



TelekomSlovenije

**Unaudited Business Report of
Telekom Slovenije Group and
Telekom Slovenije, d. d.,
for period January to June 2019**



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1. Introductory note

Pursuant to the law and the Rules of the Ljubljana Stock Exchange, Telekom Slovenije, d. d. (hereinafter: Telekom Slovenije), with its registered office at Cigaletova 15, Ljubljana, hereby publishes the Unaudited Business Report of the Telekom Slovenije Group and Telekom Slovenije for the period January to June 2019.

The condensed interim financial statements for the period ending 30 June 2019 were compiled in accordance with IAS 34 Interim Financial Reporting, and must be read in conjunction with the annual financial statements compiled for the financial year ending 31 December 2018. The financial statements for the period January to June 2019 have not been audited.

Telekom Slovenije's Supervisory Board discussed the Unaudited Business Report of the Telekom Slovenije Group and Telekom Slovenije for the aforementioned period at its session on 23 July 2019.

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

The Unaudited Business Report for the period January to June 2019 is also accessible on the Company's website at www.telekom.si.

1.1. Statement of responsibility of the Management Board

The members of Telekom Slovenije's Management Board responsible for compiling the unaudited report of the Telekom Slovenije Group and Telekom Slovenije for the period January to June 2019, hereby find that:

- to the best of our knowledge, the unaudited report of the Telekom Slovenije Group and Telekom Slovenije was compiled and published in accordance with valid legislation and the International Financial Reporting Standards as adopted by the EU;
- the condensed interim financial statements for the period ending 30 June 2019 were compiled in accordance with IAS 34 Interim Financial Reporting, and must be read in conjunction with the annual financial statements compiled for the financial year ending 31 December 2018;
- the selected accounting policies were applied consistently in the compilation of the condensed financial statements and any changes to those 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 and the Telekom Slovenije Group are going concerns; and
- the interim business report presents a fair picture of information regarding major transactions with related parties, in accordance with regulations.



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



Dr Vida Žurga,
Member of the
Management Board



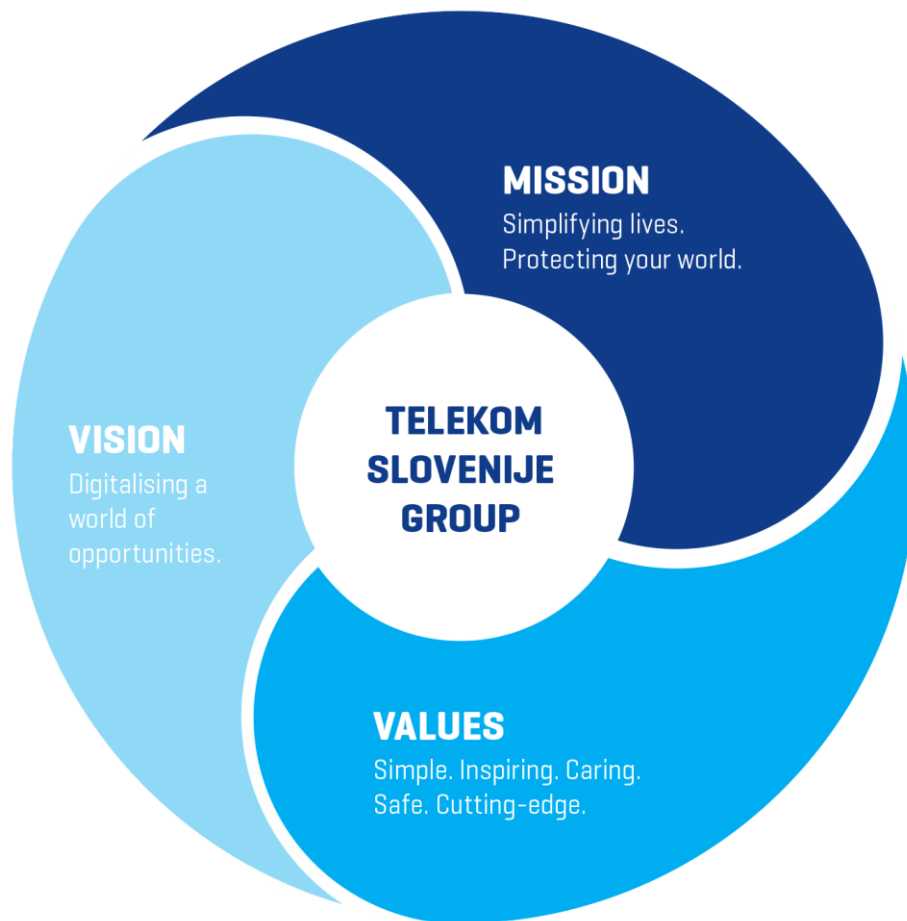
Ranko Jelača,
Member of the
Management Board



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

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

2.1. Vision, mission and values



2.2. Key strategic policies

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.

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 2019¹

Operating revenues	EUR 711.9 million
EBITDA	EUR 216.0 million
Net operating profit	EUR 30.3 million
Investments	EUR 211.9 million

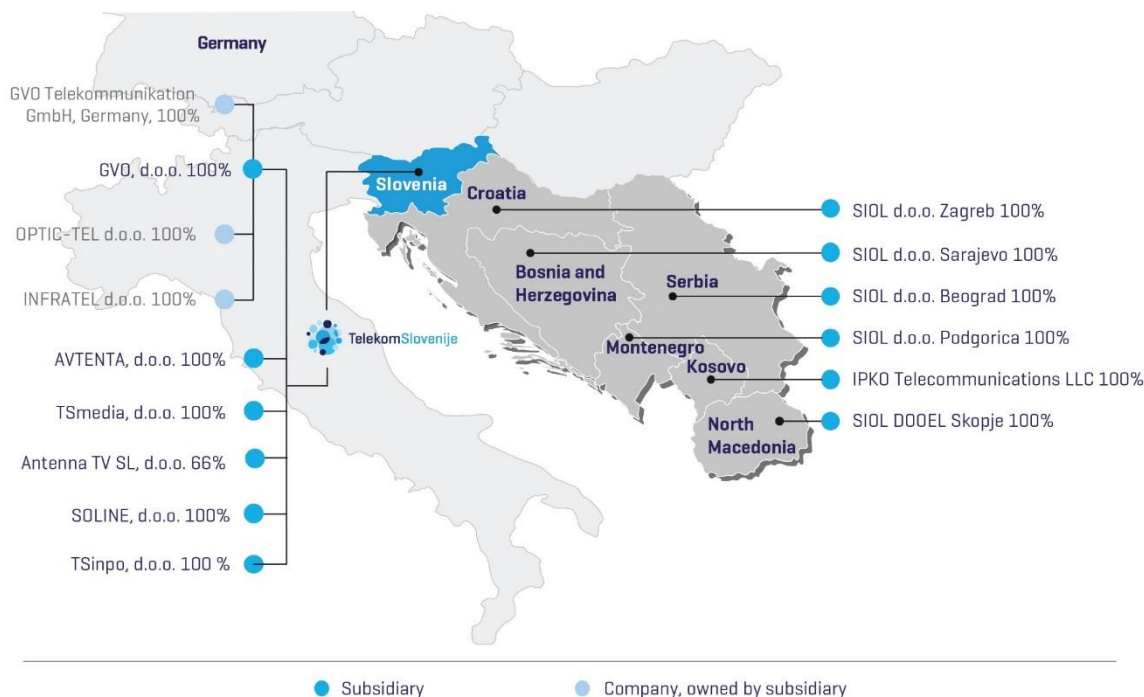
¹ In accordance with IFRS 15 and IFRS 16.

3. Telekom Slovenije Group

3.1. Markets and companies of the Telekom Slovenije Group

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

Situation as at 30 June 2019



Changes in the composition of the Group in 2019

- As owners of M-Pay, d. o. o., 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.
- In January 2019, Telekom Slovenije completed the sale of its 100% participating interest in the subsidiary Blicnet, d. o. o., Banja Luka based on a sales agreement signed on 2 October 2018 with Telekomunikacije Republike Srpske akcionarsko društvo Banja Luka.

Telekom Slovenije is the founder of the Heart Foundation, the aim of which is to help the children of the employees of Slovenian Telekom Slovenije Group companies who have lost a parent or who are seriously ill. The majority of the foundation's funds are contributed by the employees of Slovenian Telekom Slovenije Group companies. The Heart Foundation was entered in the records of institutions on 25 April 2019.

3.2. Operating highlights

The Telekom Slovenije Group achieved the following results during the first half of 2019²:

- The Telekom Slovenije Group generated EUR 343.1 million in operating revenues during the first half of 2019.
- Net sales revenue amounted to EUR 340.6 million, which is a decrease of 5% relative to the first half of 2018. It should be noted that revenues in 2019 no longer include the revenues generated by Blicnet, which was sold in 2018. Revenues from mobile merchandise on the end-user market and revenues from the fixed segment of the end-user market were down in 2019, primarily due to the completion of the project to set up an electronic toll collection system in 2018, and down were also revenues on the wholesale market.
- The Telekom Slovenije Group's operating expenses totalled EUR 319.3 million, a decrease of 8% or EUR 26.9 million relative to the same period in 2018.
- Earnings before interest, taxes, depreciation and amortisation (EBITDA) reached EUR 112.3 million or 33.0% of net sales revenue.
- Earnings before interest and taxes (EBIT) amounted to EUR 23.8 million during the first half of 2019, an increase of 41% or EUR 6.9 million relative to the first half of 2018.
- Following the calculation of income tax (including deferred taxes), the Telekom Slovenije Group generated a net profit of EUR 19.6 million during the first half of 2019, an increase of 35% or EUR 5.1 million relative to the same period in 2018.

3.3. Key financial indicators for the Telekom Slovenije Group

	Telekom Slovenije Group			Telekom Slovenije		
EUR thousand / %	I - VII 2019 / 30.6.2019	I - VI 2018 / 31.12.2018	Index 19/18	I - VII 2019 / 30.6.2019	I - VI 2018 / 31.12.2018	Index 19/18
Net sales revenue	340,626	359,979	95	308,103	324,180	95
Other operating income	2,426	2,994	81	1,049	1,133	93
Operating revenue	343,052	362,973	95	309,152	325,313	95
EBITDA	112,343	100,946	111	96,868	83,786	116
EBITDA margin	33.0%	28.0%	118	31.4%	25.8%	122
EBIT	23,781	16,842	141	25,314	17,100	148
Return on sales: ROS (EBIT/net sales revenue)	7.0%	4.7%	149	8.2%	5.3%	156
Net profit	19,572	14,535	135	23,202	15,665	148
Assets	1,269,495	1,232,719	103	1,266,371	1,223,526	104
Equity	638,961	619,628	103	657,207	634,196	104
Equity ratio	50.3%	50.3%	100	51.9%	51.8%	100
Net financial debt	377,491	352,484	107	378,442	350,395	108

² All figures for 2018 include the operations of Blicnet.

3.4. Overview by company and key market

Operating revenues

EUR thousand	I - VI 2019	I - VI 2018	Index 19/18
Telekom Slovenije	309,152	325,313	95
Other companies in Slovenia	42,829	34,306	125
IPKO - Kosovo	29,791	34,244	87
Other companies abroad	1,668	9,498	18
Total - unconsolidated	383,440	403,361	95
Eliminations and adjustments	-40,388	-40,388	-
Telekom Slovenije Group	343,052	362,973	95

EBITDA – earnings before interest, taxes, depreciation and amortisation

EUR thousand	I - VI 2019	I - VI 2018	Index 19/18
Telekom Slovenije	96,868	83,786	116
Other companies in Slovenia	2,414	219	-
IPKO - Kosovo	13,977	14,103	99
Other companies abroad	1,194	3,168	38
Total - unconsolidated	114,453	101,276	113
Eliminations and adjustments	-2,110	-330	-
Telekom Slovenije Group	112,343	100,946	111

EBIT – earnings before interest and taxes

EUR thousand	I - VI 2019	I - VI 2018	Index 19/18
Telekom Slovenije	25,314	17,100	148
Other companies in Slovenia	-423	-1,754	-
IPKO - Kosovo	-1,308	433	-
Other companies abroad	451	959	47
Total - unconsolidated	24,034	16,738	144
Eliminations and adjustments	-253	104	-
Telekom Slovenije Group	23,781	16,842	141

Net profit or loss

EUR thousand	I - VI 2019	I - VI 2018	Index 19/18
Telekom Slovenije	23,202	15,665	148
Other companies in Slovenia	-1,160	-2,444	-
IPKO - Kosovo	-2,768	-1,046	-
Other companies abroad	266	750	35
Total - unconsolidated	19,540	12,925	151
Eliminations and adjustments	32	1,610	-
Telekom Slovenije Group	19,572	14,535	135

TELEKOM SLOVENIJE GROUP CONNECTIONS AND SERVICES BY TYPE AND MARKET

Broadband connections

Number of retail BB connections as at	30.6.2019	31.12.2018	Index 19/18
Slovenia	210,364	214,163	98
SE Europe	112,388	148,170	76
Kosovo	112,388	120,999	93
Bosnia and Herzegovina	0	27,171	0
Telekom Slovenije Group	322,752	362,333	89

Fixed and mobile telephony connections

Number of retail connections as at	30.6.2019	31.12.2018	Index 19/18
Slovenia, mobile telephony	1,024,880	1,049,230	98
Slovenia, fixed voice telephony	328,464	331,192	99
SE Europe, mobile telephony:	707,509	722,812	98
Kosovo	707,509	719,771	98
Bosnia and Herzegovina	0	3,041	0
SE Europe, fixed voice telephony	0	1,366	0
Telekom Slovenije Group	2,060,853	2,104,600	98
VoIP services			
Slovenia	190,962	193,412	99
SE Europe	11,046	24,427	45
Telekom Slovenije Group	202,008	217,839	93

Number of mobile and fixed telephony connections / services

Number of retail connections as at	30.6.2019	31.12.2018	Index 19/18
Total mobile telephony	1,732,389	1,772,042	98
Total fixed voice telephony services*	530,472	550,397	96
Telekom Slovenije Group	2,262,861	2,322,439	97

* Seštevek priključkov fiksne govorne telefonije in storitev VoIP.

Capex

EUR thousand	I - VI 2019	I - VI 2018	Index 19/18
Telekom Slovenije	53,208	37,885	140
Other companies in Slovenia	1,074	876	123
Ipko - Kosovo	15,428	7,169	215
Other companies abroad	340	3,097	11
Eliminations and adjustments	-817	-551	148
Telekom Slovenije Group	69,233	48,476	143

Employees

number of employees at	30.06.2019	31.12.2018	Index 19/18
Telekom Slovenije	2,186	2,196	100
Other companies in Slovenia	735	707	104
Ipko - Kosovo	528	528	100
Other companies abroad	0	99	-
Telekom Slovenije Group	3,449	3,530	98

3.5. Ownership structure and share trading

General information regarding Telekom Slovenije shares as at 30 June 2019

General information regarding shares	
Ticker symbol	TLSG
Listing	Ljubljana Stock Exchange, prime market
Share capital (EUR)	272,720,664.33
Number of ordinary registered no-par value shares	6,535,478
Number of shares held in treasury	30,000
Number of shareholders as at 30 June 2019	9,383

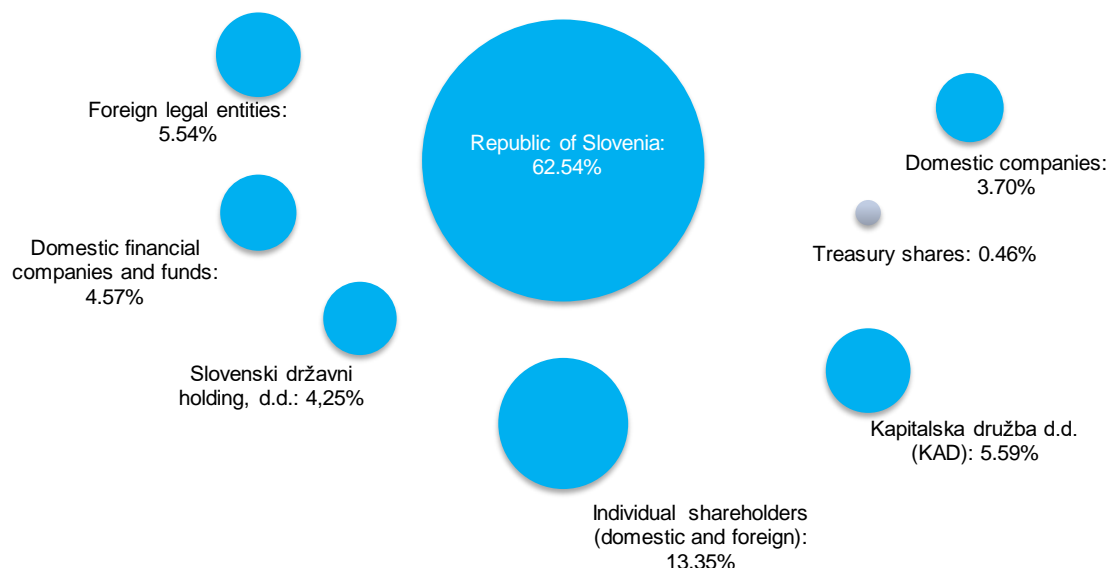
Ownership structure and largest shareholders as at 30 June 2019

Telekom Slovenije had 9,383 shareholders at the end of the first half of the year, a decrease of 24 relative to the end of 2018.

With a total stake of 94%, domestic investors are still 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 government.

Individual shareholders represent the second largest category of owners and increased their stake further during the first six months of 2019. Domestic corporates also increased their ownership stake, while domestic financial corporations and funds and foreign corporates reduced their stake.

Ownership structure as at 30 June 2019



Ten largest shareholders as at 30 June 2019

The concentration of ownership, as measured by the ownership stake held by the ten largest shareholders, stood at 78.44% at the end of the first half of 2019, an increase of 0.15 percentage points relative to the end of 2018. The structure of the ten largest shareholders also changed.



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

Members of the Management Board and Supervisory Board held 253 TLSG shares as at 30 June 2019.

Name and surname	Office	Number of shares	% of equity
Management Board			
Dean Žigon	Member of the Management Board and Workers' Director	1	0.00002
Nadzorni svet			
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		253	0.00387

When corporate shares are traded by representatives of the Company and when reporting on such transactions at Telekom Slovenije, we comply with the applicable legislation and the Rules Restricting Trading in the Shares of Telekom Slovenije.

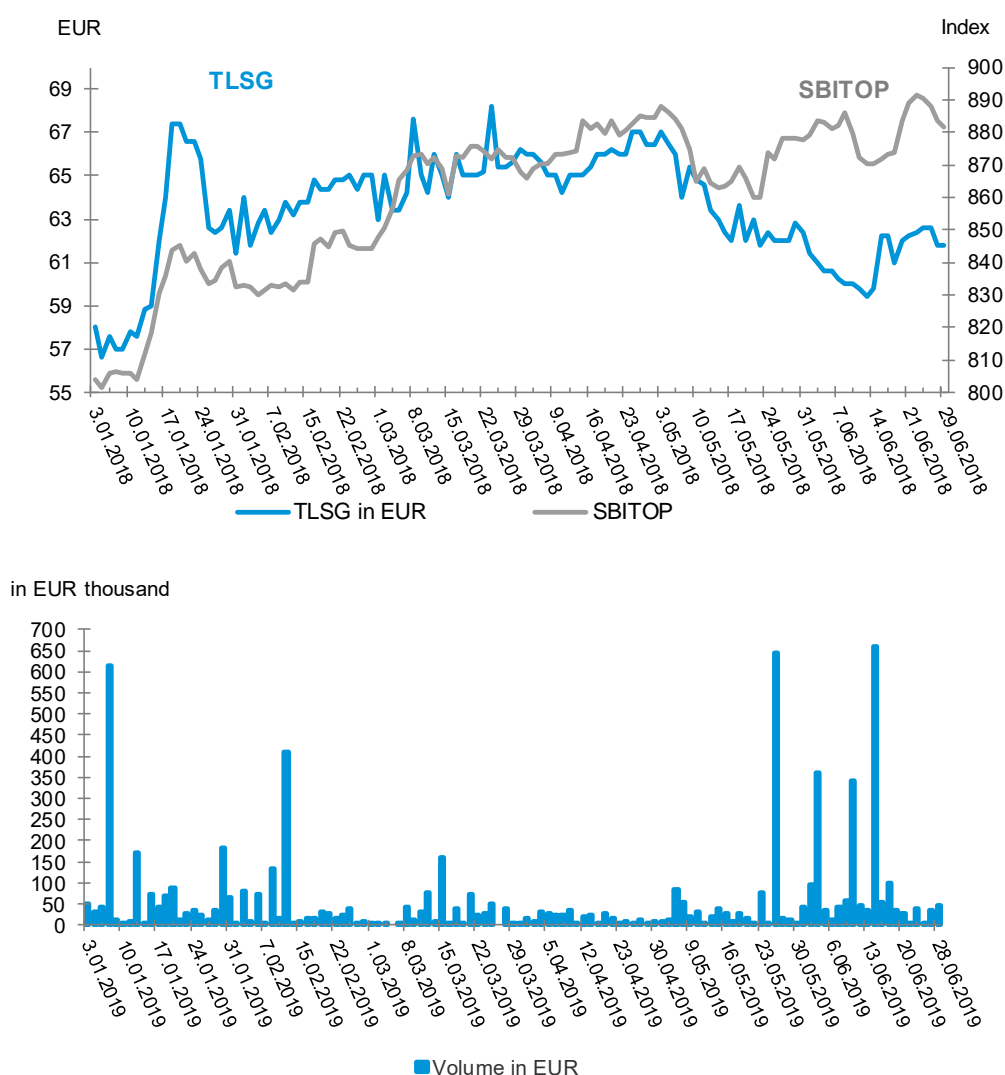
Share trading and key share-related financial data

Movement in the TLSG share price

Turnover in Telekom Slovenije shares totalled EUR 6.65 million during the period January to June 2019, representing 4.88% of total turnover on the stock exchange. The price of TLSG shares closed at EUR 61.80 on the last trading day of June. The share price rose by 4.75% during the first half of the year. The highest share price of EUR 68.20 was achieved during the last week of March. The market capitalisation of Telekom Slovenije stood at EUR 403.89 million on the last trading day of June, accounting for 5.96% of the market capitalisation of all shares on the stock exchange.

Standard price in EUR	I – VI 2019	I – VI 2018
Highest daily price	68.20	92.40
Lowest daily price	56.60	81.40
Average daily price	63.47	86.43
Volume in EUR thousand	I – VI 2019	I – VI 2018
Total volume for the year	6,653.74	16,443.60
Highest daily volume	660.91	664.56
Lowest daily volume	0.13	1.13
Average daily volume	55.91	137.03

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



Source: Ljubljana Stock Exchange, archive of share prices.

Key financial data relating to shares

	30. 6. 2019 / I – VI 2019	31. 12. 2018 / I – VI 2018
Closing price (P) of one share on the last trading day of the period in EUR	61.80	91.80
Book value (BV) ¹ of one share in EUR	97.77	94.81
Earnings per share (EPS) ² in EUR	3.01	2.23
P/BV	0.63	0.97
Capital return per share during the period in % ³	4.75	10.76
Dividend yield ⁴ in %	23.14	5.45

Notes:

¹ The book value of one share is calculated as the ratio of the book value of the Telekom Slovenije Group's equity on the last day of the period to the number of issued ordinary shares. Comparable data from the statement of financial position are from 31 December 2018.

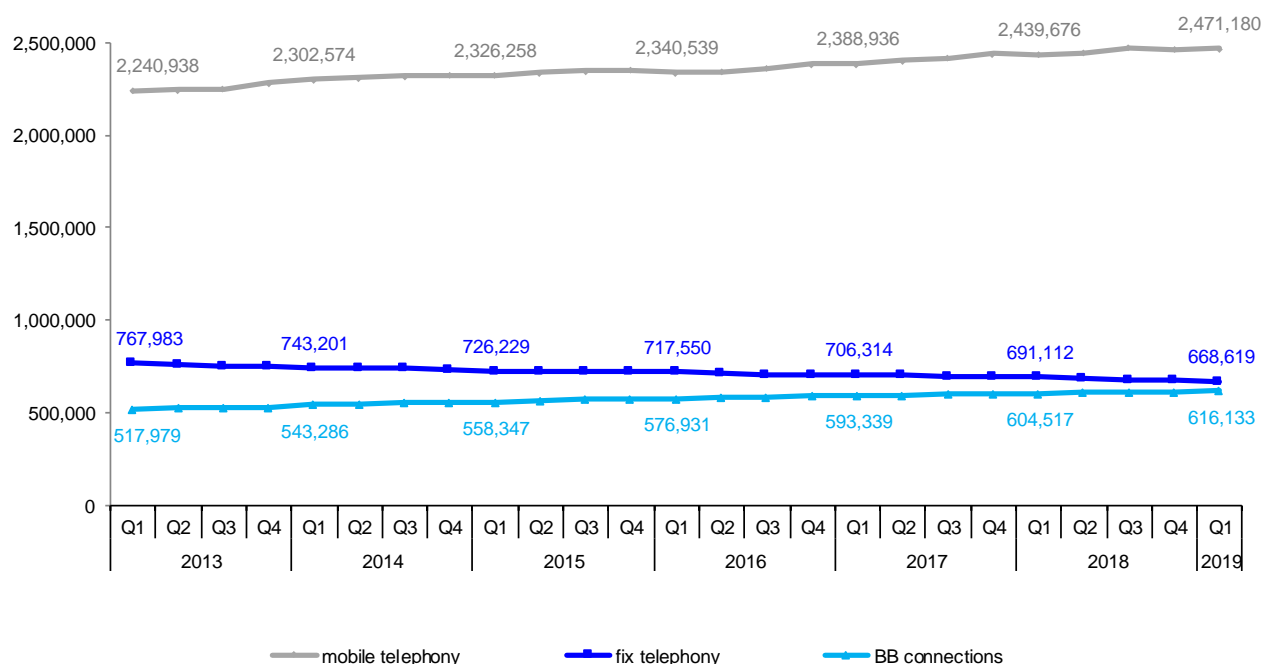
² Net earnings per share is calculated as the ratio of the Telekom Slovenije Group's net operating profit for the accounting period to the average number of issued ordinary shares, excluding treasury shares.

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

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

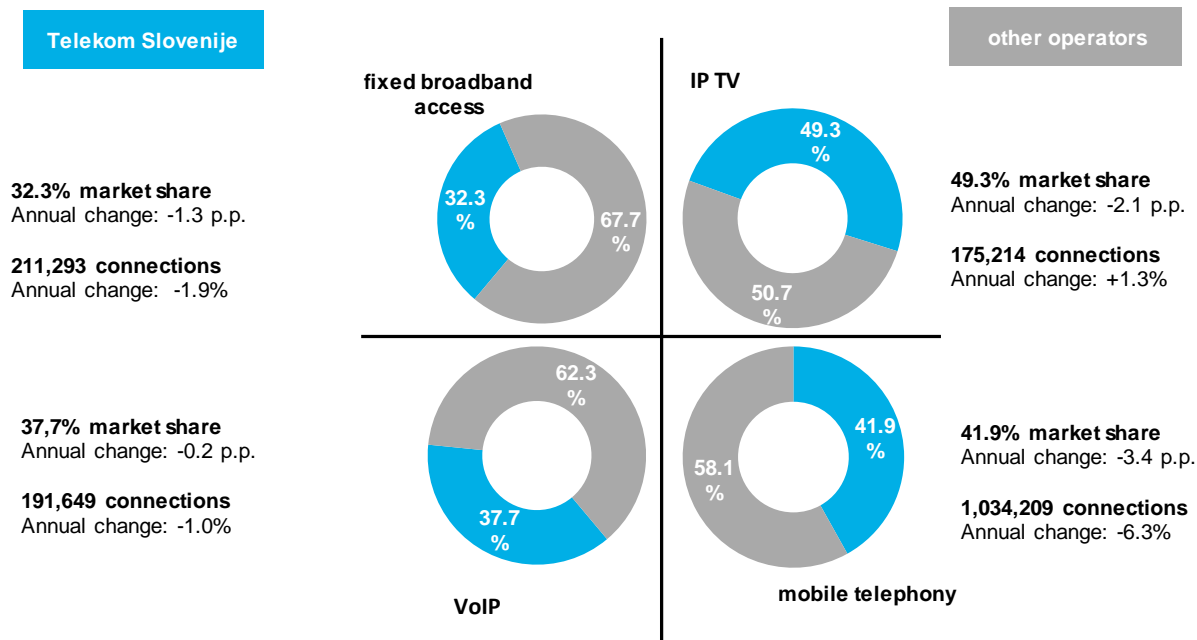
3.6. Market and market shares in key service segments

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



Sources: SURS, Electronic communication services, July 2019.

Telekom Slovenije Group market shares in the first quarter of 2019 in key market segments



Sources: AKOS: eAnalitik portal, July 2019; internal Telekom Slovenije figures.

3.7. Risk management

Key risks are presented below by Telekom Slovenije Group company.

Telekom Slovenije
Strategic risks <ul style="list-style-type: none">• Telekom Slovenije faces strong competition, regulatory effects and price-sensitive users on both the European inter-operator market and the domestic telecommunications operator market. The users of telecommunication services demand high-quality services at the lowest possible prices. The market is becoming increasingly saturated, which means less manoeuvring room for maintaining existing users and attracting new users. Required for the management of such risks are control over regulatory measures, a targeted and active market approach, the provision of high-quality, readily available services, the continuous adaptation of business solutions, the adaptation of and changes to the portfolio, and the introduction of the latest technical developments for specific groups and segments of users.
Financial risks <ul style="list-style-type: none">• Telekom Slovenije regularly monitors the dynamics of the financial environment that reflect the various types of financial risks to which the Company is exposed in its operations. We actively monitor liquidity, credit and interest-rate risk, while various financial risk management models and derivatives are used to reduce exposure to specific types of risks.• Liquidity risk is managed through the planning and management of cash flows, by ensuring the appropriate maturities and the diversification of financial debt, and through financing within the Group and the optimisation of working capital and cash. Short-term imbalances in cash flows are managed through short-term revolving loans from banks, while we also have long-term reserve credit lines as an additional element of financial security.• Credit risk is managed through the active monitoring of 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 system tool used for credit risk management.• We hedge against interest-rate risk also by entering into interest-rate swaps agreements. Fixed or hedged interest rates account for 58.6% of the Company's interest-bearing financial liabilities.
Regulatory and compliance-related risks <ul style="list-style-type: none">• Regulatory risks remain high for Telekom Slovenije and derive from changes to the regulatory framework and policies, and from the potential decisions of the regulator regarding the imposition of additional obligations or changes in prices in individual market segments.• Taking into account the planned public auction of a portion of the 700 MHz radio frequency band for the fifth-generation (5G) mobile technology in the previous period, as well as the new strategy for the management of the radio frequency spectrum adopted by the AKOS on 8 May 2019, the Company has identified risks associated with the conditions of that public auction, requirements regarding the use of frequencies, excessively high auction prices, and other conditions associated directly or indirectly with the public auction. All of that could affect the possibility of acquiring the tendered radio frequency spectrum for the provision of electronic communications services.• The EU directive establishing the European Electronic Communications Code (EECC) was adopted at the end of 2018. 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 applies directly in Member States since 15 May 2019 on, also introduced limits on the retail prices of calls and text messages within the EU.• Of significance in terms of compliance is the implementation of Regulation (EU) 2016/679 of the European Parliament and of the Council on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, the application of which began on 25 May 2018. Following the

entry into force of the aforementioned regulation, Telekom Slovenije adapted business processes and upgraded information support systems with the aim of ensuring compliance with the requirements of that regulation. The Company is continuing to update and improve personal data processing in 2019. Currently being drawn up is the new Personal Data Protection Act (ZVOP-2), the draft of which envisages additional requirements compared with the General Data Protection Regulation. The Company submitted comments regarding the draft act via the Chamber of Commerce and Industry of Slovenia during public consultations. The EU's new ePrivacy Regulation is still being coordinated by stakeholders (EU institutions and Member States). That regulation will affect data processing as it relates to the provision of electronic communications services.

- In its operations, Telekom Slovenije complies with valid legislation, as well as decisions and aspects of sectoral regulations and other competent bodies. We manage regulatory risks through organisational and procedural measures in the Company's operations, through constructive dialogue, by putting forth opinions, comments and suggestions in public consultations regarding drafts of general and specific laws issued by the regulator, and by taking legal action against issued regulatory decisions, whenever that is justified.

Operational risk

- A great deal of attention is given to managing operational risks associated with ICT networks, services and devices, as well as the management and development of employees in this area. The development of technologies and ICT services, and the growing demands of applications and devices are accompanied by growing complexity in the comprehensive management thereof. Telekom Slovenije manages this risk through the development of BSS and OSS, by improving operational efficiency and by providing support for 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 automation shortens the duration of processes, reduces the number of participants in processes, decreases the number of errors in processes, and reduces the operational costs of processes. In terms of business continuity, Telekom Slovenije ensures 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. Regular 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. We also established the Cyber Security Operation Centre (CSOC) in 2018 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 our services.

Avtenta

- Avtenta manages risks associated with a lack of experts in the service element of project implementation through external partners.

Antenna TV SL

- Risks associated with solvency are very high. The company is optimising its operations, and is financing operations via its owners.

TSmedia

- Market and revenue risks are associated with the reduced scope of advertising on outdoor screens and fewer visits to TSmedia portals (Siol.net, najdi.si, TIS and Bizi). This risk is managed through account management, the monitoring of sales, the technical and creative development of portals, and training for all sales channels.
- Compliance risks in the area of personal data protection are managed through the implementation of legal requirements and European directives, and employee training.

TSinpo

- Risks associated with the sale of cardboard products are managed through active sales and the attraction of new customers.

GVO
<ul style="list-style-type: none"> Risks associated with staff required for project implementation are managed through the appropriate employee structure and by adapting to the scope of operations.
Soline
<ul style="list-style-type: none"> The risk of poor weather conditions is constantly present, as this is a seasonal activity. An extended period of sunny weather and a dry wind are crucial for the traditional production of sufficient quantities of salt, while rainy weather reduces the amount of salt produced and the number of visitors to the Lepa Vida Spa.
IPKO
<ul style="list-style-type: none"> IPKO responds to the risk of the loss of users and revenues in the segment of fixed and mobile services due to unfair competition through the appropriate market approaches and the use of legal remedies. We have also identified risks in connection with the methodology used by the regulatory body to set prices for the purchase of frequencies, which could result in excessively high costs to purchase those frequencies. The appropriate proceedings have been initiated in that regard. In June 2019, the regulatory body published a new methodology with considerably lower prices for the renewal of existing frequencies. The company is exposed to the risk of higher costs because proceedings initiated by a collective rights organisation to set prices for the payment of copyright fees for the broadcasting of programmes via the cable network are still in progress. ICT risks exist due to the outdated BSS architecture, unstructured, non-standard solutions and the departure of several IT experts. IPKO is managing those risks by defining a strategic BSS architecture and through employee training.

4. Corporate governance

Management Board

Telekom Slovenije is managed by its Management Board, comprising the following members as at 30 June 2019:

- Tomaž Seljak, MSc, Vice-President,
- Ranko Jelača, member,
- Dr Vida Žurga, member, and
- Dean Žigon, member and Workers Director.

In January 2019, Telekom Slovenije's Supervisory Board appointed Dr Vida Žurga to serve as member of the Management Board. Dr Žurga's four-year term of office began on 1 February 2019.

At its session held on 16 April 2019, Telekom Slovenije's Supervisory Board was briefed on the decision of the President of the Management Board, Rudolf Skobe, MSc regarding the early termination of his term of office. On that basis, the Supervisory Board reached an agreement on the early termination of Mr Skobe's term of office as President of the Company's Management Board.

Telekom Slovenije is headed by the Vice-President of the Management Board, Tomaž Seljak, MSc until the appointment of a new president.

Members of the Management Board are appointed for a four-year term of office, which begins on the day an individual member is appointed.

Supervisory Board

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

Telekom Slovenije's Supervisory Board comprised the following members as at 30 June 2019:

Shareholder representatives:

- Lidija Glavina, President,
- Bernarda Babič, MSc, Vice-President,
- Dimitrij Marjanović, member,
- Barbara Kürner Čad, member,
- Barbara Gorjup, MSc, member, and

Employee representatives:

- Drago Kijevčanin, Vice-President,
- Dušan Pišek, member, and
- Jana Žižek Kuhar, member.

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

Employee representatives on the Supervisory Board began their terms of office as replacement members on 19 September 2018 and will serve in their functions until 14 November 2021.

The President of the Supervisory Board received the resignation of member of the Supervisory Board Ljubomir Rajšić. Mr Rajšić's resignation took effect on 18 June 2019.

The President of the Supervisory Board Lidija Glavina tendered her resignation from her position, effective on the day of the next General Meeting of Shareholders of Telekom Slovenije.

Composition of management and governance bodies at subsidiaries of the Telekom Slovenije Group as at 30 June 2019

Slovenia

GVO, d. o. o.

Managing Director: Borut Radi

Avtenta, d. o. o.

Managing Director: Miran Potočnik

Miha Praunseis served as Managing Director until 28 February 2019.

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

TSinpo, d. o. o.

Managing Director: Danilo Tomšič, MSc

Procurator: Vesna Lednik

Other countries

IPKO Telecommunications LLC, Kosovo

Board of Directors: Tomaž Seljak, MSc (President), Bujar Musa and Robert Erzin, MSc

CEO: Robert Erzin, MSc

The term of office of member of the Board of Directors Rudolf Skobe, MSc expired on 24 April 2019, while the term of office of Tomaž Seljak, MSc began on 9 May 2019.

SIOL, d. o. o. Zagreb, Croatia

Managing Director: Matjaž Pogačnik, MBA

SIOL, d. o. o. Podgorica, Montenegro

Managing Director: Matjaž Pogačnik, MBA

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

Managing Director: Matjaž Pogačnik, MBA

SIOL DOOEL Skopje, Macedonia

Managing Director: Matjaž Pogačnik, MBA

SIOL DOO BELGRADE, Serbia

Managing Director: Matjaž Pogačnik, MBA

5. Significant events in the period January to June 2019

First quarter of 2019

January

- The Supervisory Board of Telekom Slovenije appointed Dr Vida Žurga to serve as member of the Management Board responsible for the area of finance. Her four-year term of office as a member of Telekom Slovenije's Management Board began on 1 February 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 virtual SIM card that is permanently installed in a mobile device and replaces the existing SIM card that we know in physical form.
- Avtenta received the highest SAP Partner title. SAP awarded Avtenta the title of SAP Gold Partner. The title is confirmation that Avtenta implements advanced projects that successfully offer and implement SAP solutions on the market, and that the associated activities are performed by an experienced and certified team.

February

- Effective 1 February, Telekom Slovenije is included in the notification of users via the *VELEPOSLANIŠTVO* (EMBASSY) SMS service provided by the Slovenian Ministry of Foreign Affairs. When its users cross the border or when they are connected to the network of another operator, Telekom Slovenije sends them an automatic and free text message with contact information for Slovenian diplomatic and consular offices in the country where they are located.
- The international ratings agency S&P Global Ratings confirmed Telekom Slovenije's existing 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.
- Telekom Slovenije received a ruling from the Ljubljana District Court, issued on 4 December 2018, in the commercial dispute between the Company and the defendants Bojan Dremelj, Dušan Mitič, Filip Ogris Martič, Željko Puljić and Darja Senica for the payment of EUR 7,635,500.00 with appertaining costs. Under that ruling, the aforementioned court rejected the plaintiff's claim in full during retrial. The court ordered Telekom Slovenije to reimburse the litigation costs of the defendants and interveners. Telekom Slovenije has filed an appeal against the latter.

March

- During an independent test conducted by the German company P3, Telekom Slovenije's mobile network proved to be the best in Slovenia. Telekom received P3's 'Best in Test' certificate for its mobile network. That certificate is valid for the global industry standard for measuring network quality and user satisfaction. P3's experts performed measurements from October to December 2018 in more than 88% of built-up areas and numerous network connections throughout Slovenia. The test was conducted on five elements of the network: voice service coverage, data transfer coverage, coverage by LTE/4G technology, data download speed and availability of the data network. Telekom Slovenije's mobile network received the highest total score of the aforementioned elements.
- Telekom Slovenije received two awards for communication effectiveness: a Silver Effie in the market communication category for its *Modri Svet* (Blue World) campaign and a Bronze Effie for the commercial campaign *Vi podpirate Slovenijo, mi skrbimo za vas* (You Support Slovenia, We Take Care of You). It also ranked among the finalists for its *Za naše* (For Our Own) campaign. Telekom Slovenije also received recognition for the most effective brand and most effective advertiser in the period 2016–2018.
- Telekom Slovenije simplified its range of mobile and fixed subscriber packages. Now available to users are *Naj* (Best) mobile packages and fixed packages with a comprehensive range of services for the home under the NEO brand. All of the aforementioned packages are designed so that users can select the combination of benefits that best suit their needs.
- The Supervisory Board of Telekom Slovenije approved the annual report of the Telekom Slovenije Group and Telekom Slovenije, d. d. for 2018. In conjunction with the Company's Management Board, the Supervisory Board drafted a proposal on the use of distributable profit for 2018. The General Meeting of Shareholders, which will be held on 30 August 2019, will be forwarded a proposal that distributable profit be used for the payment of dividends in the amount of EUR 29,274,651.00, meaning a gross dividend of EUR 4.5 per share. The Company's total distributable profit for 2018 amounted to EUR 38,986,324.96.
- Avtenta received the AAA Golden Creditworthiness Certificate of Excellence from the ratings agency Bisnode as a reliable, credible and trustworthy business partner.

Second quarter of 2019

April

- Telekom Slovenije upgraded its entire mobile network with Narrowband Internet of Things (NB-IoT) technology. The latter is a standardised technology for the effective mass communication of devices (connected to the Internet of Things) that generate a low amount of data traffic. NB-IoT technology opens new opportunities for the development of innovative solutions with high value added for the optimisation of processes, resource management, ensuring a high level of security and a higher quality of living. It also represents the next milestone in the development of fifth-generation (5G) mobile networks.
- Telekom Slovenije's Supervisory Board was briefed on the decision of the President of the Management Board, Rudolf Skobe, MSc regarding the early termination of his term of office. On that basis, the Supervisory Board and Mr Skobe reached an agreement on the early termination of his term of office as President of the Company's Management Board, effective on the day the aforementioned agreement was signed, i.e. on 16 April 2019. Telekom Slovenije is headed by the Vice-President of the Management Board, Tomaž Seljak, MSc until the appointment of a new president.

May

- Reduced retail prices for fixed and mobile calls, and for text messages from Slovenia to EU Member States took effect on 15 May 2019 (pursuant to Regulation (EU) No 2015/2120). The aforementioned change applies to the subscribers of mobile and fixed packages, and Mobi users. From 15 May on, the price of mobile and fixed calls from any Slovenian network to the networks of other operators in EU Member States is 19 cents (excluding VAT) a minute, while the price of a sent text message is 6 cents (excluding VAT).

June

- At a conference of healthcare organisations organised under the auspices of the European Hospital and Healthcare Federation, a great deal of attention was generated by the Slovenian smart system for the provision of integrated healthcare services. That system was developed by Telekom Slovenije, the University Medical Centre Ljubljana, the Golnik Clinic, the National Institute of Public Health, the Slovene Federation of Pensioners' Associations (ZDUS), the Anton Trstenjak Institute, the Faculty of Medicine in Ljubljana and the Trebnje Health Centre.
- In the scope of the *Slojenčki* (SLObaby) humanitarian campaign, which is intended for the collection of funds for the upgrading of equipment at maternity hospitals and medical devices for newborns, Telekom Slovenije donated two CTG machines to the Postojna Women's and Maternity Hospital and the Department for Perinatology at the Maribor University Medical Centre. Using CTG machines, doctors are able to closely monitor the beating of the foetus' heart and uterine activity, which is very important for the correct management of pregnancy and birth. Two years ago, Telekom Slovenije donated a CTG machine to the Ljubljana Maternity Hospital for the monitoring of twins.
- Telekom Slovenije and Sparkle, the leading Italian provider of international communication services and one of the ten largest operators in the world, established a new international fibre optic connection that links Ljubljana and Milan. That new connection, which is based on the backbone network of Telekom Slovenije and Sparkle, brings a shorter, alternative connection between the Balkans and Milan and other major hubs in Western Europe, with the possibility of access from Ljubljana, Sophia and Istanbul. The connection covers the needs of operators that do business in the Balkans and Middle East, as well as the international providers of telecommunication services and content that they require for a reliable and responsive network.
- After redefining the TV experience at the end of 2018 with the NEO platform, Telekom Slovenije continues to redefine the use of mobile phones. To that end, it is creating an integrated ecosystem that will simplify life in terms of purchasing, ordering, paying for and using smart city and e-commerce services. The first step in that direction is the VALÚ smart wallet, through which Telekom Slovenije is solidifying its position on the financial services market. The VALÚ smart wallet is not intended solely for payments using a mobile phone, a service that is on the rise in Slovenia, but primarily represents a new generation of financial solutions for the prompt and convenient use of inter-related local services, and effective cash management.
- The President of the Supervisory Board received the resignation of member of the Supervisory Board Ljubomir Rajšič. Mr Rajšič's resignation took effect on 18 June 2019.
- The President of the Supervisory Board Lidija Glavina tendered her resignation from her position, effective on the day of the new General Meeting of Shareholders of Telekom Slovenije.

- Telekom Slovenije successfully upgraded its ISO 27001 information security certificate. The aforementioned certificate, which represents the standard for a high-quality and secure information security management system, was obtained several years ago and is successfully extended every year. It was also extended to the provision of cyber security, and the control of the network and services in 2018. It was further upgraded this year to include processes associated with integrated communication services and network services in the backbone network, which include services provided by the Cyber Security Operation Centre. Telekom Slovenije has committed to taking additional steps in the future to expand the certificate to the entire network.

6. Significant events after the balance-sheet date

Third quarter of 2019

July

- In accordance with the Telekom Slovenije Group's strategy for the period 2019–2023, which envisages the possibility of further consolidation through expansion or divestment on the markets where the Group operates, Telekom Slovenije began activities to sell its 100% participating interest in IPKO Telecommunications LLC in Kosovo. Telekom Slovenije will inform stakeholders of further procedures via the SEOnet system and its website.

7. Condensed interim accounting report of the Telekom Slovenije Group and Telekom Slovenije for the period January to June 2019

7.1. Introductory notes

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

The condensed interim financial statements for the period ending 30 June 2019 were compiled in accordance with IAS 34 Interim Financial Reporting. The financial statements for the period January to June 2019 and for the comparative period January to June 2018 have not been audited, while the financial statements for the comparative period ending 31 December 2018 have been audited.

The financial statements are compiled on a going concern basis and are not seasonal.

Changes in accounting policies

The accounting policies used in the compilation of the interim condensed financial statements are the same as those applied in the compilation of the financial statements for the financial year ending 31 December 2018, except for a change due to the application of new IFRS 16 Leases.

Use of significant estimates and judgements

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

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

Estimates and assumptions are reviewed on a regular basis. Revisions to accounting estimates are recognised in the period in which estimates are revised, and in all future years affected by such revisions.

During the reporting period, Telekom Slovenije changed the useful lives of certain intangible assets (e.g. certain software and software upgrades) and assets under lease that derive from prepaid rental fees for base stations.

The impact of the change in useful lives during the reporting period is lower amortisation costs for intangible assets in the amount of EUR 486 thousand and lower depreciation costs for assets under lease in the amount of EUR 877 thousand.

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

7.1.1. Condensed interim financial statements of the Telekom Slovenije Group and Telekom Slovenije, d. d.

Unaudited income statement for the period ending 30 June 2019

EUR thousand	Telekom Slovenije Group		Telekom Slovenije d.d.	
	I - VI 2019	I - VI 2018	I - VI 2019	I - VI 2018
Revenue	340,626	359,979	308,103	324,180
Other operating income	2,426	2,994	1,049	1,133
Cost of goods sold	-39,593	-44,009	-41,412	-46,133
Cost of materials and energy	-6,866	-7,200	-5,043	-5,325
Cost of services	-130,139	-153,460	-121,239	-142,895
Employee benefits expense	-51,481	-53,283	-41,996	-43,359
Amortisation and depreciation expense	-88,562	-84,104	-71,554	-66,686
Other operating expenses	-2,630	-4,075	-2,594	-3,815
Total operating expenses	-319,271	-346,131	-283,838	-308,213
Profit from operations	23,781	16,842	25,314	17,100
Finance income	2,386	2,927	4,139	3,322
Finance costs	-4,834	-3,962	-4,693	-3,832
Profit before tax	21,333	15,807	24,760	16,590
Income tax expense	-231	-280	0	0
Deferred tax	-1,530	-992	-1,558	-925
Net profit for the period	19,572	14,535	23,202	15,665
Profit attributable to				
Owners of the company	20,025	15,486	0	0
Non-controlling interest	-453	-951	0	0
Earnings per share - basic and diluted (in EUR)	3.01	2.23	3.57	2.41

Unaudited statement of other comprehensive income for the period ending 30 June 2019

EUR thousand	Telekom Slovenije Group		Telekom Slovenije d.d.	
	I - VI 2019	I - VI 2018	I - VI 2019	I - VI 2018
Net profit for the period	19,572	14,535	23,202	15,665
<i>Other comprehensive income that may be reclassified subsequently to profit or loss</i>				
Translation reserves	3	9	0	0
Changes in fair value of hedging instruments	-325	-178	-325	-178
Deferred tax	62	34	62	34
Net gain on changes in fair value of hedging instruments	-263	-144	-263	-144
<i>Other comprehensive income that shall not be transferred to profit or loss in future periods</i>				
Change in the fair value for actuarial deficits and surpluses	0	0	0	0
Change in fair value of investments measured at fair value through other comprehensive income	89	76	89	76
Deferred tax	-17	-14	-17	-14
Change in fair value of investments measured at fair value through other comprehensive income	72	62	72	62
Other comprehensive income for the period after tax	-188	-73	-191	-82
Total comprehensive income for the period	19,384	14,462	23,011	15,583
Total comprehensive income attributable to				
Owners of the company	19,837	15,413		
Non-controlling interest	-453	-951		

Unaudited statement of financial position as at 30 June 2019

EUR thousand	Telekom Slovenije Group		Telekom Slovenije d.d.	
	30.06.2019	31.12.2018	30.06.2019	31.12.2018
ASSETS				
Intangible assets	175,977	189,007	139,990	155,371
Property, plant and equipment	644,345	655,640	570,426	576,896
Right of use assets	80,384	0	84,669	0
Investments in subsidiaries	0	0	36,551	36,548
Other investments	4,923	5,116	96,311	99,032
Long-term contract assets	2,083	4,519	1,620	4,029
Other non-current assets	41,078	47,314	28,248	34,840
Investment property	4,013	4,039	4,013	4,039
Deferred tax assets	43,746	45,215	43,204	44,701
Total non-current assets	996,549	950,850	1,005,032	955,456
Assets held for sale	516	526	516	526
Inventories	28,981	27,467	24,087	22,546
Trade and other receivables	145,210	192,594	139,435	185,222
Short-term contract assets	20,626	12,099	20,104	12,099
Deferred expenses and accrued revenues	23,173	37,836	18,943	34,486
Income tax credits	130	572	71	0
Current financial assets	85	91	13,918	11,180
Cash and cash equivalents	54,225	10,684	44,265	2,011
Total current assets	272,946	281,869	261,339	268,070
Total assets	1,269,495	1,232,719	1,266,371	1,223,526
EQUITY AND LIABILITIES				
Called-up capital	272,721	272,721	272,721	272,721
Capital surplus	181,488	181,488	180,956	180,956
Revenue reserves	123,492	123,492	121,991	121,991
<i>Legal reserves</i>	<i>51,612</i>	<i>51,612</i>	<i>50,434</i>	<i>50,434</i>
<i>Treasury share reserve</i>	<i>3,671</i>	<i>3,671</i>	<i>3,671</i>	<i>3,671</i>
<i>Treasury shares</i>	<i>-3,671</i>	<i>-3,671</i>	<i>-3,671</i>	<i>-3,671</i>
<i>Statutory reserves</i>	<i>54,854</i>	<i>54,854</i>	<i>54,544</i>	<i>54,544</i>
<i>Other revenue reserves</i>	<i>17,026</i>	<i>17,026</i>	<i>17,013</i>	<i>17,013</i>
Retained earnings	67,912	47,938	83,708	60,506
<i>Retain earnings from previous periods</i>	<i>47,887</i>	<i>30,324</i>	<i>60,506</i>	<i>43,493</i>
<i>Profit or loss for the period</i>	<i>20,025</i>	<i>17,614</i>	<i>23,202</i>	<i>17,013</i>
Fair value reserve	204	395	204	395
Fair value reserve for actuarial deficit and surplus	-2,356	-2,356	-2,373	-2,373
Translation reserve	19	16	0	0
Equity attributable to owners of the Company	643,480	623,694	657,207	634,196
Non-controlling interest	-4,519	-4,066	0	0
Total capital	638,961	619,628	657,207	634,196
Long-term contract liabilities	1,157	13,450	208	13,405
Long-term deferred income	15,913	2,702	15,795	2,054
Long-term accrued costs and expenses	3,325	0	3,635	0
Provisions	22,148	21,776	18,660	18,431
Non-current operating liabilities	18,320	13,711	10,144	12,910
Interest bearing borrowings	230,087	210,341	230,056	210,310
Non-current lease liabilities	59,140	0	62,988	0
Other non-current financial liabilities	101,094	100,759	101,049	100,703
Deferred tax liabilities	1,927	1,910	255	238
Total non-current liabilities	453,111	364,649	442,790	358,051
Trade and other payables	89,126	146,391	80,750	132,537
Income tax payable	71	82	0	0
Interest-bearing borrowings	30,539	50,897	30,508	51,335
Current lease liabilities	10,673	0	11,769	0
Other current financial liabilities	268	1,262	255	1,238
Short-term contract liabilities	5,426	1,621	2,591	1,621
Short-term deferred income	1,952	6,797	1,793	3,653
Accrued costs and expenses	39,368	41,392	38,708	40,895
Total current liabilities	177,423	248,442	166,374	231,279
Total liabilities	630,534	613,091	609,164	589,330
Total equity and liabilities	1,269,495	1,232,719	1,266,371	1,223,526

Unaudited statement of changes in equity of the Telekom Slovenije Group for the period ending 30 June 2019

EUR thousand	Called-up capital	Capital surplus	Revenue reserves					Retained earnings		Fair value reserve on available-for-sale financial assets	Fair value reserve for hedging instruments	Fair value reserve for actuarial deficit and surplus	Translation reserve	Total	Non-controlling interests	Total
			Legal reserves	Treasury share reserve	Treasury shares	Statutory reserves	Other revenue reserves	Retained earnings from previous years	Profit or loss for the period							
Balance at 1 Jan 2019	272,721	181,488	51,612	3,671	-3,671	54,854	17,026	30,324	17,614	1,013	-618	-2,356	16	623,694	-4,066	619,628
Profit or loss for the period									20,025					20,025	-453	19,572
Other comprehensive income for the period										72	-263	0	3	-188		-188
Total comprehensive income for the period	0	0	0	0	0	0	0	0	20,025	72	-263	0	3	19,837	-453	19,384
Dividends paid								0						0		0
Transactions with owners	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Transfer of profit or loss from previous period to retained earnings or losses								17,614	-17,614					0		0
Other								-51	0					-51		-51
Balance at 30 June 2019	272,721	181,488	51,612	3,671	-3,671	54,854	17,026	47,887	20,025	1,085	-881	-2,356	19	643,480	-4,519	638,961

Unaudited statement of changes in equity of the Telekom Slovenije Group for the period ending 30 June 2018

EUR thousand	Called-up capital	Capital surplus	Revenue reserves					Retained earnings		Fair value reserve on available-for-sale financial assets	Fair value reserve for hedging instruments	Fair value reserve for actuarial deficit and surplus	Translation reserve	Total	Non-controlling interests	Total
			Legal reserves	Treasury share reserve	Treasury shares	Statutory reserves	Other revenue reserves	Retained earnings from previous years	Profit or loss for the period							
Balance at 1 Jan 2018	272,721	181,488	51,612	3,671	-3,671	54,854	13	112,141	11,203	955	-472	-2,585	0	681,930	-2,760	679,170
Profit or loss for the period									15,486					15,486	-951	14,535
Other comprehensive income for the period										62	-144	0	9	-73		-73
Total comprehensive income for the period	0	0	0	0	0	0	0	0	15,486	62	-144	0	9	15,413	-951	14,462
Dividends paid								-93,028						-93,028		-93,028
Transactions with owners	0	0	0	0	0	0	0	-93,028	0	0	0	0	0	-93,028	0	-93,028
Other								1						1		1
Balance at 31 March 2018	272,721	181,488	51,612	3,671	-3,671	54,854	13	30,317	15,486	1,017	-616	-2,585	9	604,316	-3,711	600,605

Unaudited statement of changes in equity of Telekom Slovenije, d. d. for the period ending 30 June 2019

EUR thousand	Called-up capital	Capital surplus	Revenue reserves					Retained earnings		Fair value reserve on available-for-sale financial assets	Fair value reserve for hedging instruments	Fair value reserve for actuarial deficit and surplus	Translation reserve
			Legal reserves	Treasury share reserve	Treasury shares	Statutory reserves	Other revenue reserves	Retained earnings from previous years	Profit or loss for the period				
Balance at 1 Jan 2019	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
Profit or loss for the period									23,202				23,202
Other comprehensive income for the period										72	-263	0	-191
Total comprehensive income for the period	0	0	0	0	0	0	0	0	23,202	72	-263	0	23,011
Dividends paid								0					0
Transactions with owners	0	0	0	0	0	0	0	0	0	0	0	0	0
Transfer of profit or loss from previous period to retained earnings or losses								17,013	-17,013				0
Balance at 31 March 2019	272,721	180,956	50,434	3,671	-3,671	54,544	17,013	60,506	23,202	1,085	-881	-2,373	657,207

Unaudited statement of changes in equity of Telekom Slovenije, d. d. for the period ending 30 June 2018

EUR thousand	Called-up capital	Capital surplus	Revenue reserves					Retained earnings		Fair value reserve on available-for-sale financial assets	Fair value reserve for hedging instruments	Fair value reserve for actuarial deficit and surplus	Total
			Legal reserves	Treasury share reserve	Treasury shares	Statutory reserves	Other revenue reserves	Retained earnings from previous years	Profit or loss for the period				
Balance at 1 Jan 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 or loss for the period									15,665				15,665
Other comprehensive income for the period										62	-144	0	-82
Total comprehensive income for the period	0	0	0	0	0	0	0	0	15,665	62	-144	0	15,583
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 retained earnings from previous years to retained earnings								1,720	-1,720				0
Balance at 31 March 2018	272,721	180,956	50,434	3,671	-3,671	54,544	0	43,493	15,665	1,017	-616	-2,539	615,675

Unconsolidated cash flow statement for the period ending 30 June 2019

EUR thousand	Telekom Slovenije Group		Telekom Slovenije d.d.	
	I - VI 2019	I - VI 2018	I - VI 2019	I - VI 2018
Cash flows from operating activities				
Profit	19,572	14,535	23,202	15,665
Adjustments for:				
Depreciation and amortization	88,562	84,104	71,554	66,686
Gain or loss on disposal of property, plant and equipment	1	-129	52	-121
Finance income	-2,386	-2,927	-4,139	-3,322
Finance costs	4,834	3,962	4,693	3,832
Income tax expense and deferred tax	1,761	1,272	1,558	925
Operating cash flow prior to changes in net working capital and provisions	112,344	100,817	96,920	83,665
Change in assets held for sale	10	0	0	0
Change in trade and other receivables	11,560	1,687	10,115	1,068
Change in deferred costs, accrued income and contract assets	6,850	12,737	8,330	15,600
Change in other non-current assets	-2,540	1,644	-2,211	1,143
Change in inventories	-498	-2,254	-525	-2,371
Change in provisions	372	-2,556	229	-1,933
Change in long-term, short-term deferred income and contract liabilities	-122	771	-346	1,066
Change in accrued costs and expenses	1,100	1,782	1,288	249
Change in trade and other payables	-53,183	-34,471	-55,748	-32,559
Income tax paid	237	-1,077	0	0
Net cash from operating activities	76,129	79,080	58,052	65,928
Cash flows from investing activities				
Receipts from investing activities	38,886	78,210	44,781	103,035
Sale of property, plant and equipment	634	620	572	615
Dividends received	152	153	152	153
Interest received	2	14	1,677	1,757
Disposal of non-current investments	37,596	398	41,880	23,486
Disposal of current investments	501	77,024	500	77,024
Disbursements from investing activities	-59,976	-55,198	-50,219	-60,517
Acquisition of property, plant and equipment	-35,858	-27,973	-32,780	-24,667
Acquisition of intangible assets	-24,116	-20,504	-12,950	-13,185
Acquisition of investments	0	-273	0	-273
Investments in subsidiaries and associates	0	-6,447	-3	-17,980
Interest-bearing loans	-2	-1	-4,486	-4,412
Net cash from investing activities	-21,090	23,011	-5,438	42,518
Cash flows from financing activities				
Receipts from financing activities	35,000	0	35,000	0
Non-current borrowings	35,000	0	35,000	0
Disbursements from financing activities	-46,497	-112,073	-45,360	-112,038
Maturity of short-term commercial paper	-6,548	0	-4,944	0
Repayment of current borrowings	-28,000	0	-28,500	0
Repayment of non-current borrowings	-7,723	-107,723	-7,692	-107,692
Interest paid	-4,226	-4,350	-4,224	-4,346
Dividends paid	0	0	0	0
Net cash from financing activities	-11,497	-112,073	-10,360	-112,038
Net increase/decrease in cash and cash equivalents	43,541	-9,982	42,254	-3,592
Opening balance of cash	10,684	29,245	2,011	17,358
Closing balance of cash	54,225	19,263	44,265	13,766

7.1.2. Notes to the interim financial statements of the Telekom Slovenije Group and Telekom Slovenije, d. d.

The Telekom Slovenije Group and Telekom Slovenije, d. d. began applying the new **IFRS 16 Leases**, which was adopted by the EU on 31 October 2017 (and applicable to annual periods beginning on or after 1 January 2019), on 1 January 2019. Application prior to the aforementioned date was permitted under the condition that companies apply IFRS 15 Revenue from Contracts with Customers simultaneously.

The standard defines the principles for recognising, measuring, presenting and disclosing leases, and requires lessees to apply a single model for the majority of leases disclosed in the statement of financial position. Under the new standard, no distinction is made between operating and finance leases. The standard replaces IAS 17 Leases.

Under IFRS 16, a contract is a lease if it conveys the right to control the use of an identified asset for a predetermined period of time in exchange for consideration. The new model stipulates that for such contracts, lessees must initially recognise a right-of-use (ROU) asset and a lease liability. The right-of-use asset is subject to depreciation, and interest is imputed to the liability.

The standard introduces possible limited exemptions for lessees, including:

- 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.

In accordance with the new standard, lessees must recognise interest expenses separately from lease liabilities and the depreciation costs associated with assets under leases. They must also remeasure lease liabilities should certain events arise (e.g. a change in a lease term or a change in future lease payments due to a change in the price, index or rate used to determine those payments). As a rule, lessees recognise the amount of remeasured lease liabilities as an adjustment to assets under lease.

There is no significant change in accounting for leases by **lessors**. Lessors classify leases as operating or finance leases, depending on the nature of a particular lease. A lease is classified as a finance lease if all of the risks and rewards incidental to ownership of an underlying asset are transferred under that lease. Otherwise a lease is classified as an operating lease.

The new IFRS 16 requires broader disclosures than the previous standard for both lessees and lessors.

The following two approaches are offered to lessees for transitioning to the new standard:

- a retrospective approach for every previous reporting period presented applying IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors; or
- a retrospective approach with the cumulative effect of the initial application of the aforementioned standard recognised on the date of initial application.

TRANSITION TO IFRS 16

For the purpose of transitioning to the new standard, the Telekom Slovenije Group and Telekom Slovenije, d. d. applied the approach with the cumulative effect of the initial application of the aforementioned standard on 1 January 2019. For this reason, they did not recalculate comparable data for 2018, but disclosed all changes due to the transition to the new standard as an adjustment to the beginning balance in the statement of financial position on the date of initial application.

The Telekom Slovenije Group and Telekom Slovenije, d. d. did not apply the exemptions foreseen by the standard for low-value lease agreements and for leases with a lease term that ends in less than 12 months from initial application.

The effects of the introduction of the new standard on the statement of financial position of the Telekom Slovenije Group and Telekom Slovenije, d. d. as at 1 January 2019 are presented in the table below:

EUR thousand	Telekom Slovenije Group			Telekom Slovenije, d.d.		
	2018 reported	Adjustments	1. 1. 2019 adjusted	2018 reported	Adjustments	1. 1. 2019 adjusted
ASSETS						
Intangible assets	189,007	0	189,007	155,371	0	155,371
Property, plant and equipment	655,640	0	655,640	576,896	0	576,896
Right of use assets	0	78,413	78,413	0	82,913	82,913
Investments in subsidiaries	0	0	0	36,548	0	36,548
Other investments	5,116	0	5,116	99,032	0	99,032
Long-term contract assets	4,519	0	4,519	4,029	0	4,029
Other non-current assets	47,314	-10,670	36,644	34,840	-10,708	24,132
Investment property	4,039	0	4,039	4,039	0	4,039
Deferred tax assets	45,215	0	45,215	44,701	0	44,701
Total non-current assets	950,850	67,743	1,018,593	955,456	72,205	1,027,661
Assets held for sale	526	0	526	526	0	526
Inventories	27,467	0	27,467	22,546	0	22,546
Trade and other receivables	192,594	0	192,594	185,222	0	185,222
Short-term contract assets	12,099	4,561	16,660	12,099	3,908	16,007
Deferred expenses and accrued revenues	37,836	-5,066	32,770	34,486	-4,413	30,073
Income tax credits	572	0	572	0	0	0
Current financial assets	91	0	91	11,180	0	11,180
Cash and cash equivalents	10,684	0	10,684	2,011	0	2,011
Total current assets	281,869	-505	281,364	268,070	-505	267,565
Total assets	1,232,719	67,238	1,299,957	1,223,526	71,700	1,295,226
EQUITY AND LIABILITIES						
Called-up capital	272,721	0	272,721	272,721	0	272,721
Capital surplus	181,488	0	181,488	180,956	0	180,956
Revenue reserves	123,492	0	123,492	121,991	0	121,991
Retained earnings	47,938	0	47,938	60,506	0	60,506
Fair value reserve	395	0	395	395	0	395
Fair value reserve for actuarial deficit and surplus	-2,356	0	-2,356	-2,373	0	-2,373
Translation reserve	16	0	16	0	0	0
Equity attributable to owners of the Company	623,694	0	623,694	634,196	0	634,196
Non-controlling interest	-4,066	0	-4,066	0	0	0
Total capital	619,628	0	619,628	634,196	0	634,196
Long-term contract liabilities	13,450	-13,245	205	13,405	-13,245	160
Long-term deferred income	2,702	13,245	15,947	2,054	13,245	15,299
Long-term accrued costs and expenses	0	0	0	0	0	0
Provisions	21,776	0	21,776	18,431	0	18,431
Non-current operating liabilities	13,711	0	13,711	12,910	0	12,910
Interest bearing borrowings	210,341	0	210,341	210,310	0	210,310
Non-current lease liabilities	0	57,350	57,350	0	62,653	62,653
Other non-current financial liabilities	100,759	0	100,759	100,703	0	100,703
Deferred tax liabilities	1,910	0	1,910	238	0	238
Total non-current liabilities	364,649	57,350	421,999	358,051	62,653	420,704
Trade and other payables	146,485	0	146,485	132,631	0	132,631
Income tax payable	82	0	82	0	0	0
Interest-bearing borrowings	50,897	0	50,897	51,335	0	51,335
Current lease liabilities	0	9,888	9,888	0	9,047	9,047
Other current financial liabilities	1,262	0	1,262	1,238	0	1,238
Short-term contract liabilities	1,621	4,638	6,259	1,621	1,535	3,156
Short-term deferred income	6,703	-4,638	2,065	3,559	-1,535	2,024
Accrued costs and expenses	41,392	0	41,392	40,895	0	40,895
Total current liabilities	248,442	9,888	258,330	231,279	9,047	240,326
Total liabilities	613,091	67,238	680,329	589,330	71,700	661,030
Total equity and liabilities	1,232,719	67,238	1,299,957	1,223,526	71,700	1,295,226

At the Telekom Slovenije Group level, the value of assets under lease and lease liabilities were up by EUR 67,238 thousand due to the transition to the new standard on 1 January 2019. Also disclosed in assets under lease is the transfer of prepaid lease assets in the amount of EUR 11,175 thousand, which together totalled EUR 78,413 thousand as at 1 January 2019.

At Telekom Slovenije, d. d., the value of assets under lease and lease liabilities were up by EUR 71,700 thousand due to the transition to the new standard on 1 January 2019. Also disclosed in assets under lease is the transfer of prepaid lease assets in the amount of EUR 11,213 thousand, which together totalled EUR 82,913 thousand as at 1 January 2019.

Telekom Slovenije Group

The Telekom Slovenije Group include:

Company	Country	30.06.2019
Telekom Slovenije, d.d.	Slovenia	100%
GVO, d.o.o.	Slovenia	100%
TSmedia, d.o.o.	Slovenia	100%
AVTENTA, d.o.o.	Slovenia	100%
SOLINE, d.o.o.	Slovenia	100%
Antenna TV SL, d.o.o.	Slovenia	66%
TSinpo, d.o.o.	Slovenia	100%
Optic-tel, d.o.o.	Slovenia	100%
Infratel, d.o.o.	Slovenia	100%
IPKO Telecommunications LLC	Kosovo	100%
SIOL, d.o.o. Zagreb	Croatia	100%
SIOL, d.o.o. Sarajevo	Bosnia and Herzegovina	100%
SIOL, d.o.o. Podgorica	Montenegro	100%
GVO Telekommunikation GmbH	Germany	100%
SiOL, DOOEL Skopje	North Macedonia	100%
SiOL, d.o.o. Beograd	Serbia	100%
THE HEART FOUNDATION	Slovenia	100%

The Heart Foundation, which was established by Telekom Slovenije, was entered in the companies register in April 2019, and is included in the financial statements of the Telekom Slovenije Group since May 2019.

Segment reporting

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

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

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

Operating segments I – VI 2019

EUR thousand	Slovenia	Other countries	Eliminations and adjustments	Consolidated
External sales	314,116	26,510	0	340,626
Intersegment sales	36,113	3,944	-40,057	0
Total segment revenue	350,229	30,454	-40,057	340,626
Other revenue	1,751	1,005	-330	2,426
Total operating expenses	-327,090	-32,316	40,135	-319,271
Operating profit per segment	24,890	-857	-252	23,781
Finance income				2,386
Finance costs				-4,834
Profit before tax				21,333
Income tax expense				-231
Deferred tax				-1,530
Profit for the period				19,572

Other segment information at 30. 6. 2019	Slovenia	Other countries	Eliminations and adjustments	Consolidated
Segment assets	1,360,104	129,077	-219,686	1,269,495
Segment liabilities	676,412	117,363	-163,241	630,534

Sales revenue by segment I – VI 2019

EUR thousand	Slovenia	Other countries	Eliminations and adjustments	Consolidated
Mobile services in end-customer market	105,516	14,436	-383	119,569
Fixed-line telephone services on end-customer market	107,429	11,883	-524	118,788
New sources of revenue	3,255	0	0	3,255
Wholesale market	83,553	4,135	-6,436	81,252
Other revenues and merchandise	50,476	0	-32,714	17,762
Total revenue	350,229	30,454	-40,057	340,626

EUR thousand	Slovenia	Other countries	Eliminations and adjustments	Consolidated
Revenues from sale of services	307,614	29,778	-35,833	301,559
Revenues from sale of goods	42,615	676	-4,224	39,067
Total revenue	350,229	30,454	-40,057	340,626

Operating segments I – VI 2018

EUR thousand	Slovenia	Other countries	Eliminations and adjustments	Consolidated
External sales	326,384	33,595	0	359,979
Intersegment sales	30,906	9,338	-40,244	0
Total segment revenue	357,290	42,933	-40,244	359,979
Other revenue	2,329	809	-144	2,994
Total operating expenses	-344,273	-42,350	40,492	-346,131
Operating profit per segment	15,346	1,392	104	16,842
Finance income				2,927
Finance costs				-3,962
Profit before tax				15,807
Income tax expense				-280
Deferred tax				-992
Profit for the period				14,535

Other segment information at 31. 12. 2018	Slovenia	Other countries	Eliminations and adjustments	Consolidated
Segment assets	1,314,913	142,677	-224,871	1,232,719
Segment liabilities	653,024	107,673	-147,606	613,091

Sales revenue by segment I – VI 2018

EUR thousand	Slovenia	Other countries	Eliminations and adjustments	Consolidated
Mobile services in end-customer market	111,100	15,185	-530	125,755
Fixed-line telephone services on end-customer market	114,906	18,022	-423	132,505
New sources of revenue	2,146	0	-2	2,144
Wholesale market	89,841	9,581	-13,779	85,643
Other revenues and merchandise	39,297	145	-25,510	13,932
Total revenue	357,290	42,933	-40,244	359,979

EUR thousand	Slovenia	Other countries	Eliminations and adjustments	Consolidated
Revenues from sale of services	311,863	42,017	-37,734	316,146
Revenues from sale of goods	45,427	916	-2,510	43,833
Total revenue	357,290	42,933	-40,244	359,979

Net sales revenue

EUR thousand	Telekom Slovenije Group		Telekom Slovenije d.d.	
	I - VI 2019	I - VI 2018	I - VI 2019	I - VI 2018
Mobile services in end-customer market	119,569	125,755	105,516	111,100
Fixed-line telephone services on end-customer market	118,788	132,505	107,429	114,906
New sources of revenue	3,255	2,144	3,255	2,146
Wholesale market	81,252	85,643	82,664	89,098
Other revenues and merchandise	17,762	13,932	9,239	6,930
Total revenue	340,626	359,979	308,103	324,180

EUR thousand	Telekom Slovenije Group		Telekom Slovenije d.d.	
	I - VI 2019	I - VI 2018	I - VI 2019	I - VI 2018
Revenues from sale of services	301,559	316,146	267,149	279,126
Revenues from sale of goods	39,067	43,833	40,954	45,054
Total revenue	340,626	359,979	308,103	324,180

The Telekom Slovenije Group's net sales revenue totalled EUR 340.6 million, a decrease of 5% relative to the first half 2018. It should be noted that revenues in 2019 no longer include the revenues generated by Blicnet, which was sold in 2018. Revenues from mobile merchandise on the end-user market and revenues from the fixed segment of the end-user market were down in 2019, primarily due to the completion of the project to set up an electronic toll collection system in 2018, and down were revenues on the wholesale market as well.

The revenues generated by Telekom Slovenije were down during the reporting period, by EUR 16,077 thousand relative to the same period last year.

The Telekom Slovenije Group's other revenues and revenues from other merchandise include revenue from construction works, maintenance and the clearance of faults, sales of other merchandise, and the revenues of all Group subsidiaries.

Costs of services

EUR thousand	Telekom Slovenije Group		Telekom Slovenije d.d.	
	I - VI 2019	I - VI 2018	I - VI 2019	I - VI 2018
Telecommunications services	60,553	67,693	61,934	71,840
Cost of leased lines	3,286	4,513	4,400	6,714
Multimedia services	15,354	17,170	10,040	9,359
Costs of subcontractors' services	20,003	24,920	17,762	21,663
Maintenance of property, plant and equipment	10,925	11,012	11,342	12,203
Other services	20,018	28,152	15,761	21,116
Total cost of services	130,139	153,460	121,239	142,895

The costs of services incurred by the Telekom Slovenije Group were down by 15% or EUR 23,321 thousand during the reporting period relative to the same period last year. Those costs include the effect of the change in the recognition of costs arising from leases and leased lines under IFRS 16. The costs of telecommunications services were down by 11% or EUR 7,140 thousand relative to 2018, while subcontractor costs were also down, by EUR 4,917 thousand.

The costs of services incurred by Telekom Slovenije were also down, by 15% or EUR 21,656 thousand during the reporting period relative to the same period last year, for the same reasons stated for the Telekom Slovenije Group.

Operating profit and net profit

Telekom Slovenije Group

Earnings before interest and taxes (EBIT) in the amount of EUR 23,781 thousand were up by EUR 6,939 thousand on the same period last year. A net profit of EUR 19,572 thousand was achieved for the accounting period in the context of a net financial loss of EUR 2,448 thousand.

Telekom Slovenije

Earnings before interest and taxes (EBIT) in the amount of EUR 25,314 thousand were up by EUR 8,214 thousand on the same period last year. A net profit of EUR 23,202 thousand was achieved for the accounting period in the context of a net financial loss of EUR 554 thousand.

Intangible assets

Intangible assets were down by EUR 13,030 thousand at the Telekom Slovenije Group level and by EUR 15,381 thousand at Telekom Slovenije relative to the end of 2018. Commitments for intangible assets amounted to EUR 5,671 thousand at the Telekom Slovenije Group level and to EUR 6,179 thousand at Telekom Slovenije as at 30 June 2019.

Property, plant and equipment

Property, plant and equipment totalled EUR 644,345 thousand at the Telekom Slovenije Group level as at 30 June 2019, accounting for 51% of total assets. Assets were down by EUR 11,295 thousand primarily as a result of the higher amount of depreciation charged compared with new acquisitions. Commitments for property, plant and equipment totalled EUR 4,305 thousand at the Group level as at 30 June 2019.

Property, plant and equipment totalled EUR 570,426 thousand at Telekom Slovenije, accounting for 45% of total assets. Assets were lower by EUR 6,470 thousand, while commitments for property, plant and equipment totalled EUR 25,432 thousand as at 30 June 2019.

Trade and other receivables

Trade and other receivables were down by EUR 47,384 thousand at the Telekom Slovenije Group level and by EUR 45,787 thousand at Telekom Slovenije relative to the balance at the end of 2018. That decrease was primarily the result of the receipt of consideration from the sale of Blicnet.

Financial liabilities

Financial liabilities amounted to EUR 431,801 thousand at the Telekom Slovenije Group level and to EUR 436,625 thousand at Telekom Slovenije as at 30 June 2019 and primarily comprised the following:

- borrowings received in the amount of EUR 260,626 thousand at the Telekom Slovenije Group level and EUR 260,564 thousand at Telekom Slovenije;
- liabilities for bonds issued in the amount of EUR 100,031 thousand were down EUR 962 thousand on the balance at the end of the year; and
- increased financial liabilities for leases that the Group and Company recognised in accordance with the new IFRS 16. Financial liabilities from leases thus amounted to EUR 69,813 thousand at the Telekom Slovenije Group level and to EUR 74,757 thousand at Telekom Slovenije.

Fair value hierarchy

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

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

Fair values are compared with carrying amounts in the table below. The table contains data regarding classification to hierarchy levels for financial instruments.

Carrying amount and fair value of the Telekom Slovenije Group's financial instruments as at 30 June 2019

EUR thousand	Book value	Fair value	Level 1	Level 2	Level 3
Non-current financial assets					
Available-for-sale financial assets	1,957	1,957	1,957		
Investments in shares and interests not listed on the stock exchange, measured at fair value through other comprehensive income	2,752	2,752			2,752
Loans given	207	207			207
Other non-current financial assets	7	7			7
Current financial assets					
Loans given	83	83			83
Other current financial assets	2	2			2
Non-current financial liabilities					
Bonds	99,961	101,800	101,800		
Interest-bearing borrowings	230,087	230,087			230,087
Interest-rate swaps	1,088	1,088		1,088	
Non-current lease liabilities	59,140	59,140			59,140
Current financial liabilities					
Bonds	-42	-42			-42
Interest on bonds	112	112			112
Interest-bearing borrowings	30,539	30,539			30,539
Current lease liabilities	10,673	10,673			10,673
Other financial liabilities	197	197			197

Carrying amount and fair value of Telekom Slovenije's financial instruments as at 30 June 2019

EUR thousand	Book value	Fair value	Level 1	Level 2	Level 3
Non-current financial assets					
Investments in shares quoted on the securities market	1,957	1,957	1,957		
Investments in shares and stocks not listed on the securities market	2,750	2,750			2,750
Loans given	91,604	91,604			91,604
Current financial assets					
Loans given	13,918	13,918			13,918
Non-current financial liabilities					
Bonds	99,961	101,800	101,800		
Interest-bearing borrowings	230,056	230,056			230,056
Interest-rate swaps	1,088	1,088		1,088	
Non-current lease liabilities	62,988	62,988			62,988
Current financial liabilities					
Bonds	-42	-42			-42
Interest on bonds	112	112			112
Interest-bearing borrowings	30,508	30,508			30,508
Current lease liabilities	11,769	11,769			11,769
Other financial liabilities	185	185			185

Neither the Group nor the Company recorded any transitions between fair value levels during the reporting period.

Contingent liabilities from lawsuits

No new lawsuits were filed against the Group or the Company in the period from 1 January 2019 until the day this report was compiled that could have a significant impact on the financial statements in the period January to June 2019.

Contingent liabilities from guarantees issued

The Group had provided the following guarantees as at 30 June 2019:

- performance guarantees and warranty bonds in the amount of EUR 7,573 thousand, and
- other guarantees in the amount of EUR 1,421 thousand.

The Company had provided the following guarantees as at 30 June 2019:

- performance guarantees and warranty bonds in the amount of EUR 5,495 thousand, and
- other guarantees in the amount of EUR 2,445 thousand.

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

Transactions with related parties

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

Transactions with individuals

Natural persons (members of the Management Board and Supervisory Board) held 253 shares in Telekom Slovenije as at 30 June 2019, representing a holding of 0.00387%.

Transactions with owners and parties related thereto

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

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

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

Telekom Slovenije Group

EUR thousand	30.06.2019	31.12.2018
Outstanding operating receivables	4,081	4,980
Outstanding operating liabilities	2,797	2,660
v tisoč EUR	I - VI 2019	I - VI 2018
Net operating revenue	9,973	13,503
Purchase of material and services	4,747	5,031

Telekom Slovenije

EUR thousand	30.06.2019	31.12.2018
Outstanding operating receivables	3,172	4,739
Outstanding operating liabilities	2,708	2,535
EUR thousand	I - VI 2019	I - VI 2018
Net operating revenue	8,463	12,822
Purchase of material and services in the Group	4,299	4,578

Transactions with Group companies

Telekom Slovenije recorded the following transactions with Group companies

EUR thousand	30.06.2019	31.12.2018
Receivables due from companies in the Group	6,581	7,388
Subsidiaries	6,581	7,388
Loans to companies in the Group	105,245	105,030
Subsidiaries	105,245	105,030
Liabilities to companies in the Group	31,135	20,482
Subsidiaries	31,135	20,482
Joint venture	0	0
EUR thousand	I - VI 2019	I - VI 2018
Net operating revenue in group	8,188	9,119
Subsidiaries	8,188	9,119
Joint venture	0	0
Purchase of material and services in the Group	11,835	17,751
Subsidiaries	11,835	17,747
Joint venture	0	4

All transactions between related parties are executed at market prices.

Events after the reporting date

Events after the reporting date are described in the business section of this report, in Section 6 Significant events after the balance-sheet date

7.3. Financial risk management

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

Credit risk

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

Maximum exposure to credit risk is equal to the carrying amount of financial assets.

Exposure to credit risk

EUR thousand	30.06.2019	31.12.2018
Loans given	290	331
Investments	2	2
Operating and other receivables	145,210	192,594
- of which trade receivables	139,868	147,408
Cash and cash equivalents	54,225	10,684
TOTAL	199,727	203,611

Credit risk or the risk of counterparty default derives from default by subscribers (retail) and by operators (wholesale). The latter amounted to EUR 139,868 thousand as at 30 June 2019, a decrease of EUR 7,540 thousand relative to the end of 2018. Telekom Slovenije's receivables make up the majority of the Group's trade and other receivables. The majority of receivables are unsecured. The Group's receivables are accounted for by a large number of individuals and legal entities. Its largest customers are operators, where turnover generally flows in both directions, which reduces net credit exposure. We therefore assess that there is no significant concentration of credit risk vis-à-vis a particular customer or economic sector.

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

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

The Telekom Slovenije Group also monitors credit risk in other areas of operations. Cash on accounts is allocated according to the principles of minimising risks and achieving the appropriate diversification. The Group is also exposed to risks associated with receivables arising from loans to employees and investments in short-term deposits. The risk associated with loans given is low, as those loans are repaid for the most part when employees' wages are paid, while the risk associated with deposits is mitigated through the appropriate diversification of investments and by monitoring the credit ratings of specific banks.

Ageing structure of receivables as at the reporting date

EUR thousand	30.06.2019			31.12.2018		
	Gross value	Allowances	Net value	Allowances	Gross value	Net value
Total trade receivables	159,902	-20,034	139,868	168,577	-21,169	147,408
Not past due trade receivables	121,917	-3	121,914	127,066	-1	127,065
Overdue						
Up to and including 30 days	12,040	-2	12,038	13,978	-6	13,972
31 to and including 60 days	3,808	-5	3,803	3,095	-7	3,088
61 to and including 90 days	573	-17	556	1,522	-16	1,506
91 to and including 120 days	868	-461	407	878	-489	389
121 days and more	20,696	-19,546	1,150	22,038	-20,650	1,388
Total overdue trade receivables	37,985	-20,031	17,954	41,511	-21,168	20,343
Other operating receivables	5,350	-8	5,342	45,194	-8	45,186
Total receivables	165,252	-20,042	145,210	213,771	-21,177	192,594

Maturity profile of loans given

EUR thousand	30.06.2019	31.12.2018
Overdue	8	9
Due in:	282	322
- less than 3 months	20	21
- 3 to 12 months	55	59
- 1 to 2 years	67	70
- 2 to 5 years	104	126
- more than 5 years	36	46
Total	290	331

Ageing structure of loans given as at 30 June 2019

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	282	8	0	0	0	0	290

Ageing structure 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

The Company's senior management assesses the credit quality of the above-stated financial assets, which were not impaired or overdue as at 30 June 2019, as good.

Solvency risk

The Group's solvency is the result of the active planning and management of cash flows, ensuring the appropriate maturities and the diversification of financial debt, financing within the Group, and the optimisation of working capital and cash. Liquidity risk at the Group level is managed by the parent company, which plans and monitors subsidiaries' financing needs, and provides them the sources they require.

The Telekom Slovenije Group has long-term credit lines at banks, which together with short-term revolving loans ensure a high level of liquidity within the Group. Total liquidity reserves in the form of undrawn short-term and long-term credit lines at banks amounted to EUR 170 million as at 30 June 2019.

Debt is relatively low at the Group level, which represents a sound basis for achieving an appropriate credit rating and thus lower borrowing costs. The majority of the Group's financial liabilities relate to unpaid principal on a long-term syndicated loan in the amount of EUR 261.5 million, issued bonds in the total amount of EUR 100 million and liabilities from a finance lease in the amount of EUR 69.8 million that arose as the result of the application of IFRS 16.

Maturity of the Telekom Slovenije Group's financial liabilities as at 30 June 2019 and 31 December 2018 based on contractual non-discounted payments

EUR thousand	Overdue	On demand	Less than 3 months	Not yet due				Total
				3 to 12 months	1 to 2 years	2 to 5 years	More than 5 years	
30.06.2019								
Loans and borrowings	0	0	0	30,800	30,769	176,954	23,077	261,600
Anticipated interest on loans	0	0	0	3,937	3,436	6,722	318	14,413
Other financial liabilities	185	0	13	112	100,000	1,133	0	101,443
Anticipated interest in bonds	0	0	0	1,950	1,950	0	0	3,900
Trade and other payables	3,792	2,490	71,192	11,652	16,857	710	753	107,446
Financial liabilities from leases	914	0	2,558	7,208	6,274	18,510	34,349	69,813
Total	4,891	2,490	73,763	55,659	159,286	204,029	58,497	558,615
31.12.2018								
Loans and borrowings	0	0	0	51,158	30,769	180,416	0	262,343
Anticipated interest on loans	0	0	31	3,605	6,723	3,199	0	13,558
Other financial liabilities	185	0	0	1,119	8	100,811	0	102,123
Anticipated interest in bonds	0	0	0	1,950	3,900	0	0	5,850
Trade and other payables	7,400	2,480	100,920	35,591	3,684	9,228	799	160,102
Total	7,585	2,480	100,951	93,423	45,084	293,654	799	543,976

Interest-rate risk

Interest-rate risk is the risk of the negative effect of a change in market interest rates on the Group's operations. The Group's exposure to interest-rate risk as at 30 June 2019 derives from a potential rise in the EURIBOR reference interest rate on account of interest-sensitive liabilities.

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

Liabilities from loans raised and finance leases with variable interest rates tied to the 3- and 6-month EURIBOR accounted for 60.6% of interest-bearing financial liabilities at the Group level as at 30 June 2019. The remaining liabilities are accounted for by issued bonds and a finance lease with a fixed interest rate.

Exposure to interest-rate risk associated with a long-term syndicated loan is hedged via an interest-rate swap. The amount of the secured principal stood at EUR 80.8 million as at 30 June 2019. The principal is hedged against a rise in the reference interest rate if the latter is higher than or equal to zero. Fixed or hedged interest rates account for 58.1% of interest-bearing financial liabilities at the Group level.

Exposure to interest-rate risk

EUR thousand	30.06.2019	31.12.2018
Financial instruments with variable interest rate		
Financial receivables	0	0
Financial liabilities	180,875	164,762
Net financial liabilities	180,875	164,762

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

	Interest rate increase/decrease	Effect on profit before tax in EUR thousand
30.6.2019		
EURO	+100 bps	-666
EURO	-100 bps	-807
	Increase/decrease in interest rate	Effect on profit (EUR thousand)
31.12.2018		
EURO	+100 bps	-644
EURO	-100 bps	-845

Value of EURIBOR

EURIBOR	Value as at 30.06.2019	Value as at 31 December 2018	Change in %
3-month	-0,343	-0,309	-11,00
6-month	-0,311	-0,237	-31,22

Capital management

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

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

EUR thousand	30.06.2019	31.12.2018
Borrowings and other financial liabilities	431,801	363,259
Less short-term investments and cash with short-term deposits	-54,310	-10,775
Net liabilities	377,491	352,484
Equity	638,961	619,628
Total assets	1,269,495	1,232,719
Debt/equity ratio	59.1%	56.9%
EUR thousand	50.3%	50.3%