October 2018, the Telekom Slovenije signed a contract with the company Telekomunikacije Republike Srpske akcionarsko društvo Banja Luka, in reference to the sale of 100% share of Blicnet d.o.o., Banja Luka, from Bosnia Herzegovina. The sale of Blicnet d.o.o. is in keeping with the adopted 2018 business plan of Telekom Slovenije Group, and strategic business plan of Telekom Slovenije Group for the period 2018-2022.

In March 2018, Telekom Slovenije increased as the sole shareholder the share capital of the subsidiary IPKO with a cash injection of EUR 15,000 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 30 September 2018 was performed by a certified business appraiser. The replacement value of the 100% equity interest in Antenna TV SL for the purpose of financial reporting equals EUR -12,187 thousand. The replacement value of the 66% equity interest in Antenna TV SL equals EUR -8,043 thousand.

The discount rate used for the projection was 11.4% 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 9.4% to 13.4% [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.



The investment in the subsidiary Antenna TV SL is already fully impaired, therefore the company impaired the loans given to the subsidiary Antenna TV SL in the amount of EUR 2,102 thousand, based on the valuation of Antenna TV SL [more in Note 16, [Other investments](#)].

Sensitivity analysis - change in NPV of equity

Impact of change in assumption	-1.00%	1.00%
G - growth rate	-8,864	-7,030
WACC - discount rate	-6,678	-9,141

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 2018 was performed by an independent appraiser of companies. The discount rate used for the projection was 10.6% 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 2018 equalled EUR 2,485 thousand, so an impairment loss of EUR 54 thousand was recognised.

Sensitivity analysis of the replacement value was made based on weighted average cost of capital in the range from 8.6% to 12.6% [used discount rates from -2.0% to +2.0%] and long-term growth rate between 1.5% 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	-1.00%	1.00%
G - growth rate	2,159	2,903
WACC - discount rate	2,051	3,042

16. OTHER INVESTMENTS

LONG-TERM INVESTMENTS

EUR thousand	2018	2017
Investments in shares of banks	248	247
Investments in other shares and interests	4,617	4,263
Total other investments	4,865	4,510
Loans to companies	93,933	80,587
<i>* of which to companies in the Group</i>	93,933	80,479
Loans to employees	234	310
Total loans given	94,167	80,897
Total other investments	99,032	85,407

All investments in shares and interests are classified as financial investments measured at fair value through other comprehensive income. Of the total amount of EUR 4,865 thousand, EUR 1,867 thousand [2017: EUR 1,796 thousand] relates to investments that are listed on the stock exchange.

Investments are not pledged as collateral and are free of encumbrances.

Current investments

EUR thousand	2018	2017
Other short-term loans	11,180	44,448
<i>* in the Group</i>	11,097	43,999
Bank deposits	0	77,283
Total short-term investments	11,180	121,731

Table of loans given

EUR thousand	2018	2017
Long-term loans given	94,167	80,897
Loans given	93,933	80,587
Loans to employees	234	310
Short-term loans given	11,180	44,448
Long-term loan portion falling due in 12 months - loans given	6,542	43,920
Long-term loan portion falling due in 12 months - loans to employees	83	105
Short-term loans given and interest	4,555	423
Balance of loans given at the end of the period	105,347	125,345

The maturity of short-term and long-term loans as well as other data are disclosed in Note [43, Financial risk management](#).

Long-term loans given mostly consist of loans given to subsidiaries in the Group (2018: 99.8%, 2017: 99.5%).

In the structure of short-term loans given, the majority is also accounted for by loans given to subsidiaries in the Group (2018: 99.3%, 2017: 99.0%).

The Company impaired at the end of the reporting period loans given to the subsidiary Antenna TV SL in the amount of EUR 2,102 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 0.809% 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 1.806% and 5.243%.

The interest rate for residential loans given to employees ranges between 3.70% and 6.23%.

All loans given, except 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. NON-CURRENT CONTRACT ASSETS

EUR thousand	2018	2018
Non-current contract assets	4,029	4,619
Total non-current contract assets	4,029	4,619

Non-current assets arise when the Company performs by transferring goods or services to a customer before the consideration is paid. Buyers of telecommunication goods and services may commit to a certain subscription period (e.g. 24 months) in order to become eligible for discounts on goods and/or services. Due to reclassification of revenue based on the relative standalone price, the revenues from goods are recognized sooner under the new standard, giving rise to contract assets.

18. OTHER NON-CURRENT ASSETS

EUR thousand	2018	2017
Prepaid rents	10,472	13,812
Long-term deferred costs of sales incentives	0	2,671
Long-term operating receivables	23,803	15,577
Other long-term deferred costs	565	1,037
Total other non-current assets	34,840	33,097

The item of non-current operating receivables includes the sale of goods with maturity of over one year. As for receivables arising from instalment payments, the relevant allowances are formed for the short-term portion.

Due to the transition to the new standard IFRS 15, the Company eliminated long-term deferred costs of sales incentives, which it previously delineated over the customer's commitment period.

Movement of other non-current assets exclusive of long-term operating receivables and long-term deferred costs

EUR thousand	Rents
Balance at 1 Jan 2017	15,776
Increase	1,299
Transfer to costs	-3,263
Balance at 31 Dec 2017	13,812
Increase	3,482
Transfer to costs / revenue	-6,822
Balance at 31 Dec 2018	10,472

Prepaid rentals include mostly leases of premises and land for setting up base stations, and lease of optical fibres.

19. INVESTMENT PROPERTY

Movement of investment property in 2018

EUR thousand	Land	Buildings	Total
Cost			
Balance at 1 Jan 2018	4,865	1,813	6,678
Increases	0	84	84
Balance at 31 Dec 2018	4,865	1,897	6,762
Allowances			
Balance at 1 Jan 2018	1,689	983	2,672
Depreciation	0	51	51
Balance at 31 Dec 2018	1,689	1,034	2,723
Carrying amount			
Balance at 1 Jan 2018	3,176	830	4,006
Balance at 31 Dec 2018	3,176	863	4,039

Movement of investment property in 2017

EUR thousand	Land	Buildings	Total
Cost			
Balance at 1 Jan 2017	4,865	1,810	6,675
Increases	0	3	3
Balance at 31 Dec 2017	4,865	1,813	6,678
Accumulated depreciation			
Balance at 1 Jan 2017	1,572	923	2,495
Impairment	117	9	126
Depreciation	0	51	51
Balance at 31 Dec 2017	1,689	983	2,672
Carrying amount			
Balance at 1 Jan 2017	3,293	887	4,180
Balance at 31 Dec 2017	3,176	830	4,006

As at 31 December 2018, 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 984 thousand.

These items of property were assessed by a certified property appraiser on 31 December 2018. 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.

Revenue generated on investment property in 2018 is recognised in profit or loss in the amount of EUR 359 thousand [2017: EUR 292 thousand]. The Company recognised expenses relating to investment property in the income statement for 2018 in the amount of EUR 165 thousand [2017: EUR 174 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.

20. 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 2018, the Company discloses assets held for sale, land and buildings in the amount of EUR 754 thousand [2017: EUR 1,818 thousand]. The Company implements sales activities regularly.

EUR thousand	Assets held for sale
Balance at 1 Jan 2017	1,818
Increases	2
Sale	-925
Impairment	-141
Balance at 31 Dec 2017	754
Increases	215
Sale	-426
Transfer to property, plant and equipment	-17
Balance at 31 Dec 2018	526

Assets held for sale decreased by EUR 426 thousand due to the sale of land and real estate. The Company thus generated EUR 190 thousand gains on sale, which were recognised in the income statement under Gains on disposal of property, plant and equipment [Note 6].

21. INVENTORIES

EUR thousand	2018	2017
Material	9,931	9,530
Merchandise	12,615	8,576
Total inventories	22,546	18,106

In 2018, the Company wrote off EUR 525 thousand of inventories [2017: EUR 1,777 thousand]. The write-off of inventories was recognised under costs in the income statement in item Other operating expenses, write-offs of operating assets, impairments and write-off of inventories [Note 9, Other operating expenses]. Merchandise was valued at its net realisable value at EUR 441 thousand and material at EUR 3,094 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.

22. OPERATING AND OTHER RECEIVABLES

EUR thousand	2018			2017
	Gross value	Allowances	Net value	Net value
Operating receivables*	133,936	-12,633	121,303	115,279
Foreign operators receivables	16,416	-1,907	14,509	15,555
Domestic operators receivables	8,016	-274	7,742	15,065
Total trade receivables	158,368	-14,814	143,554	145,899
Paid advances and warranties	1,110	0	1,110	728
VAT and other tax receivables	3,792	0	3,792	3,989
Other receivables	36,766	0	36,766	686
Total other receivables	41,668	0	41,668	5,403
Total operating and other receivables	200,036	-14,814	185,222	151,302

Operating receivables do not bear interest.

Changes in allowances for receivables

EUR thousand	2018	2017
Balance at 1 Jan	-28,452	-36,209
Allowances during the year	-6,818	-5,805
Reversal of allowances	16,698	9,989
Write-offs	3,758	3,573
Balance at the end of the period	-14,814	-28,452

The method of forming allowances for receivables has not changed in 2018.

23. CURRENT CONTRACT ASSETS

EUR thousand	2018	1. 1. 2018
Current contract assets	12,099	11,241
Total current contract assets	12,099	11,241

The Company's current contract assets arise mainly from the sale of telecommunications services and goods, where customer contracts comprise the subscription fee and a subsidized service or good, where customers commit to a 12-month contract period.

24. SHORT-TERM DEFERRED COSTS AND ACCRUED REVENUE

EUR thousand	2018	2017
Deferred costs	5,634	6,977
Accrued revenue for services rendered and goods supplied	5,624	25,772
Accrued revenue and deferred costs – international services	22,105	23,107
Short-term portion of sales incentives	0	11,953
Other	1,123	1,120
Total deferred costs and accrued revenue	34,486	68,929

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.

Due to the transition to the new standard IFRS 15, the Company eliminated short-term deferred costs of sales incentives, which it previously delineated over the customer's commitment period.

25. CASH AND CASH EQUIVALENTS

EUR thousand	2018	2017
Cash on hand and bank balances	1,631	15,358
Short-term bank deposits with maturity up to three months	380	2,000
Total cash and cash equivalents	2,011	17,358

Bank balances bear interest at bank interest rates for positive cash balances ranging between 0.00% and 0.001% 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 2018, these short-term revolving loans and credit lines were utilised in the amount of EUR 28 million. As at 31 December 2018, long-term credit lines or revolving loans were not utilised. Credit lines are outlined by the Company in [Note 31, Borrowings](#).

26. EQUITY AND RESERVES

EUR thousand	2018	2017
EQUITY AND RESERVES		
Called-up capital	272,721	272,721
Capital surplus	180,956	180,956
Revenue reserves	121,991	104,978
Legal reserves	50,434	50,434
Treasury share reserve	3,671	3,671
Treasury shares and interests	-3,671	-3,671
Statutory reserve	54,544	54,544
Other revenue reserves	17,013	0
Retained earnings or losses	60,506	137,756
Retained earnings from previous periods	43,493	136,036
Profit for the period	17,013	1,720
Fair value reserve for financial instruments	395	483
Reserves for actuarial deficits and surpluses	-2,373	-2,539
Total equity and reserves	634,196	694,355

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. 2018		31. 12. 2017	
	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	845,686	12.94	822,060	12.58
Other domestic legal entities	222,048	3.40	212,876	3.26
Kapitalska družba d.d.	365,175	5.59	365,175	5.59
Domestic financial companies and funds	320,925	4.91	356,525	5.46
Foreign legal entities	386,236	5.91	383,434	5.87
Treasury shares	30,000	0.46	30,000	0.46
Total	6,535,478	100.00	6,535,478	100.00

The balances and changes in equity are illustrated in the Statement of Changes in Equity. In 2018, the Company did not issue nor withdraw shares, so their number remained the same.

CAPITAL SURPLUS

At the end of 2018, 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 2018, 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 2018, 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 and 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 2018.

As at 31 December 2018, 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 29th General Meeting of Shareholders of Telekom Slovenije, d.d. in Ljubljana on 11 May 2018, the resolution on the use of accumulated profit was adopted under Resolution no. 5.1. Accumulated profit for 2017 in the amount of EUR 115,366,425.12 was used for dividend pay-out in the amount of EUR 93,028,335.40, i.e. EUR 14.30 gross per share [in 2017, dividends for 2016 were paid out in the amount of EUR 32,527,390.00 or EUR 5.00 gross per share]. The residual part in the amount of EUR 22,338,089.72 is brought forward to the next year.

Determination of accumulated profit for 2018

	in EUR
Net profit/loss for 2018	34,026,635.95
Transfer to other revenue reserves	-17,013,317.97
Retained net profit/loss	43,492,601.21
Reduction in long-term deferred R & D costs	-21,519,594.23
Total	38,986,326.96

Proposed dividend pay-out for 2018

Amount of dividend paid: EUR 29,274,651.00

end per ordinary share: EUR 4.50

FAIR VALUE RESERVE FOR FINANCIAL INSTRUMENTS

Fair value reserve for financial instruments includes the change in fair value of investments measured at fair value through other comprehensive income through other comprehensive income, and the change in fair value of hedging instruments.

Fair value reserve for financial instruments is shown in the statement of other comprehensive income.

RESERVES FOR ACTUARIAL DEFICITS AND SURPLUSES

Actuarial deficits and surpluses include changes in the present value of payables to employees due to changed actuarial assumptions and on the basis of experience-based adjustments. In 2018, they decreased by EUR 166 thousand and amounted to EUR -2,373 thousand at the end of 2018 [2017: EUR -2,539 thousand].

27. LONG-TERM CONTRACT LIABILITIES

EUR thousand	2018	2017
Long-term contract liabilities	133	0
Co-location billed in advance	13,272	0
Total long-term contractual obligations	13,405	0

Long-term contract liabilities represent the Company's obligation to either transfer the goods or services to the customer in future, or to refund the consideration received. In both cases, the obligation is measured as the amount of the consideration received from the customer. The Company reclassified the billed co-locations from long-term deferred income.

28. LONG-TERM DEFERRED REVENUE

EUR thousand	2018	2017
Co-location billed in advance	0	10,404
State aid received	257	305
Unpaid transfer of property, plant and equipment	336	271
Other long-term deferred revenue	1,461	1,567
Total long-term deferred revenue	2,054	12,547

29. PROVISIONS

Changes in provisions in 2018

EUR thousand	2017	Utilisation	Reversal	Formation	Change in discount rate	2018
Provisions for probable liabilities resulting from legal actions	34,000	-29,500	0	0	0	4,500
Provisions for termination benefits upon retirement and jubilee benefits	10,158	-150	-166	403	138	10,383
Provisions for estimated costs of the removal of base stations	3,453	-12	-9	61	-82	3,411
Other provisions	70	-100	0	54	0	24
Provisions for restructuring	5,548	-5,435	0	0	0	113
Total provisions	53,229	-35,197	-175	518	56	18,431

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
Total provisions	35,992	-13,559	-395	30,959	232	53,229

PROVISIONS FOR PROBABLE LIABILITIES RESULTING FROM LEGAL ACTIONS

Provisions for probable liabilities resulting from legal actions are created based on the estimated outcome of actions, conducted with a high level of prudence. The date of liability due date cannot be determined. Actions in relation to which provisions were formed are at various stages. Telekom Slovenije was primarily successful in cases that concluded up to this date with final and enforceable effect, as is also published promptly in accordance with the Stock Exchange's rules. In 2018, the Telekom Slovenije utilized provisions in the amount of EUR 29,500 thousand due to the court settlement with T-2. By virtue of signing the court settlement, the companies reached a final resolution of the commercial dispute brought against the plaintiff T-2 against the company Telekom Slovenije, as well as all other unresolved mutual relationships.

Based on the obtained legal opinions and the estimate of the management, the Company formed provisions for legal actions in the amount of EUR 4,500 thousand [2017: 34,000 thousand].

Total damages claimed by pending legal actions brought against the Company as at 31 December 2018 amount to EUR 56,217 thousand [2017: EUR 188,458 thousand] – Note [39, 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 2.34% p.a. [2017: 1.92% p.a.], which equals the 2018 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 an actuarial calculation. The calculations applied the discount rate of 2.34%, which equals the 2018 year-end yield on 15-year gilt-edged bonds from euro area issuers [in 2017, the discount rate was 1.92%]. The rate of fluctuation is taken into account according to age intervals and ranges from 0% to 3.5% [2017: 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 2018, the Company utilized organizational restructuring provisions in the amount of EUR 5,435 thousand, which were created in the previous reporting period.

30. NON-CURRENT OPERATING LIABILITIES

EUR thousand	2018	2017
Contractual liabilities for active programme rights	2,217	9,684
Other	10,693	6,674
Total non-current operating liabilities	12,910	16,358

31. 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 43, [Financial risk management](#).

EUR thousand	2018	2017
Non-current borrowings		
Borrowings from banks	233,126	283,985
• Current portion of long-term borrowings	-22,816	-115,189
• Long-term portion of borrowings	210,310	168,796
Total long-term portion	210,310	168,796
Current borrowings		
Borrowings from banks	28,000	0
Borrowings from companies in the Group	500	0
Current portion of long-term borrowings from banks	22,816	115,189
Interest	19	0
Total short-term portion	51,335	115,189

Telekom Slovenije, d. d. has non-current financial liabilities to banks in the form of a long-term syndicated loan. The loan comprises three tranches, two of which with a respective maturity in 2023 and 2025. One of the tranches has not been fully drawn at the end of 2018. The loan is linked to a variable interest rate with mark-ups for individual tranches ranging from 1.35% to 1.65%. The loan is secured by blank bills of exchange. Current financial liabilities to banks in the form of short-term liquidity revolving loans have a fixed or a variable interest rate with mark-ups ranging from 0.62% to 0.72%. Short-term loans are also secured by blank bills of exchange. Financial liabilities to Group companies are in the form of a short-term revolving loan that matures in 2019 and has a fixed interest rate of 0.052%.

Telekom Slovenije, d.d., in addition to drawn credit lines, also has open undrawn credit lines and long-term backup credit lines or revolving loans with banks that are secured by blank bills of exchange. Short-term revolving loans mature in 2019 and have a fixed or a variable interest rate with mark-ups ranging from 0.60% to 2.80%. Long-term revolving loans mature in 2020 and have a variable interest rate with mark-ups of 0.80% to 1.1%. A transaction account overdraft contract has also been signed with one of the banks, with a 3.50% interest rate. The Company also has two open short-term revolving loans with Group companies. The loans are linked to a fixed interest rate ranging from 0.039% to 0.052%.

Banks that have approved long-term loans require that Telekom Slovenije Group's financial ratios specified in loan agreements be maintained, including: 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 2018, all financial covenants on the Group level were achieved.

32. OTHER NON-CURRENT FINANCIAL LIABILITIES

EUR thousand	2018	2017
Liabilities under bonds issued	99,940	99,898
Other financial liabilities	763	583
Total other non-current financial liabilities	100,703	100,481

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 2018 equalled EUR 763 thousand [2017: EUR 583 thousand]. More detailed explanation is under Note [43, Financial risk management](#).

33. OPERATING AND OTHER LIABILITIES

EUR thousand	2018	2017
Trade payables	80,407	84,938
Liabilities to domestic operators	4,736	3,559
Liabilities to foreign operators	8,200	7,488
VAT and other tax liabilities	4,721	4,527
Liabilities to employees	7,456	6,289
Liabilities for advances and securities	594	354
Other liabilities	26,423	14,040
Total operating and other liabilities	132,537	121,195

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.

34. OTHER CURRENT FINANCIAL LIABILITIES

EUR thousand	2018	2017
Liabilities for payment of dividends	185	184
Liabilities under bonds issued	1,053	1,053
Other financial liabilities	0	3,059
Total other current financial liabilities	1,238	4,296

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, which Telekom believes not to have been invoked correctly, and as a result, it refused to pay the requested amount. The ensuing dispute is already being resolved in arbitration proceedings before the International Court of Arbitration in Geneva, where the customers exchanged writs in 2018. Thus, both the put option of Antenne Slovenia B.V. Amsterdam, and the call option of Telekom Slovenije were extended until the end of the arbitration proceedings, which is expected to come to an end in 2019.

35. CURRENT CONTRACT LIABILITIES

EUR thousand	2018	2017
Short-term billed in advance co-locations	1,621	0
Total current contract liabilities	1,621	0



36. SHORT-TERM DEFERRED REVENUE

EUR thousand	2018	2017
Deferred revenue from sale of prepaid cards	1,680	1,479
Short-term co-locations	0	1,537
Short-term portion of government grants for property, plant and equipment	72	83
Other deferred revenue	1,901	1,208
Total short-term deferred revenue	3,653	4,307

Other deferred revenue relates mostly to the loyalty programme and services of information and communications technologies. The Company has reclassified the billed short-term co-locations in to current contract liabilities

37. ACCRUED COSTS AND EXPENSES

EUR thousand	2018	2017
Accrued costs and expenses for services rendered and goods supplied	15,294	21,986
Accrued costs and deferred revenue – international services	19,486	18,684
Accrued wages and bonuses	2,815	2,414
Accrued costs for unused vacation days	3,300	3,498
Total accrued costs and expenses	40,895	46,582

38. 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 2018

EUR thousand	Carrying amount	Fair value	Level 1	Level 2	Level 3
Non-current financial assets					
Investments in shares and interests listed on the stock exchange, measured at fair value through other comprehensive income	1,867	1,867	1,867		
Investments in shares and interests not listed on the stock exchange, measured at fair value through other comprehensive income	2,998	2,998			2,998
Loans given	94,167	94,167			94,167
Current financial assets					
Loans given	11,180	11,180			11,180
Non-current financial liabilities					
Bonds	99,940	101,000	101,000		
Borrowings	210,310	210,310			210,310
Liabilities for interest rate swap	763	763		763	
Current financial liabilities					
Bonds	-42	-42			-42
Interest on bonds	1,095	1,095			1,095
Borrowings	51,335	51,335			51,335
Other financial liabilities	185	185			185

Carrying amounts and fair values at 31 December 2017

EUR thousand	Carrying amount	Fair value	Level 1	Level 2	Level 3
Non-current financial assets					
Available-for-sale financial assets	1,796	1,796	1,796		
Loans given	80,897	80,894			80,897
Current financial assets					
Loans given	44,448	44,448			44,448
Non-current financial liabilities					
Bonds	99,898	101,000	101,000		
Borrowings	168,796	168,796			168,796
Liabilities for interest rate swap	583	583		583	
Current financial liabilities					
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

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 in subsidiaries and joint ventures, which are measured according to the cost model [Note 15, [Investments in subsidiaries](#)].

ASSETS THAT ARE NOT MEASURED AT FAIR VALUE, BUT FOR WHICH FAIR VALUE IS DISCLOSED:

Carrying amounts and fair values at 31 December 2018

EUR thousand	Carrying amount	Fair value	Level 1	Level 2	Level 3
Investment property	4,039	4,203			4,203

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

The Company did not classify those assets and liabilities for which fair value is not measured into any of the fair value categories.

39. CONTINGENT LIABILITIES

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 renewals based on new negotiations. The customer may cancel the contract or order in accordance with terms of the contract or order. Customers are charged penalties in case of early cancellation.

Lease payments for business premises and base stations are defined based on the agreed fee with the owner and on 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 renewals 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 terms of the concluded contract;
- the possibility of termination by the owner within 1 year in accordance with the provisions of the Code of Obligations and the Office Buildings and Business Premises Act.

Payable in - EUR thousand	2018	2017
up to 1 year	10,979	10,647
from 1 to including 5 years	34,892	34,556
over 5 years	27,245	28,691

For the 2018 reporting period, total costs of operating leases recognised in the Company's income statement amounted to EUR 10,853 thousand [2017: EUR 11,279 thousand] and are disclosed under costs of leasing lines and property, plant and equipment [Note 7, [Cost 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 renewals 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	2018	2017
up to 1 year	11,534	10,536
from 1 to including 5 years	37,140	35,937
over 5 years	36,571	33,085

In the 2018 reporting period, revenue from leases recognised in the income statement amounted to EUR 11,518 thousand [2017: EUR 10,352 thousand] and the Company discloses it under revenue from sale of services on the domestic and international market [Note 5, [Revenue from contracts with customers](#)].

AMOUNTS CLAIMED IN LITIGATION

EUR thousand	2018	2017
Amounts claimed in litigation	56,217	188,458

As of the reporting date, 45 [2017: 41] civil actions were lodged against the Company, the largest of which refers to SKY NET, with the disputed amount of EUR 33,047 thousand.

The relevant cases are at various stages as follows:

- in the commercial dispute brought against Telekom Slovenije by SKY NET, the competent court will decide in a retrial also on the subordinate claim, i.e. fulfilment of contract. 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, which Telekom believes not to have been invoked correctly, and as a result, it refused to pay the requested amount. The ensuing dispute is already being resolved in arbitration proceedings before the International Court of Arbitration in Geneva, where the customers exchanged writs in 2018.

Based on the obtained legal opinions and the estimate of the management, the Company formed provisions for legal actions in the amount of EUR 4,500 thousand [Note 29, Provisions]. As at the reporting date, contingent liabilities amount to EUR 23,170 thousand [2017: 25,855].

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	2018	2017
Performance bonds and guarantees for repairs	5,135	6,446
Performance guarantees	2,080	2,083
Other securities	450	502
Total guarantees issued	7,665	9,031

Performance guarantees represent the guarantees of Telekom Slovenije to banks for securing the liabilities of its subsidiaries. Up until 9 May 2018, Telekom Slovenije was charging subsidiaries a guarantee fee of 1.0% p.a. of the guarantee amount and the Company recognises it under revenue from sale of services on the domestic and international market [Note 5, Revenue from contracts with customers].

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 parent company Telekom Slovenije issued, as the sole shareholder of IPKO and majority owner of Antenna TV SL, supporting letters to these companies, in which it provides assurance 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.

40. RELATED PARTY TRANSACTIONS

Related entities are individuals or companies that are related to Telekom Slovenije.

TRANSACTIONS WITH INDIVIDUALS

Related individuals [the chairman and members of the Management Board, and members of the Supervisory Board] hold a total of 553 shares in the Company, representing an equity holding of 0.00846%. Other members of management and supervisory bodies did not own any shares of the Company.

No loans were extended to related individuals in 2018.

Data on groups of persons in 2018

EUR thousand	Total gross receipts	Receipts as profit pay-outs based on the resolution of the Shareholders' Meeting	Loans	
			Unpaid portion at 31 Dec 2018	Repayments in 2018
Members of the Management Board	919	-	-	-
Members of the Supervisory Board	258	-	-	-
Members of the Supervisory Board commissions	21	-	-	-
Other managerial staff employed under contracts that are not subject to the tariff part of the collective agreement	5,711	-	21	7

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
Total Management Board members	824	-	-	-
Members of the Supervisory Board	263	-	-	-
Members of the Supervisory Board commissions	20	-	-	-
Other managerial staff employed under contracts that are not subject to the tariff part of the collective agreement	5,442	-	10	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 with a repayment period of 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 2018 - breakdown

in EUR	Salary	Variable pay*	Other personal earnings	Reimbursement of costs	Holiday allowance	Insurance premiums	Benefits	PDPZ	Total gross**	Total net***
Rudolf Skobe [1 Jan - 31 Dec]	149,874	19,907		1,804	1,161	663	16,626	2,819	192,854	74,885
Tomaž Seljak [1 Jan - 31 Dec]	149,874	19,907		1,705	1,161	663	10,827	2,819	186,956	78,377
Ranko Jelača [1 Jan - 31 Dec]	149,874	16,337		1,662	1,161	792	7,196	2,819	179,841	82,433
Aleš Aberšek [1 Jan - 31 Aug]	99,575	34,599	62,876	967	774	5,223	4,523	1,879	210,416	84,898
Dean Žigon [24 Apr - 31 Dec]	72,517			882		473	4,882	1,936	80,690	35,684
Vesna Lednik [1 Jan - 22 Apr]	31,980	32,774	689	367	290	162	1,221	940	68,423	34,702
Total	653,694	123,524	63,565	7,387	4,547	7,976	45,275	13,212	919,180	390,979

* Variable pay refers to the performance bonus for 2015, 2016 and 2017.

** 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).

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
Skupaj	682,546	64,776	8,524	5,790	15,370	33,172	14,095	824,273	355,508

* 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.

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:

EUR thousand	Total amount of all liabilities 2018	Total amount of all liabilities 2017
Total Management Board members	216	227
Other managerial staff employed under contracts that are not subject to the tariff part of the collective agreement	528	440

Remuneration of the Supervisory Board members in 2017 (breakdown)

in EUR	Attendance fees	Monthly pay	Commissions	Travel expenses	Liability insurance	Total gross*	Total net**
External members							
Lidija Glavina (1 Jan – 31 Dec)	4,620	28,000	2,068		233	34,921	25,170
Barbara Gorjup (1 Jan – 31 Dec)	3,575	21,000	3,425		233	28,233	20,306
Barbara Kúrner Čad (1 Jan – 31 Dec)	4,345	21,000	2,068		233	27,646	19,879
Bernarda Babič (1 Jan – 31 Dec)	3,850	20,650	3,150		233	27,883	20,051
Marjanovič Dimitrij (1 Jan – 31 Dec)	3,575	21,000	3,425		233	28,233	20,306
Ljubomir Rajšič (1 Jan – 31 Dec)	4,070	21,000	1,100	8,054	233	34,457	20,854
Internal members							
Primož Per (1 Jan – 18 Sep)	2,805	12,927	836		233	16,801	11,992
Samo Podgornik (1 Jan – 18 Sep)	2,530	15,622	2,112		233	20,497	14,680
Dean Žigon (1 Jan – 22 Jan)	220	1,325	396			1,941	1,411
Urban Škrjanc (14 Feb – 18 Sep)	1,815	10,250	220		233	12,518	8,877
Drago Kijevčanin (19 Sep – 31 Dec)	1,815	6,141	1,892			9,848	7,162
Dušan Pišek (19 Sep – 31 Dec)	1,815	4,958	660			7,433	5,406
Jana Žižek Kuhar (19 Sep – 31 Dec)	1,815	4,958	440			7,213	5,246
Total	36,850	188,831	21,792	8,054	2,097	257,624	181,340

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 supervisory board members' net earnings, inclusive of liability insurance, which actually reduce net earnings, together with travel expenses.



Remuneration of the Supervisory Board members in 2017 (breakdown)

in EUR	Attendance fees	Monthly pay	Commissions	Travel expenses	Liability insurance	Total gross*	Total net**
External members							
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 Hočevvar [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 Rajšić [27 Apr - 31 Dec]	2,863	14,000	1,804	8,420	290	27,377	16,683
Internal members							
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
Total	34,228	192,121	23,177	10,896	2,610	263,032	185,806

* 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 supervisory board members' net earnings, inclusive of liability insurance, which actually reduce net earnings, together with travel expenses.

In 2018, members of the Supervisory Board were trained in various areas of supervisory board activities. The total cost of education was 2,202.50 EUR. Members of the Supervisory Board received no other payments.

Remuneration of members of the Supervisory Board commissions in 2018 (breakdown)

in EUR	Attendance fees	Monthly pay	Commissions	Travel expenses	Liability insurance	Total gross*	Total net**
External commission members							
Barbara Nose [1 Jan - 31 Dec]	0	10,500	2,728	0	0	13,228	9,621
Slavko Ovčina [1 Jan - 31 Dec]	0	7,000	1,100	50	0	8,150	5,927
Skupaj	0	17,500	3,828	50	0	21,378	15,548

* 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 2017 (breakdown)

in EUR	Attendance fees	Monthly pay	Commissions	Travel expenses	Liability insurance	Total gross*	Total net**
External commission members							
Barbara Nose [1 Jan - 27 Apr, 10 Jul - 31 Dec]	0	8,750	2,244	0	0	10,994	7,996
Slavko Ovčina [4 Apr - 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
Total	0	14,466	5,324	0	0	19,790	14,395

* 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

EUR thousand	31.12.2018	31.12.2017
Receivables due from companies in the Group	7,388	8,953
Subsidiaries	7,388	8,953
Loans to companies in the Group	105,030	124,478
Subsidiaries	105,030	124,478
Liabilities to companies in the Group	20,482	23,500
Subsidiaries	20,482	23,498
Joint ventures	0	2
EUR thousand	I - XII 2018	I - XII 2017
Net revenue in the Group	21,739	20,227
Subsidiaries	21,739	20,227
Purchase of material and services in the Group	7,421	51,432
Subsidiaries	7,421	51,424
Joint ventures	0	8

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.

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 2,080 thousand [2017: EUR 2,083 thousand].

Loans given to subsidiaries

EUR thousand	2018	2017
GVO	1,500	1,502
TSmedia	1,710	1,101
IPKO	80,788	107,288
SOLINE	1,300	1,165
SIOL Zagreb	161	71
BLICNET	0	3,321
SIOL Sarajevo	6,980	200
SIOL Skopje	60	300
SIOL Beograd	280	380
TSinpo	35	0
Antenna TV SL, d.o.o.	24,100	9,150
Total for related companies	116,914	124,478

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	2018	2017
Outstanding operating receivables	4,739	3,649
Short-term accrued revenue	0	20,558
Outstanding operating liabilities	2,535	1,416

The increase in short-term accrued revenue arises from the e-tolls project.

Revenue and expenses

EUR thousand	2018	2017
Operating revenue	21,857	31,183
Purchase costs of material and services	10,763	9,276

All related party transactions are carried out under market prices.

41. AUDITOR'S FEE

EUR thousand	2018	2017
Audit services	92	65
Other assurance engagements	26	6
Other non-audit services	1	0
Total auditor's fees	119	71

42. CATEGORIES OF FINANCIAL INSTRUMENTS

The Company classified financial instruments into groups as shown in the table below.

EUR thousand	2018	2017
Financial assets		
Cash and cash equivalents	2,011	17,358
Bank deposits	0	77,283
Investments in loans and receivables.	290,569	276,647
Loans given	105,347	125,345
Operating and other receivables	185,222	151,302
Financial assets measured at fair value through other comprehensive income.	41,413	40,652
Investments in shares and interests of companies	4,865	4,510
Investments in subsidiaries and joint ventures	36,548	36,142
Financial liabilities		
Financial derivatives	763	3,642
Financial derivatives	0	3,059
Liabilities for interest rate swap	763	583
Held to maturity	495,360	506,315
Operating liabilities	132,537	121,195
Borrowings	261,645	283,985
Liabilities under bonds issued	100,993	100,951
Liabilities for dividends	185	184

The Group did not reclassify these instruments to other groups during the year.

43. 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 based on 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 2018 amount to:

Credit risk exposure

EUR thousand	2018	2017
Loans given	105,347	125,345
Investments	0	77,283
Operating and other receivables	185,222	151,302
- of which trade receivables	143,554	145,899
Cash and cash equivalents	2,011	17,358
TOTAL	292,580	371,288

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 2018, these amounted to EUR 143,554 thousand and indicate a decrease of EUR 2,345 thousand vs. 2017.

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 90% 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 2018 accounts for 2% of total credit risk exposure (2017: 4%).

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	2018			2017		
	Gross value	Allowances	Net value	Gross value	Allowances	Net value
Total trade receivables	158,367	-14,813	143,554	174,351	-28,452	145,899
Not past due trade receivables	126,659	0	126,659	123,590	0	123,590
Overdue						
up to and including 30 days	10,788	-6	10,782	11,492	-4	11,488
31 to and including 60 days	2,521	-7	2,514	4,363	-11	4,352
61 to and including 90 days	1,456	-16	1,440	1,645	-13	1,632
91 to and including 120 days	805	-376	429	992	-323	669
121 days and more	16,138	-14,408	1,730	32,269	-28,101	4,168
Total overdue trade receivables	31,708	-14,813	16,895	50,761	-28,452	22,309
Other operating receivables	41,668	0	41,668	5,403	0	5,403
Total receivables	200,035	-14,813	185,222	179,754	-28,452	151,302

The Company monitors credit 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 subsidiaries and employees. 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, liens, guarantee statements and other adequate forms of insurance. The Company also regularly monitors and supervises the operations of its subsidiaries, thus additionally mitigating the related credit risk. The risk involved in lending to employees is low, as these loan repayments are for the most part settled through payroll.

Maturity profile of loans given

EUR thousand	2018	2017
Overdue	1,009	286
Due in:	104,338	125,059
less than 3 months	1,081	16,688
3 to 12 months	9,090	27,474
1 to 2 years	14,587	14,706
2 to 5 years	71,823	57,409
more than 5 years	7,757	8,782
Total	105,347	125,345



Ageing analysis of loans given as at 31 December 2018

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	104,338	1,009	0	0	0	0	105,347

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

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, long-term credit lines were also obtained, which ensure the Company a high liquidity level. The total liquidity reserve in the form of short-term and long-term credit lines with banks amounted as at 31 December 2018 to EUR 142 million. The Company also has at its disposal the unutilised part of the new long-term loan in the amount of EUR 35 million.

Maturity profile of liabilities of Telekom Slovenije as at 31 December 2018 and 31 December 2017 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
2018								
Loans and borrowings	0	0	0	51,596	30,769	180,385	0	262,750
Anticipated interest on loans	0	0	31	3,605	3,199	6,723	0	13,558
Other financial liabilities	185	0	0	1,095	0	100,763	0	102,043
Anticipated interest on bonds	0	0	0	1,950	3,900	0	0	5,850
Trade payables and other operating liabilities	3,507	1,669	103,693	23,668	3,682	9,228	0	145,447
Total	3,692	1,669	103,724	81,914	41,550	297,099	0	529,648

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
2017								
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
Total	4,465	2,875	201,487	37,536	36,247	254,543	7,969	545,122

LIQUIDITY RISK AND CAPITAL MANAGEMENT

In December 2018, Telekom Slovenije d.d. signed an annex to the existing long-term syndicated loan agreement, which was signed with the syndicate of banks in 2016. The Annex extended the agreed maturity of one of the tranches of the existing long-term loan, in the amount of EUR 100 million by two years, while at the same time providing a new loan in the amount of EUR 100 million with a 7-year maturity, which was not yet fully drawn-down as of the end of 2018. By signing the Annex, the Company thus ensured the continued stability of its financing structure.

The Company discloses a relatively low level of indebtedness. Most of the financial liabilities refer to the long-term syndicated loan in the amount of the outstanding principal of EUR 234.2 million and the issue of bonds of EUR 100 million. The Company is regularly repaying its financing obligations; EUR 115.4 million of long-term loan obligations were repaid in 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	2018	2017
Borrowings and other financial liabilities	363,586	388,762
Less short-term investments and cash with short-term deposits	-13,191	-139,089
Net liabilities	350,395	249,673
Equity	634,196	694,355
Total assets	1,223,526	1,337,559
Debt/equity ratio	55.3%	36.0%
Equity/total assets ratio	51.8%	51.9%

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 2018, 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 's interest-bearing financial liabilities, the liabilities relating to borrowings, which bear variable interest rates linked to 3-month and 6-month Euribor, account for a share of 68.7% as at 31 December 2018. The remaining liabilities arise from drawn short-term revolving loans and bonds issued, which bear interest at a fixed interest rate.

In order to hedge against interest exposure arising from the long-term syndicated loan, the Company has an interest rate swap in place. The amount of hedged principal as at 31 December 2018 was EUR 84.6 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 54.6% of interest -bearing financial debt.

Exposure to interest rate risk

EUR thousand	2018	2017
Financial instruments with variable interest rate		
Financial receivables*	24,100	19,395
Financial liabilities	164,615	192,308
Net financial liabilities	140,515	172,912

* 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 before tax, whereby all other variables are constant.

Interest rate risk table

	Interest rate increase/decrease	Effect on profit before tax in EUR thousand
2018		
EURO	+100 bps	-864
EURO	-100 bps	-846
	Interest rate increase/decrease	Effect on profit before tax in EUR thousand
2017		
EURO	+100 bps	-1,009
EURO	-100 bps	-927

EURIBOR interest rate values

EURIBOR	Value at 31 Dec 2018	Value at 31 Dec 2017	Change as %
3-month	-0.309	-0.329	6.08
6-month	-0.237	-0.271	12.55

44. 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 operating 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 notification.

The company Telekom Slovenije is obliged to pay an annual compensation in the amount of EUR 521 thousand (2017: EUR 591 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 591 thousand (2017: EUR 593 thousand), whilst the fee for telephony numbering space for the same period amounts to EUR 266 thousand (2017: EUR 266 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, [Cost of services](#)].

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. 11. 2001	20 years	concession fee EUR 91,804 thousand.
Decision on allocating the radio frequencies for LTE 800 MHz, UMTS 2100 MHz	26. 5. 2014	from 31 May 2014 to 31 May 2029	concession fee EUR 26,835 thousand.
Decision on allocating the radio frequencies for GSM 900 and 1800 MHz, LTE 2600 MHz	26. 5. 2014	4 January 2016 to 4 January 2031	concession fee EUR 37,705 thousand.



45. EVENTS AFTER THE REPORTING DATE

FEBRUARY

- The credit rating agency S&P Global Ratings confirmed Telekom Slovenije's existing credit rating of BB+ and assessed the future outlook as negative. The Agency claims the negative outlook is due to the increase in planned investment expenditure, combined with the company's performance in a highly competitive market.
- Telekom Slovenije received the order of the Ljubljana District Court of 4 December 2018 concerning the commercial dispute between the plaintiff Telekom Slovenije d.d. and the defendants Bojan Dremelj, Dušan Mitič, Filip Ogris Martič, Željko Puljić and Darja Senica, for payment of EUR 7,635,500.00 plus charges, accrued interest and other fees. The Ljubljana District Court ruled that the action claim is denied in its entirety, mandating Telekom Slovenije d.d. to pay the cost of litigation incurred by the defendants and intervenients. Telekom Slovenije is currently in the process of reviewing the ruling and will communicate further developments to the shareholders and general public as new developments occur.

3.3.3 INDEPENDENT AUDITOR'S REPORT FOR THE COMPANY TELEKOM SLOVENIJE, D. D.

Deloitte.

Deloitte revizija d.o.o.
Dunajska cesta 116a
1000 Ljubljana
Slovenija

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INDEPENDENT AUDITOR'S REPORT to the owners of Telekom Slovenije d.d.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Telekom Slovenije d.d. (hereinafter 'the Company'), which comprise the balance sheet as at 31 December 2018, 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 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (hereinafter 'IFRS').

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and Regulation (EU) 537/2014 of the European Parliament and of the Council, dated 16 April 2014, on specific requirements regarding statutory audit of public-interest entities. Our responsibilities under those rules 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 year ended 31 December 2018. 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
Valuation of Investments in Subsidiaries and Loans to Subsidiaries	
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 a valuation of the recoverable amount of an investment from an external appraiser.	We evaluated the management's consideration of impairment indicators for the investments. Our audit procedures included, among others, using an auditor's expert to assist us in evaluating external appraisers' reports, in particular: • mathematical calculations of valuations, • correctness of the valuation methods, • evaluating the assumptions used to calculate the discount rates,

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V Sloveniji storitve zagotavlja Deloitte revizija d.o.o. in Deloitte svetovanje d.o.o. (posklop in imenoma Deloitte Slovenija), ki sta članici Deloitte Central Europe I Holdings Limited. Deloitte Slovenija sodi med vodilne družbe za strokovne storitve v Sloveniji, ki nudijo storitve revizijske, davčne, poslovalne, finančne in pravne svetovanja ter svetovanja na področju tveganj, ki jih zagotavlja več kot 100 delavcev in tujih strokovnjakov.

Deloitte revizija d.o.o. - Družba vpisana pri Ožreznem sodišču v Ljubljani - Matična številka: 164108 - ID št. za DDV: SI62660895 - Številni šifra: 7421420 BUR.

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Management judgement is significant in this process.	- analysis of projected future cash flows used by the Company to carry out impairment tests, - 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. For loans to subsidiaries we evaluated: - whether the balances recorded as at 31 December 2018 were in accordance with the confirmations by subsidiaries, - the concordance of loans repayments with loan agreements during the year, - the management's assessment of recoverability and related impairments. 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.
Provisions for Lawsuits	
Telekom Slovenije, d.d. is involved in legal and regulatory proceedings regarding its operations and had claims amounting to EUR 56,217 thousand as at 31 December 2018. The Company has a balance of EUR 4,500 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.	Our audit procedures focused on the evaluation of judgments used to record provisions. Among others, our audit procedures included: - We have evaluated and tested the design and implementation of key internal controls regarding the recognition of provisions for lawsuits. - We have obtained and reviewed the Supervisory Board, the Audit Committee and the Management Board minutes, and correspondence with the regulators. - 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. - We have reviewed the appropriateness of estimates and assumptions used by the Company regarding the recognition of provisions for lawsuits. We have also evaluated whether the disclosures regarding provisions for lawsuits were appropriate. Accounting for provisions for lawsuits is disclosed in Notes 29 and 39.

Other information

Management is responsible for the other information. The other information comprises the information, included in Annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we express no assurance thereon.

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. If based on our work performed we conclude that other information include material misstatement we need to report such circumstances.

In relation to this and based on our procedures performed, we report that:

- other information are, in all material respects, consistent with the financial statements;
- other information are prepared in compliance with applicable law or regulation; and
- based on our knowledge and understanding of the Company and its environment obtained in the audit, we did not identify any material misstatement of fact related to the other information.

Responsibilities of Management, 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 of the Company, management is responsible for assessing its ability to continue as a going concern, disclosing 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

Supervisory Board and the Audit Committee are responsible for overseeing the Company's financial reporting process and for approving audited annual report.

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 auditing rules 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 auditing rules, 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 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 organization 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 Supervisory Board and the Audit Committee we communicate the planned scope and timing of the audit and significant findings from the audit, including deficiencies in internal control we have identified during our audit.

We also provide 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.

From the matters communicated 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.

Report on Other Legal and Regulatory Requirements

Appointment of the Auditor and the Period of Engagement

Deloitte revizija d.o.o. was appointed as the statutory auditor of the Company on General Shareholders' Meeting held on 21 April 2017 for the financial years 2017, 2018 and 2019. Our total uninterrupted engagement has lasted for 2 years.

Confirmation to the Audit Committee

We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 20 March 2019 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services

We declare that no prohibited non-audit services referred to in the Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided. 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.

Engagement partner responsible for the audit on behalf of Deloitte revizija d.o.o. is Barbara Žibret Kralj, certified auditor.

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, March 20 2019

TRANSLATION ONLY, SLOVENE 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:	http://www.telekom.si
Email:	info@telekom.si
Twitter:	@TelekomSlo
Facebook:	https://sl-si.facebook.com/TelekomSlovenije
LinkedIn:	https://www.linkedin.com/company/telekom-slovenije
Instagram:	Telekom_Slovenije

Subsidiaries in the Group and joint ventures

Companies in Slovenia



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:	www.gvo.si
Email:	gvo@telekom.si
Company:	GVO Telekommunikation GmbH
Registered office:	DE 48683 Ahaus, Germany
Address:	Schorlemer StraÙe 48
Company:	OPTIC-TEL telekomunikacije, d. o. o.
Registered office:	Ljubljana
Address:	Cigaletova 10, Ljubljana
Company:	INFRATEL, telekomunikacijska infrastruktura, d. o. o.
Registered office:	Ljubljana
Address:	Cigaletova 10, Ljubljana

avtenta.

Company:	Avtenta, napredne poslovne rešitve, d. o. o.
Registered office:	Ljubljana
Address:	Stegne 19, 1000 Ljubljana
Telephone:	+386 1 583 68 00
Website:	www.avtenta.si
Email:	prodaja@avtenta.si , marketing@avtenta.si

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:	www.tsmedia.si
Email:	info@tsmedia.si

Antenna TV SL

Company:	Antenna TV SL, televizijska dejavnost, d. o. o.
Registered office:	Ljubljana
Address:	Stegne 19
Telephone:	+386 1 473 00 00
Website:	www.planet-tv.si
Email:	info@planet-tv.si



DCompany:	Soline Pridelava soli, d. o. o.
Registered office:	Portorož
Address:	Seča 115, 6320 Portorož/Portorose
Telephone:	+386 5 672 13 43
Website:	www.soline.si
Email:	info@soline.si

M-PAY

Company:	M-PAY, Družba za mobilno plačevanje, storitve in trgovino, d. o. o.
Registered office:	Maribor
Address:	Vita Kraigherja 4, 2000 Maribor
Website:	https://www.nkbm.si/M-PAY

TSinpo

DCompany:	TSinpo, storitveno in invalidsko podjetje, d. o. o.
Registered office:	Ljubljana
Address:	Litostrojska cesta 58A, 1000 Ljubljana
Telephone:	+386 1 500 60 60
Website:	www.tsinpo.si
Email:	info@tsinpo.si



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:	www.ipko.com
Email:	info@ipko.com



Blicnet

Company:	Blicnet, d. o. o. Banja Luka
Registered office:	Banja Luka, Bosnia and Herzegovina
Address:	Majke Jugovića 25
Telephone:	+387 51 921 000
Website:	www.blic.net
Email:	office@blicnet.ba

SIOL

Company:	SIOL, d. o. o.
Registered office:	Zagreb, Croatia
Address:	Margaretska 3
Website:	http://www.siol.com/

SIOL

Company:	SIOL, d. o. o., Sarajevo
Registered office:	Sarajevo, Bosnia and Herzegovina
Address:	Fra Andela Zvizdovića 1

SIOL

Company:	SIOL, d. o. o., Podgorica
Registered office:	Podgorica, Montenegro
Address:	Bulevar Svetog Petra Cetinjskog 106

SIOL

Company:	SIOL DOOEL Skopje
Registered office:	Skopje, North Macedonia
Address:	Dimitrie Chupovski 4-1/14

SIOL

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
ASPU	Average Spend Per User	Povprečna poraba na uporabnika
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
BDP		bruto domači proizvod
	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/Operational Support System	sistem za podporo poslovnega procesa / sistemi za operativni podporni proces
-	BusinessConnect	sodobna rešitev za upravljanje dokumentarnega gradiva
CAGR	Compound Annual Growth Rate	povprečni letni prirast
CAPEX	Capital Expenditure	vrednost investicij
CATV	Cable Television	kabelska televizija
CSCC	Cyber security control center	nadzorni center za kibernetisko varnost
CEM	Customer Experience Management	upravljanje uporabniške izkušnje
	Cloud services	storitve v oblaku
CRM	Customer relationship management	sistemi za upravljanje uporabnikov
-	Cross-sale	navzkrižna prodaja
ETNO ETT	Europe's telecommunication network operators Energy Task Team	Evropsko združenje telekomunikacijskih operaterjev - tim za energetske cilje
FURS	Financial administration of the Republic of Slovenia	Finančna uprava RS
DCaaS	Data Center as a Service	podatkovni center kot storitev
-	Data offload	razbremenjevanje mobilnih podatkovnih omrežij na druge tehnologije
DDOS	Distributed Denial of Services	porazdeljena zavrnitev storitve
DTV	Digital television	digitalna televizija
DVB-x/IP	Digital Video Broadcast - IP over x [C, S, T]	digitalna videoradiodifuzija s podporo prenosa IP-podatkovnih paketov prek MPEG-transportnega toka
DVB-T	Digital Video Broadcasting-Terrestrial	prizemna digitalna videoradiodifuzija



Abbreviation	English term	Slovene translation
DVB-T	Digital Video Broadcasting-Terrestrial	prizemna digitalna videoradiodifuzija
DVB-T/C/S	Digital Video Broadcasting-Terrestrial/Cable/Satellite	prizemna/kabelska/satelitska digitalna videoradiodifuzija
DWDM	Dense Wavelength Division Multiplex	gosti valovni multipleks
EBIT	Earnings before interest, taxes	dobiček iz poslovanja pred obrestmi in davki
EBITDA	Earnings before interest, taxes, depreciation and amortization	dobiček iz poslovanja pred obrestmi, davki in amortizacijo
EFQM	European Foundation for Quality Management	evropska nagrada za poslovno odličnost
ERP	Enterprise Resource Planning	poslovni informacijski sistem
EU	European Union	Evropska unija
FC	Fiber channel	optični kanal
FTTH	Fiber To The Home	optično vlakno do hiše/stanovanja
FTTH/B/N	Fiber To The Home / Business / Node	optika do hiše/podjetja/vozlišča
FTTx	Fiber To The Exchange	optika do X
	Flagship	vodilna [referenčna] trgovina
GDPR	General Data Protection Regulation	Splošna uredba o varstvu osebnih podatkov
GOŠO	Construction of Open Broadband network	gradnja odprtega širokopasovnega omrežja [bele lise – subvencionirano s sredstvi EU]
GPON	Gigabit Passive Optical Network	gigabitno pasivno optično omrežje
GRI	Global reporting initiative	model trajnostnega poročanja
HFC	Hybrid Fiber Coax	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
IKT	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	International Monetary Fund World Economic Outlook	
IMF WEO	International Monetary Fund World Economic Outlook	
IPTV	IP television	televizija prek internetnega protokola
KFI	Key Financial Indicators	ključni finančni indikatorji poslovanja

Abbreviation	English term	Slovene translation
KPI	Key Performance Indicators	ključni kazalniki poslovanja
KPSS	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	navidezno zasebno omrežje
NOC	Network Operations Center	
NGA	Next Generation Access	hitro dostopovno omrežje
NGN	Next Generation Networks	širokopasovna omrežja naslednje generacije
NFV	Network Functions Virtualization	
NPS	Net Promotor Score	merilo za spremljanje uporabniške izkušnje, v eni številki pa združuje indikacijo uporabnikove pripravljenosti priporočanja, njegovega zadovoljstva, zaznav odličnosti uporabniške izkušnje in izražanja pripadnosti ponudniku
OCKV	Operational center of cyber security	Operativni center kibernetске varnosti
OPEX	Operational Expenditure	stroški poslovanja brez amortizacije
OMS	Order management system	sistem upravljanja naročil
OPEX	Operational Expenditure	stroški poslovanja brez amortizacije
OSS	Operations Support system	sistem za podporo delovanja
OŠO	Construction of Open Broadband	odprta širokopasovna omrežja
OTN	Optical Transport Network	Optični prenosni sistem
OTT	Over-the-top content	Storitve, ki delujejo neodvisno od omrežja – distribucija video- in avdiovsebin 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	Communications regulatory agency BH	Regulatorna agencija za komunikacije Bosne in Hercegovine
RAN	Radio Access Network	radijsko mobilno dostopovno omrežje



Abbreviation	English term	Slovene translation
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 odzemanje
ROE	Return on Equity	dobičkonosnost kapitala
ROO	Regional Optical Network	regionalno optično omrežje
RNO	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		Sekcija za kibernetsko varnost pri GZS
SOC	Service Operations Center	
SDN/NFV	Software Defined Network / Network Functions Virtuali	
SME/SOHO	Small and Medium Enterprises / Small Office Home Office	mala in srednja podjetja
SMS	Short Message Service	storitev kratkih sporočil
SMB	Small and medium size business	mali in srednjeveliki poslovni uporabniki
SLA	Service Level Agreement	Sporazum o ravni zagotavljanja storitve
	Up-sale	nadgradnja storitev
SURS	Statistical office of Republic Slovenia	Statistični urad Republike Slovenije
TDM	Time Division Multiplex	časovni multipleks, sistem s porazdeljevanjem časa
ULR		usredstvena lastna režija
UMTS/HSPA	Universal Mobile Telecommunications System/High Speed Packet Access	univerzalni mobilni telekomunikacijski sistem/protokol 3G, ki pomeni nadgradnjo omrežja UMTS in omogoča večje prenosne hitrosti
UMAR		Urad za makroekonomske analize in razvoj
USO	Universal Service Obligation	obveznost zagotavljanja univerzalnih storitev
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	brežžično omrežje po standardih IEEE 802.11
WFM	Workforce Management	sistem za optimizacijo terenskega dela
XaaS storitve	Anything as a Service	ponudba celostne palete storitev v oblaku



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