



Telekom Slovenije



Unaudited Business Report of Telekom Slovenije Group and Telekom Slovenije, d. d., for period January to March 2018

Ljubljana, April 2018

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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 March 2018.

The condensed interim financial statements for the period ending 31 March 2018 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 2017. The financial statements for the period January to March 2018 have not been audited.

Telekom Slovenije's Supervisory Board discussed the Unaudited Business Report of the Telekom Slovenije Group and Telekom Slovenije for the aforementioned period at its session on 25 April 2018.

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 March 2018 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, d. d.'s Management Board responsible for compiling the unaudited report of the Telekom Slovenije Group and Telekom Slovenije for the period January to March 2018, hereby find that:

- to the best of our knowledge, the unaudited report of the Telekom Slovenije Group and Telekom Slovenije, d. d. 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 31 March 2018 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 2017;
- 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, d. d. 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.

Ljubljana, 18 April 2018



Rudolf Skobe, MSc,
President of the
Management Board



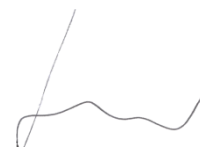
Tomaž Seljak, MSc,
Vice-President of the
Management Board



Aleš Aberšek,
Member of the
Management Board



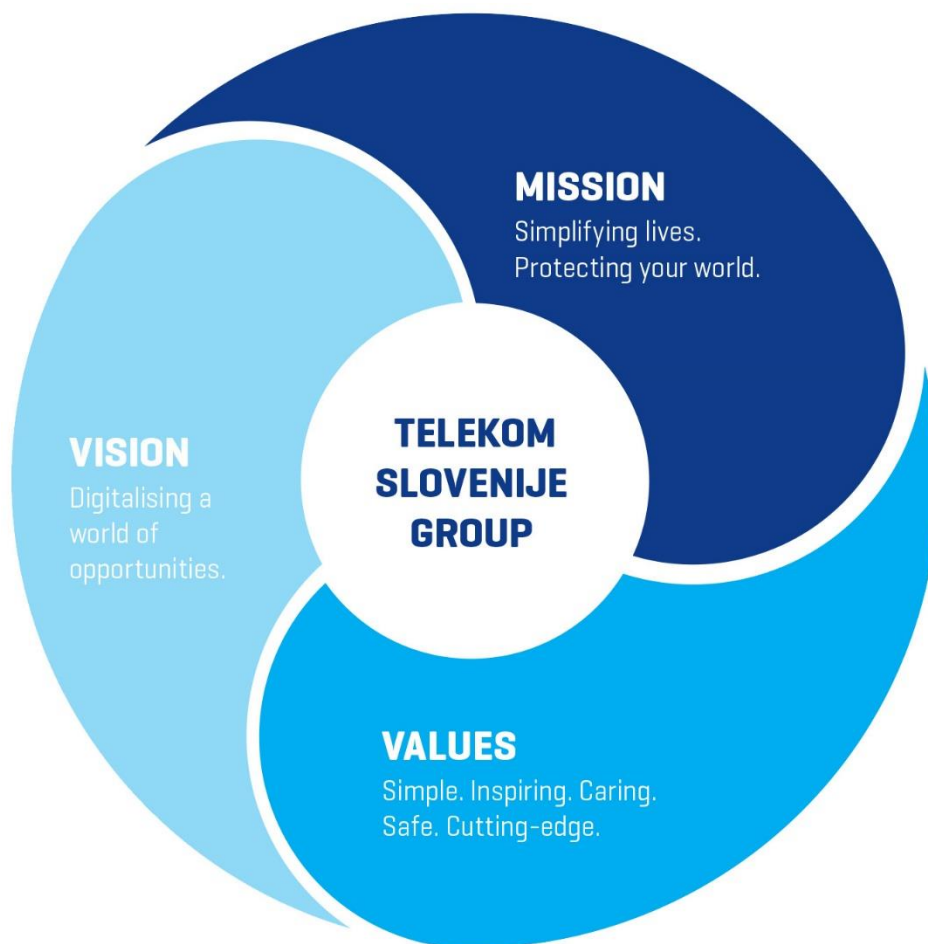
Ranko Jelača,
Member of the
Management Board



Vesna Lednik,
Member of the
Management Board
and Workers Director

2. Vision, mission 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 2018 to 2022

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

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

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

2. New revenue sources

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

3. Maintaining a superior network

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

4. Consolidation on individual markets

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

5. Simplification of processes and the IT infrastructure

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

6. Restructuring of personnel

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

7. Financial stability

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

8. Quality

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

9. Social responsibility

The Telekom Slovenije Group identifies opportunities where it can contribute to the development of the social and economic environment in which it operates through its expertise, and financial and other resources. As the leading national operator in Slovenia, and as a development and future oriented company, Telekom Slovenije is well aware of its social responsibility. The principles of sustainable development are therefore built into the operations, products, services and content of Telekom Slovenije Group companies, while we responsibly manage the economic, social and environmental impacts of our operations.

Key objectives of the Telekom Slovenije Group for 2018

Operating revenues	EUR 755.3 million
EBITDA	EUR 209.8 million
Net operating profit	EUR 40.9 million
Investments	EUR 158.0 million

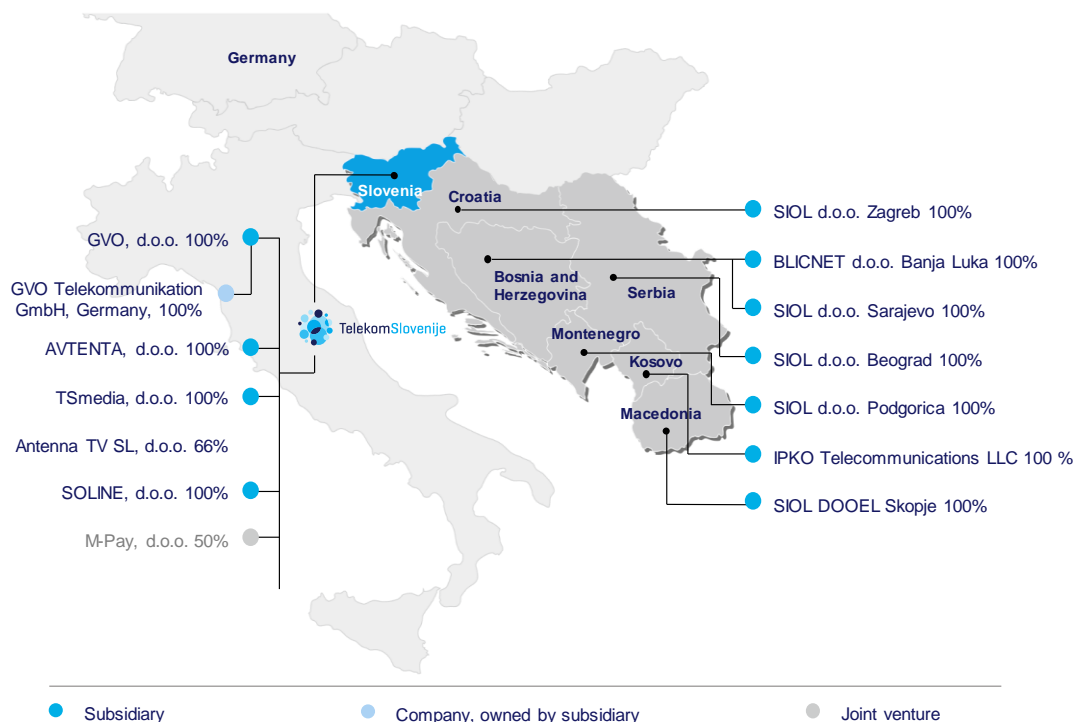
The achievement of established objectives depends on specific consolidation activities in Slovenia and on foreign markets.

3. Telekom Slovenije Group

3.1. Markets and companies of the Telekom Slovenije Group

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

Situation as at 31 March 2018



Changes in the composition of the Group:

- GVO and the sole owner of INFRATEL, telekomunikacijska infrastruktura, d. o. o. reached an agreement on the purchase of a 100% participating interest in the latter by GVO. The transfer of the participating interest was carried out following the fulfilment of the suspensive conditions set out in the agreement on the sale and purchase of that participating interest, such that the change in ownership was entered in the companies register on 24 January 2018. By purchasing the aforementioned company, GVO acquired ownership of a portion of the telecommunications network in commercial areas (so-called grey areas) in the municipalities of Komen, Sežana, Hrpelje-Kozina and Ilirska Bistrica.
- Based on the agreement on the sale and purchase of participating interests concluded on 15 December 2009 between the minority owners of IPKO Telecommunications LLC (IPKO) in Kosovo and Telekom Slovenije, which set out the withdrawal of minority owners from the ownership structure of IPKO, Telekom Slovenije concluded an agreement with minority shareholders on the purchase of a 6.89% participating interest on 16 February 2018 and thus became the sole owner of IPKO.

3.2. Operating highlights

The Telekom Slovenije Group achieved the following in the period January to March 2018:

- The Telekom Slovenije Group generated EUR 183.4 million in operating revenues during the first quarter of 2018, an increase of 1% on the revenues generated during the same period in 2017. Net sales revenue totalled EUR 182.2 million, which is likewise an increase of 1% or EUR 2.3 million relative to the revenues generated during the same period the previous year. Net sales revenue was higher primarily on account of higher revenues in the mobile and fixed segments of the end-user market, and was higher overall despite lower revenues on the wholesale market.
- The operating expenses of the Telekom Slovenije Group amounted to EUR 173.1 million, an increase of 1% relative to the first quarter of 2017. Primarily other operating expenses and the historical costs of goods sold were higher. Amortisation and depreciation were also higher, by 4% or EUR 1.7 million. The costs of services were down by 12%, while labour costs were down by 1%.
- Earnings before interest, taxes, amortisation and depreciation (EBITDA) totalled EUR 52.5 million, an increase of 3% relative to the same period in 2017, and accounted for 28.8% of net sales revenue. Earnings before interest and taxes (EBIT) amounted to EUR 10.3 million.
- Following the calculation of income tax (including deferred taxes), the Telekom Slovenije Group generated a net profit of EUR 9.7 million during the first quarter of 2018, similar to the level recorded during the same period in 2017

3.3. Key financial indicators for the Telekom Slovenije Group

EUR thousand / %	I - III 2018 / 31.3.2018	I - III 2017 / 31.12.2017	Ind. 18/17
Net sales revenues	182,158	179,872	101
Other operating income	1,237	1,409	88
Operating revenues	183,395	181,281	101
EBITDA	52,524	50,778	103
EBITDA margin	28.8%	28.2%	102
EBIT	10,276	10,196	101
Return on sales: ROS (EBIT/net sales revenue)	5.6%	5.7%	100
Net profit	9,675	9,735	99
Assets	1,289,595	1,351,994	95
Equity	688,873	680,865	101
Equity ratio	53.4%	50.4%	106
Net financial debt	297,065	281,785	105

3.4. Overview by company and key market

Operating revenues

EUR thousand	I - III 2018	I - III 2017	Ind. 18/17
Telekom Slovenije	165,159	165,068	100
Other companies in Slovenia	14,848	16,473	90
Ipko - Kosovo	16,985	16,388	104
Other companies abroad	4,306	5,035	86
Total - unconsolidated	201,298	202,964	99
Eliminations and adjustments	-17,903	-21,683	83
Telekom Slovenije Group	183,395	181,281	101

EBITDA – earnings before interest, taxes, depreciation and amortisation

EUR thousand	I - III 2018	I - III 2017	Ind. 18/17
Telekom Slovenije	44,327	45,424	98
Other companies in Slovenia	-455	-1,599	28
Ipko - Kosovo	7,261	5,374	135
Other companies abroad	1,552	1,500	103
Total - unconsolidated	52,685	50,699	104
Eliminations and adjustments	-161	79	-
Telekom Slovenije Group	52,524	50,778	103

EBIT – earnings before interest and taxes

EUR thousand	I - III 2018	I - III 2017	Ind. 18/17
Telekom Slovenije	10,720	12,178	88
Other companies in Slovenia	-1,424	-2,488	57
Ipko - Kosovo	409	-371	-
Other companies abroad	514	591	87
Total - unconsolidated	10,219	9,910	103
Eliminations and adjustments	57	286	20
Telekom Slovenije Group	10,276	10,196	101

Net profit or loss

EUR thousand	I - III 2018	I - III 2017	Ind. 18/17
Telekom Slovenije	9,714	13,411	72
Other companies in Slovenia	-1,624	-2,601	62
Ipko - Kosovo	-386	-1,819	21
Other companies abroad	408	457	89
Total - unconsolidated	8,112	9,448	86
Eliminations and adjustments	1,563	287	545
Telekom Slovenije Group	9,675	9,735	99

TELEKOM SLOVENIJE GROUP CONNECTIONS AND SERVICES BY TYPE AND MARKET

Broadband connections

Number of retail BB connections as at	31.03.2018	31.12.2017	Ind. 18/17
Slovenia	215,289	214,799	100
SE Europe	150,626	150,486	100
Kosovo	123,369	123,428	100
Bosnia and Herzegovina	27,257	27,058	101
Telekom Slovenije Group	365,915	365,285	100

Fixed and mobile telephony connections

Number of retail connections as at	31.03.2018	31.12.2017	Ind. 18/17
Slovenia, mobile telephony	1,104,257	1,124,605	98
Slovenia, fixed voice telephony	341,440	343,084	100
SE Europe, mobile telephony:	666,844	685,203	97
Kosovo	664,032	682,570	97
Bosnia and Herzegovina	2,812	2,633	107
SE Europe, fixed voice telephony	1,204	1,204	100
Telekom Slovenije Group	2,113,745	2,154,096	98
VoIP services			
Slovenia	193,546	192,563	101
SE Europe	22,590	19,414	116
Telekom Slovenije Group	216,136	211,977	102

Number of mobile and fixed telephony connections / services

Number of retail connections as at	31.03.2018	31.12.2017	Ind. 18/17
Total mobile telephony	1,771,101	1,809,808	98
Total fixed voice telephony services*	558,780	556,265	100
Telekom Slovenije Group	2,329,881	2,366,073	98

* Sum of fixed voice telephony connections and VoIP services.

Investments

EUR thousand	I - III 2018	I - III 2017	Ind. 18/17
Telekom Slovenije	15,855	34,066	47
Other companies in Slovenia	206	941	22
Ipko - Kosovo	5,284	939	563
Other companies abroad	2,235	523	427
Eliminations and adjustments	-215	-249	86
Telekom Slovenije Group	23,365	36,220	65

Employees

number of employees at	31.03.2018	31.12.2017	Ind. 18/17
Telekom Slovenije	2,332	2,338	100
Other companies in Slovenia	693	702	99
Ipko - Kosovo	528	528	100
Other companies abroad	99	105	94
Telekom Slovenije Group	3,652	3,673	99

3.5. Ownership structure and share trading

General information regarding Telekom Slovenije shares as at 31 March 2018

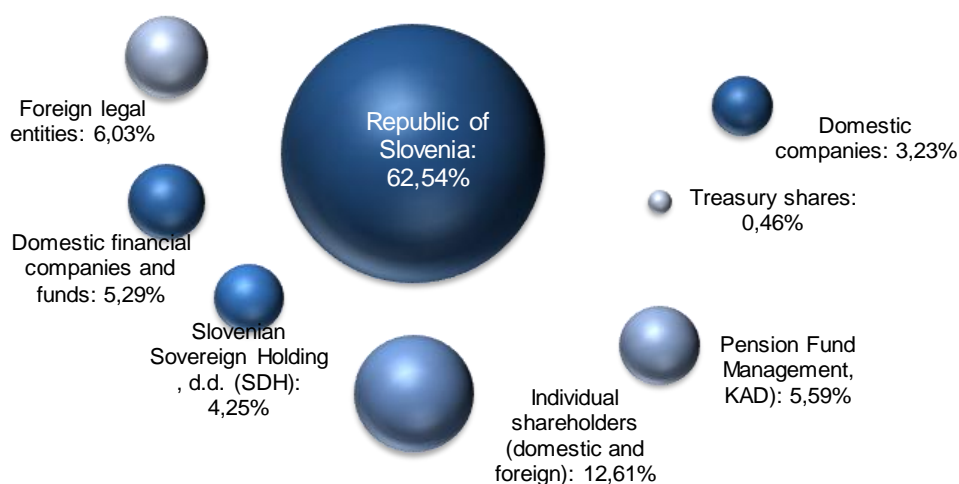
General information regarding shares	
Ticker symbol	TLSG
Listing	Ljubljana Stock Exchange, prime
Share capital (EUR)	272,720,664.33
Number of ordinary registered no-par value shares	6,535,478
Number of shares held in treasury	30,000
Number of shareholders as at 31 March 2018	9,465

Ownership structure and largest shareholders

Telekom Slovenije had 9,465 shareholders at the end of March 2018, a decrease of 134 on the end of 2017. The number of individual shareholders was down by 132.

With a total stake of 94%, domestic shareholders are predominant in the Company's ownership structure. At the end of March 2018, the Company's largest shareholder was the Republic of Slovenia, together with Kapitalska družba, Slovenski državni holding and the First Pension Fund and its guarantee fund in the form of Modra zavarovalnica. Collectively, 73.51% of the Company's shares were directly or indirectly held by the Republic of Slovenia at the end of March 2018.

Ownership structure as at 31 March 2018



Ten largest shareholders

The concentration of ownership, as measured by the ownership stake held by the ten largest shareholders, stood at 78.07% at the end of the first quarter of 2018, a decrease of 0.08 percentage points relative to the end of 2017.

	Shareholder as at 31 March 2018	%	Shareholder as at 31 December 2017	%
1	Republic of Slovenia	62.54	Republic of Slovenia	62.54
2	Kapitalska družba, d. d.	5.59	Kapitalska družba, d. d.	5.59
3	Slovenski državni holding, d. d.	4.25	Slovenski državni holding, d. d.	4.25
4	Perspektiva FT, d. o. o.	1.22	Perspektiva FT, d. o. o.	1.21
5	Citibank N.A. – fiduciary account	0.95	Citibank N.A. – fiduciary account	0.92
6	Guarantee fund of the First Pension Fund	0.86	Guarantee fund of the First Pension Fund	0.91
7	DBS, d. d.	0.80	DBS, d. d.	0.80

	Shareholder as at 31 March 2018	%	Shareholder as at 31 December 2017	%
8	Aktsiaselts Trigon Asset Management	0.73	Aktsiaselts Trigon Asset Management	0.73
9	Splitska banka, d. d.	0.64	Splitska banka, d. d.	0.64
10	The Bank of New York Mellon – fiduciary account	0.49	The Bank of New York Mellon – fiduciary account	0.56
	Total	78.07	Total	78.15

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

Members of the Management Board and Supervisory Board held 447 TLSG shares as at 31 March 2018.

Name	Office	Number of shares	% of equity
Management Board			
Rudolf Skobe, MSc	President of the Management Board	300	0.00459
Aleš Aberšek	Member of the Management Board	50	0.00077
Supervisory Board			
Samo Podgornik	Member of the Supervisory Board	92	0.00141
Primož Per	Member of the Supervisory Board	5	0.00008
Total		447	0.00685

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

Share trading and key share-related financial data

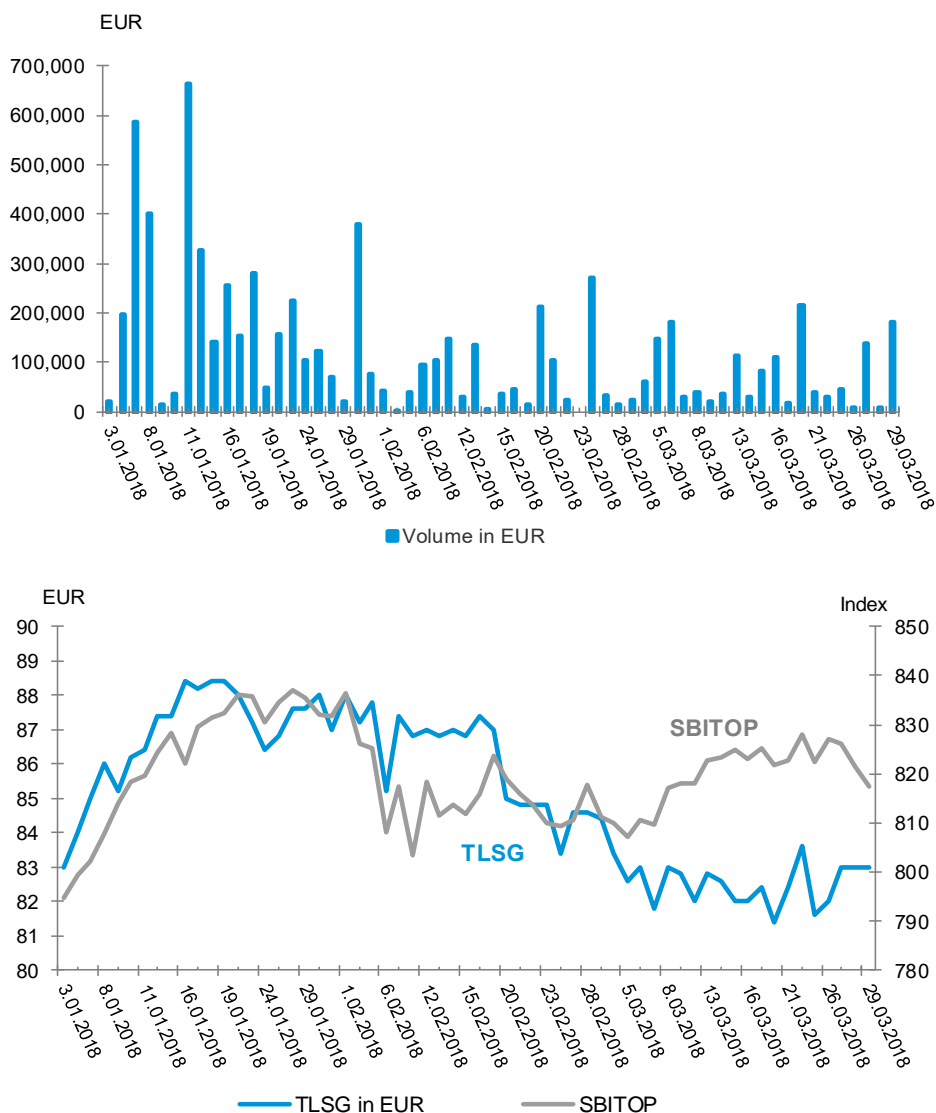
Movement in the TLSG share price

Turnover in Telekom Slovenije shares totalled EUR 7.2 million during the first quarter of 2018, representing nearly 10% of total turnover on the stock exchange. The price of TLSG shares closed at EUR 83 on the last trading day of March 2018, an increase in value of 0.14% during the first quarter of the year. The highest share price of EUR 88.4 was achieved in mid-January 2018. The market capitalisation of Telekom Slovenije stood at EUR 542.4 million at the end of March 2018, accounting for 10.1% of the market capitalisation of all shares on the stock exchange.

Trading statistics for TLSG shares on the Ljubljana Stock Exchange

Standard price in EUR	I - III 2018	I - III 2017
Highest daily price	88.40	88.00
Lowest daily price	81.40	71.01
Average daily price	85.14	82.82
Volume in EUR thousand	I – III 2018	I - III 2017
Total volume for the year	7,215.56	6,430.84
Highest daily volume	664.56	955.44
Lowest daily volume	1.13	3.58
Average daily volume	120.26	105.42

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



Source: Ljubljana Stock Exchange, archive of share prices.

Key financial data relating to shares

	31 March 2018 / I - III 2018	31 December 2017 / I - III 2017
Closing price (P) of one share on the last trading day of the period in EUR	83.00	86.79
Book value (BV) ¹ of one share in EUR	105.41	104.18
Earnings per share (EPS) ² in EUR	1.49	1.50
P/BV	0.79	0.83
Capital return per share during the period in % ³	0.14	22.07
Dividend yield ⁴	6.02	5.76

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 2017.

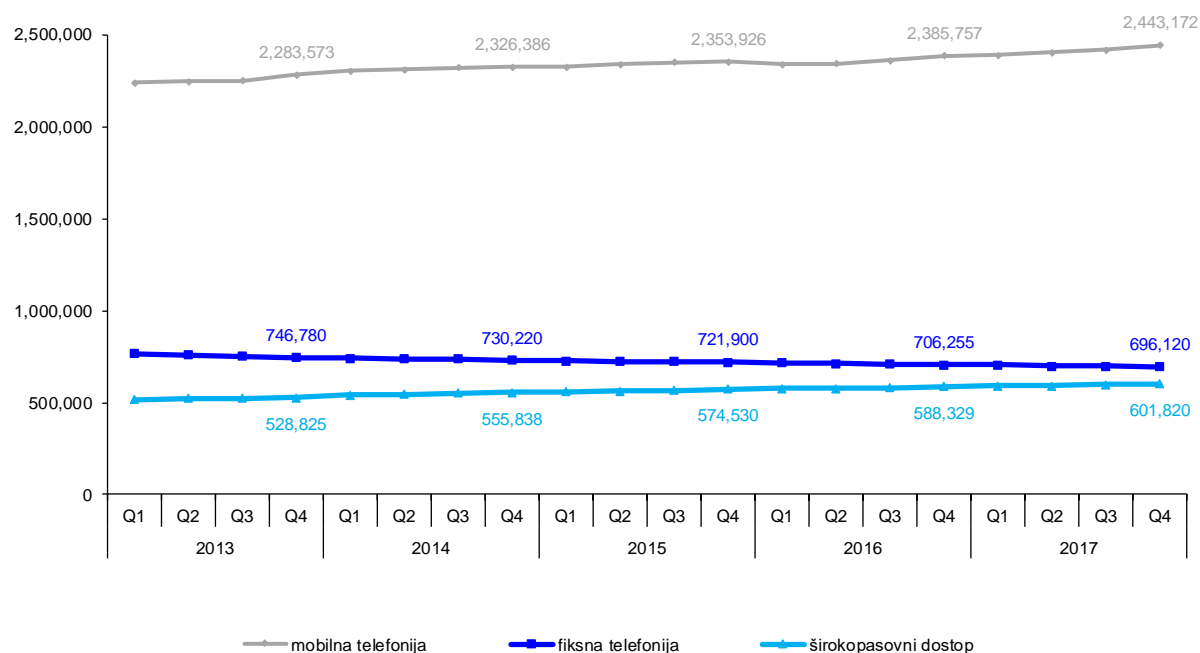
² Net earnings per share is calculated as the ratio of the Telekom Slovenije Group's net operating profit for the accounting period to the average number of issued ordinary shares, excluding treasury shares.

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.

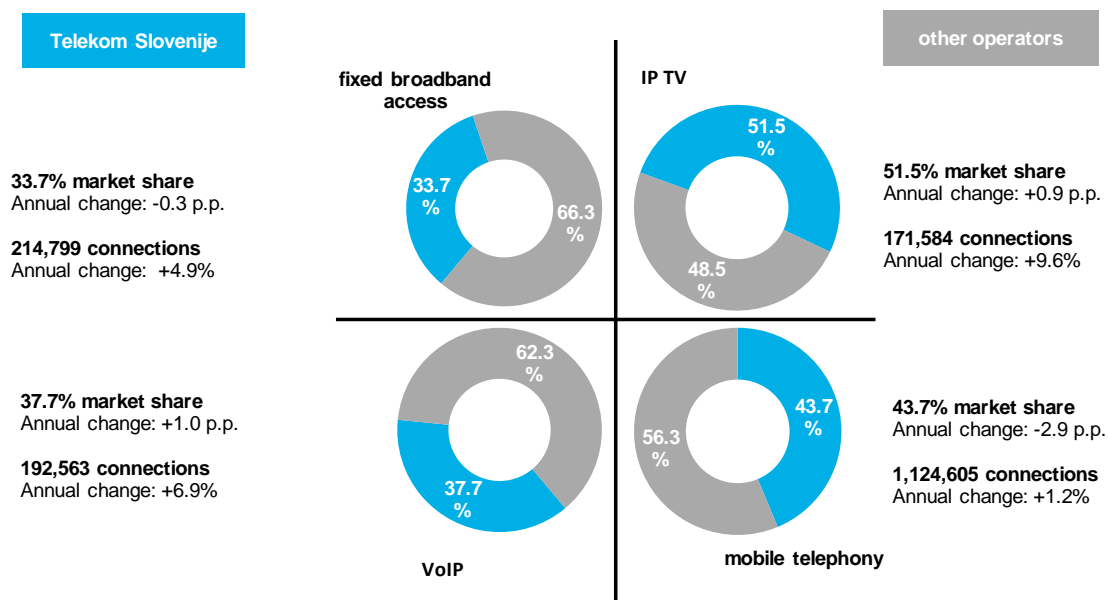
3.6. Market and market shares in key service segments

Number of connections in Slovenia



Source: Report on the development of the electronic communications market for the fourth quarter of 2017, AKOS, March 2018, SORS and internal Telekom Slovenije figures.

Overview of market shares in the fourth quarter of 2017 in key market segments



Source: Report on the development of the electronic communications market for the fourth quarter of 2017, AKOS, March 2018 and internal Telekom Slovenije figures.

3.7. Risk management

Key risks are presented below by individual company and market.

Telekom Slovenije
<p>Strategic (business) risks</p> <ul style="list-style-type: none">• Like the majority of other incumbent operators in Europe, Telekom Slovenije also faces stiff competition and the price sensitivity of users. Users demand high-quality services at low prices. At the same time, markets are becoming increasingly saturated. There is thus increasingly less manoeuvring room to attract new users. To manage these types of risks, we take an active approach on the market, introduce new products and services, adapt the portfolio and offer packages that are tailored to the needs of individual groups of users. <p>Financial risks</p> <ul style="list-style-type: none">• Telekom Slovenije also actively monitors uncertainty and changes in the financial environment, as that environment represents various types of financial risks. We monitor liquidity, credit and interest-rate risks.• Liquidity risk is managed centrally by the parent company by ensuring solvency through the active planning and management of cash flows, by ensuring the appropriate maturities and the diversification of financial debt, and through financing within the Group and the optimisation of working capital and cash. 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 Telekom Slovenije's systematic credit risk management tool.• Telekom Slovenije hedges against interest-rate risk by concluding interest rate swaps. Fixed or hedged interest rates account for 60.83% of the Group's interest-bearing financial liabilities from issued bonds and short-term loans with a fixed interest rate.• Telekom Slovenije takes steps to reduce its exposure using various financial risk management models and through the use of derivatives. Processes are in place for monitoring the operations of subsidiaries and managing cash flows. <p>Regulatory and compliance-related risks</p> <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 radio frequency band for the fifth generation (5G) mobile technology, the Company has also 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 that could affect the possibility of acquiring the tendered radio frequency spectrum for the provision of electronic communication services.• On 20 August 2017 the Act amending the Electronic Communications Act (ZEKom-1C) entered into force, introducing measures to reduce costs associated with the construction of high-speed electronic communication networks. The European Commission published the draft of a new directive aimed at establishing a European electronic communications code and drafts of two regulations, one governing the competences and functioning of the joint Body of European Regulators for Electronic Communications (BEREC) and the other governing the expansion of wireless networks in public areas and local communities, which in the future will represent an extensive change to the European regulatory framework.• In its operations, Telekom Slovenije complies with valid legislation, as well as decisions and aspects of sectoral regulations and other competent bodies. Regulatory risks are managed through organisational and procedural measures in the Company's operations, through constructive dialogue, and by putting forth opinions, comments and suggestions in public consultations regarding drafts of general and specific laws issued by the regulator. Risk management also takes the form of ensuring expert legal support in regulatory proceedings and by taking legal action against issued regulatory decisions.

Operational risk

- A great deal of attention is given to managing operational risks associated with ICT networks, services and devices. Due to the development of technologies and ICT services, and the growing demand for applications and devices, we are faced with the challenge of growing complexity in the comprehensive management of technologies. We manage this risk through the development of BSS and OSS, by improving operational efficiency and by 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 2022 is to ensure that the Telekom Slovenije Group has one of the most effective, most responsive and most flexible OSS, including a high level of automation in operational processes that facilitate the shortening of time required for processes, a reduction in the number of participants in processes, a decrease in the number of errors in the flow of processes, and a reduction in the operational costs of processes. In the scope of business continuity, we ensure the necessary capacities of access and regional fibre optic transfer systems, and ensure active access equipment through the appropriate number of connection points, and the construction of connection points in the cable network and the construction of a backbone fibre optic cable network.
- In the area of ICT security, we are developing a system for monitoring traffic flows in network environments and have begun penetration testing. We have also established a Cyber Security Operation Centre (CSOC) with a team of experts in the management of cyber security. With the aim of managing the risk of abuse, we are implementing a security policy, identifying security threats and vulnerabilities in a timely manner, and spreading the security culture to employees and the users of our services. The risks associated with the malfunctioning of connections and services provided by other entities are managed by introducing processes to monitor and report on SLA indicators on leased networks, and by standardising requirements vis-à-vis network providers for newly leased networks. Continuous notification regarding planned works on the networks of operators has been established.

Avtenta

- Risks associated with a lack of experts in the service element of project implementation. Measures include the establishment of staff links with external partners.

Antenna TV SL

- Risks associated with short-term solvency are very high. A measure was therefore implemented to secure additional owner funding.

TSmedia

- The risks associated with dependency on external service providers in certain product lines are managed through a sales channel strategy and the introduction of a commission model.
- 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). Additional measures to manage those risks were the introduction of account management activities and regular training for all sales channels.

GVO

- The risks associated with operational implementation and the quality of implemented projects are in line with the scope of operations, and are decreasing with the completion of major projects.

Soline

- Operational risks associated with the Lepa Vida Spa are managed through active marketing and links with local hotel chains.
- 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 bad weather reduces the number of visitors to the Lepa Vida Spa.

IPKO
<ul style="list-style-type: none"> • The risk of the loss of users and revenues in the segment of fixed and mobile services and the risk of the loss of exclusive rights to TV content have been identified. Market risks are present due to unfair and aggressive competition on the fixed and mobile market. We respond to those risks by taking the appropriate market approaches and by taking the necessary legal action. • Risk persists 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. • Risks associated with the broadcasting of TV content, which affects the development of the company's position on the market and results in an increase in the costs of content. The Competition Protection Office has initiated proceedings against an exclusive agreement on TV content. • A collective rights organisation has initiated proceedings to set prices for the payment of copyright fees for the broadcasting of programmes via the cable network.
Blicnet
<ul style="list-style-type: none"> • The risk of the loss of subscribers due to aggressive competition on the market is managed by adapting to market conditions and improving the quality of the portfolio. • Risks associated with protracted legal proceedings to obtain building and operating permits mean that individual sections of the network continue to operate without the requisite permits, despite measures aimed at legalisation. • The obsolescence of IP platforms represents an operational risk associated with ensuring the smooth functioning of services. This risk is managed by replacing equipment.

4. Corporate governance

Management Board

Telekom Slovenije is managed by a five-member Management Board, comprising the following members as at 31 March 2018:

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

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

Supervisory Board

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

Telekom Slovenije's Supervisory Board comprised the following members as at 31 March 2018:

Shareholder representatives:

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

Employee representatives:

- Samo Podgornik, Vice President,
- Primož Per, member, and
- Urban Škrjanc, 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.

On 14 November 2017 the Works Council appointed employee representatives to serve four-year terms of office as members of the Supervisory Board.

In 2018 the Supervisory Board was briefed on the letter of resignation of member of the Supervisory Board and employee representative Dean Žigon, who resigned from his office, effective 22 January 2018. On 14 February 2018 Telekom Slovenije's Works Council appointed Urban Škrjanc to serve as employee representative on the Supervisory Board. Mr Škrjanc's term of office will run until the expiration of the terms of office of other employee representatives of the Supervisory Board, i.e. until 14 November 2021.

Based on the proposal of the Works Council and pursuant to the Workers' Participation in Management Act, the Supervisory Board appointed Dean Žigon to serve as member of the Management Board and Workers Director on 28 February 2018. Mr Žigon's four-year term of office will begin on 24 April 2018, following the expiration of the term of office of previous member of the Management Board and Workers Director Vesna Lednik on 23 April 2018.

Slovenia

GVO, d. o. o.

Managing Director: Borut Radi

Avtenta, d. o. o.

Managing Director: Miha Praunseis

TSmedia, d. o. o.

Managing Director: Tina Česen, MSc

Soline, d. o. o.

Managing Director: Klavdij Godnič

M-Pay, d. o. o.

Managing Director: Janez Stajanko

Antenna TV SL, d. o. o.

Managing Director: Tina Česen, MSc

Directors: Petra Šušteršič and Vladan Anđelković

TSinpo, d. o. o.

Managing Director: Danilo Tomšič; procurator: Boštjan Hren

Dejan Jordan served as Managing Director until 28 February 2018.

Other countries

IPKO Telecommunications LLC, Kosovo

Board of Directors: Rudolf Skobe, MSc (President), Bujar Musa and Robert Erzin, MSc

CEO: Robert Erzin, MSc

Blicnet, d. o. o. Banja Luka, Bosnia and Herzegovina

Managing Director: Simon Furlan, MSc

SIOL, d. o. o., Croatia

Managing Director: Igor Rojs, MSc

SIOL d. o. o. Podgorica, Montenegro

Managing Director: Igor Rojs, MSc

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

Managing Director: Igor Rojs, MSc

SIOL ONE DOOEL Skopje, Macedonia

Managing Director: Igor Rojs, MSc

SIOL DOO BELGRADE, Serbia

Managing Director: Igor Rojs, MSc

5. Significant events in the period January to March 2018

First quarter

January

- The ratings agency S&P Global Ratings confirms Telekom Slovenije's rating of BB+, with a stable outlook. According to S&P, the stable outlook reflects the expectation that Telekom Slovenije will maintain its leading position on the Slovenian market, in both the mobile and fixed segments, despite stiff competition. S&P also expects Telekom Slovenije to successfully complete the planned upgrading and expansion of the network, and to maintain its current level of revenues and EBITDA through new services.
- Telekom Slovenije provides hybrid internet access as an additional service available to the subscribers of triple-play packages (internet, TV and telephony services), while the LTE/4G mobile signal is available in regions where the copper-based network does not provide for higher transfer speeds.
- The Supervisory Board is briefed on the letter of resignation of member of the Supervisory Board and employee representative Dean Žigon, who resigned from his office, effective 22 January 2018.
- Together with the Slovene Federation of Pensioners' Associations, Telekom Slovenije invites municipalities to participate in the Safe and Connected at Home project, the aim of which is to ensure easier access to the remote social assistance service to as many interested parties as possible. That service is provided in the scope of the eCare service. In the scope of the aforementioned project, Telekom Slovenije and municipalities facilitate the co-financing and/or subsidisation of the service for citizens.
- GVO and the sole owner of INFRATEL, telekomunikacijska infrastruktura, d. o. o. reach an agreement on the purchase of a 100% participating interest in the latter by GVO. The transfer of the participating interest is carried out following the fulfilment of the suspensive conditions set out in the agreement on the sale and purchase of that participating interest, such that the change in ownership is entered in the companies register on 24 January 2018. By purchasing the aforementioned company, GVO acquires ownership of a portion of the telecommunications network in commercial areas (so-called grey areas) in the municipalities of Komen, Sežana, Hrpelje-Kozina and Ilirska Bistrica.
- Telekom Slovenije, which actively supports Slovenian athletes and has been a partner of the Slovenian Olympic Committee for many years, provides more affordable mobile communications for fans who made their way to South Korea to support Slovenian athletes.

February

- Telekom Slovenije updates its portfolio of fixed packages by including seven-day back viewing and higher internet access speeds in all packages that include internet, TV and telephony, as well as additional call minutes in all fixed networks in Slovenia.
- On 24 February 2018 Telekom Slovenije's Works Council appoints Urban Škrjanc to serve as employee representative on the Company's Supervisory Board.
- Based on the agreement on the sale and purchase of participating interests concluded on 15 December 2009 between the minority owners of IPKO Telecommunications LLC (IPKO) in Kosovo and Telekom Slovenije, which sets out the withdrawal of minority owners from the ownership structure of IPKO, Telekom Slovenije concludes an agreement with minority shareholders on the purchase of a 6.89% participating interest on 16 February 2018 and thus becomes the sole owner of IPKO. The agreed amount of consideration for the participating interest is EUR 2.98 million.
- Telekom Slovenije is the first Slovenian operator to receive the international MEF CE 2.0 certificate, which demonstrates the reliability and technological sophistication of the network, as well as compliance with international standards governing the quality of data services intended for business users and roaming between operators.
- Telekom Slovenije receives a ruling from the Administrative Court of the Republic of Slovenia in which the latter partially upholds the claim of Telekom Slovenije, as plaintiff, and reverses the decision of the Competition Protection Agency (CPA), in the part in which Telekom Slovenije is accused of abusing its dominant position on the inter-operator broadband access market with bit-streaming in the Republic of Slovenia, by allegedly conditioning the provision of wholesale broadband access services with bit-streaming to alternative operators on the acceptance of additional obligations, i.e. the obligation to lease a telephony connection by an end-user or operator, in the period from 1 July 2005 to 22 September 2008. The CPA's decision is reversed in that part and the matter returned to the same body for readjudication. The Administrative Court rejects the remainder of the plaintiff's claim.

- Based on the proposal of the Works Council and pursuant to the Workers' Participation in Management Act, Telekom Slovenije's Supervisory Board appoints Dean Žigon to serve as member of the Management Board and Workers Director on 28 February 2018. Mr Žigon's four-year term of office will begin on 24 April 2018, following the expiration of the term of office of previous member of the Management Board and Workers Director Vesna Lednik on 23 April 2018.

March

- Telekom Slovenije's Supervisory Board consents to the appointment of Danilo Tomšič, MSc to a four-year term of office as the Managing Director of the subsidiary TSinpo, storitveno in invalidsko podjetje, d. o. o., beginning on 1 March 2018.
- Telekom Slovenije receives a decision from the Ljubljana Higher Court in the commercial dispute between the plaintiff Telekom Slovenije 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. The Higher Court rules in favour of Telekom Slovenije's claim, overturns the contested ruling and returns the matter to the court of the first instance for retrial.
- As a partner in the European iCirrus project that includes partners from six countries, Telekom Slovenije uses a 5G pilot network to demonstrate a transfer speed of 100 Gbit/s in the fronthaul segment of the network and 5 Gbit/s in the radio access network available to users. The iCirrus project is part of the European Commission's Horizon 2020 programme, which deals with the development of fifth-generation mobile networks. Partners research the impact of the architecture of the cloud radio access network (C-RAN) on the capacities of the 5G mobile network, such as communication between devices (D2D) and the introduction of virtual mobile cloud services.
- With the presentation of results, Telekom Slovenije completes the European CHARISMA project from the Horizon 2020 programme. In the scope of that project, experts from nine countries address the development of solutions for fifth-generation mobile networks. The focus of partners is on the development of mechanisms to ease the burden on the network, which would ensure the flow of data to the end-users by the shortest path possible (offload) and the development of 'end-to-end' security mechanisms in the convergent virtualised open access network. Telekom Slovenije's primary role in the project is to set up a test environment, draft test scenarios and validate various concepts, such as solutions for smart grids, eHealth services and the Internet of Things.
- On 12 March 2018 Telekom Slovenije increases IPKO Telecommunications LLC's capital by EUR 15 million.
- Telekom Slovenije sets up a test environment in Ljubljana and Maribor for testing Internet of Things solutions on the basis of Narrowband Internet of Things (NB-IoT) technology. The test environment is intended for companies, independent developers and educational institutions that wish to test their Internet of Things solutions in a real environment.

6. Significant events after the balance-sheet date

Second quarter

April

- On 4 April 2018 the Supervisory Board of Telekom Slovenije approves the annual report of the Telekom Slovenije Group and Telekom Slovenije, d. d. for 2017.
- The Management Board of Telekom Slovenije convenes the 29th General Meeting of Shareholders, which will be held at 2 pm on 11 May 2018 in the multimedia conference room at the Company's registered office. The convening of the General Meeting of Shareholders, together with the agenda, explanations of resolutions and information regarding the rights of shareholders are published on the Company's website, in the Ljubljana Stock Exchange's SEOnet system and by the AJPES.
- Telekom Slovenije publishes a corporate governance statement relating to compliance with the Corporate Governance Code, the Corporate Governance Code for Companies with Capital Assets of the State and the Recommendations and Expectations of Slovenski državni holding. The corporate governance statement is an integral part of the annual report of the Telekom Slovenije Group and Telekom Slovenije, d. d. for 2017.

7. Condensed interim accounting report of the Telekom Slovenije Group and Telekom Slovenije, d. d. for the period January to March 2018

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 31 March 2018 were compiled in accordance with IAS 34 Interim Financial Reporting. The financial statements for the period January to March 2018 and for the comparative period January to March 2017 have not been audited, while the financial statements for the comparative period ending 31 December 2017 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 2017, except for the changes described below.

The Telekom Slovenije Group and Telekom Slovenije, d. d. began applying new IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments on 1 January 2018.

There was no effect on the retained earnings disclosed in the Group's financial statements as the result of the adoption of new IFRS 9 Financial Instruments, while the effects of the transition to IFRS 15 Revenue from Contracts with Customers are taken into account in the condensed financial statements.

The Group transitioned to new IFRS 15 Revenue from Contracts with Customers by recognising the cumulative effect of initial application. In accordance with that method, the Group recognised the cumulative effect of initial application as an adjustment to the opening balance of retained earnings as at 1 January 2018. Accordingly, the Group did not recalculate comparable data for 2017, which are presented in accordance with IAS 18.

In the enclosed condensed financial statements of the Telekom Slovenije Group and Telekom Slovenije, d. d., the period ending 31 March 2018 is presented in accordance with the valid IFRS 15 Revenue from Contracts with Customers, while the periods ending 31 March 2017 and 31 December 2017 are presented in accordance with IAS 18 Revenue, which was valid at that time.

The effects of the transition to the new standard are disclosed in notes 7.1.2 and 7.2.2.

Use of significant estimates and judgements

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

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

Estimates and assumptions are reviewed on a regular basis. Revisions to accounting estimates are recognised in the period in which estimates are revised, and in all future years affected by such revisions. Management's estimates did not change during the accounting period.

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

Consolidated income statement for the period ending 31 March 2018

EUR thousand	I - III 2018	I - III 2017
Operating revenue	182,158	179,872
Other operating income	1,237	1,409
Cost of goods sold	-23,311	-14,295
Cost of materials and energy	-3,535	-3,511
Cost of services	-75,045	-84,844
Employee benefits expense	-26,618	-26,970
Amortisation and depreciation expense	-42,248	-40,582
Other operating expenses	-2,362	-883
Total operating expenses	-173,119	-171,085
Profit from operations	10,276	10,196
Finance income	2,198	785
Finance costs	-2,079	-1,987
Profit before tax	10,395	8,994
Income tax expense	-86	-168
Deferred tax	-634	909
Net profit for the period	9,675	9,735
Profit attributable to		
Owners of the company	10,114	10,559
Non-controlling interest	-439	-824
Earnings per share - basic and diluted (in EUR)	1.49	1.50

Consolidated statement of other comprehensive income for the period ending 31 March 2018

EUR thousand	I - III 2018	I - III 2017
Net profit for the period	9,675	9,735
<i>Other comprehensive income that may be reclassified subsequently to profit or loss</i>		
Translation reserves	0	13
Change in revaluation of available-for-sale financial assets	152	168
Deferred tax	-29	-32
Change in revaluation surplus of available-for-sale financial assets (net)	123	136
Changes in fair value of hedging instruments	-118	-588
Deferred tax	23	112
Net gain on changes in fair value of hedging instruments	-95	-476
Other comprehensive income for the period after tax	28	-327
Total comprehensive income for the period	9,703	9,408
Total comprehensive income attributable to		
Owners of the company	10,142	10,232
Non-controlling interest	-439	-824

Consolidated statement of financial position as at 31 March 2018

EUR thousand	31. 3. 2018	31. 12. 2017
ASSETS		
Intangible assets	208,249	214,412
Property, plant and equipment	671,011	679,239
Investments in joint ventures	129	129
Other investments	4,975	4,952
Long-term contract assets	5,459	0
Other non-current assets	38,949	42,298
Investment property	3,994	4,006
Deferred tax assets	44,555	44,876
Total non-current assets	977,321	989,912
Assets held for sale	661	754
Inventories	28,401	22,239
Trade and other receivables	172,539	159,818
Short-term contract assets	11,541	0
Deferred expenses and accrued revenues	53,322	72,053
Income tax credits	165	6
Current financial assets	37,686	77,967
Cash and cash equivalents	7,959	29,245
Total current assets	312,274	362,082
Total assets	1,289,595	1,351,994
EQUITY AND LIABILITIES		
Called-up capital	272,721	272,721
Capital surplus	181,488	181,488
Revenue reserves	106,479	106,479
<i>Legal reserves</i>	<i>51,612</i>	<i>51,612</i>
<i>Treasury share reserve</i>	<i>3,671</i>	<i>3,671</i>
<i>Treasury shares</i>	<i>-3,671</i>	<i>-3,671</i>
<i>Statutory reserves</i>	<i>54,854</i>	<i>54,854</i>
<i>Other revenue reserves</i>	<i>13</i>	<i>13</i>
Retained earnings	133,458	125,039
<i>Retain earnings from previous periods</i>	<i>123,344</i>	<i>113,836</i>
<i>Profit or loss for the period</i>	<i>10,114</i>	<i>11,203</i>
Fair value reserve on available-for-sale financial assets	511	483
Fair value reserve for actuarial deficit and surplus	-2,585	-2,585
Translation reserve	0	0
Equity attributable to owners of the Company	692,072	683,625
Non-controlling interest	-3,199	-2,760
Total capital	688,873	680,865
Long-term contract liabilities	10,717	0
Long-term deferred income	2,782	13,229
Provisions	57,505	57,501
Non-current operating liabilities	13,369	16,426
Interest bearing borrowings	168,925	168,890
Other non-current financial liabilities	100,657	100,526
Deferred tax liabilities	1,911	1,882
Total non-current liabilities	355,866	358,454
Trade and other payables	109,629	135,211
Income tax payable	389	574
Interest-bearing borrowings	71,286	115,252
Other current financial liabilities	1,842	4,329
Short-term contract liabilities	1,449	0
Short-term deferred income	6,946	8,678
Accrued costs and expenses	53,315	48,631
Total current liabilities	244,856	312,675
Total liabilities	600,722	671,129
Total equity and liabilities	1,289,595	1,351,994

Consolidated statement of changes in equity for the period ending 31 March 2018

EUR thousand	Called-up capital	Capital surplus	Revenue reserves					Retained earnings		Revaluation reserves for property, plant and equipment	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	113,836	11,203	0	955	-472	-2,585	0	683,625	-2,760	680,865
Effect of transition to IFRS 15								-1,695							-1,695		-1,695
Balance at 1 Jan 2018	272,721	181,488	51,612	3,671	-3,671	54,854	13	112,141	11,203	0	955	-472	-2,585	0	681,930	-2,760	679,170
Net profit or loss for the period									10,114						10,114	-439	9,675
Other comprehensive income for the period											123	-95			28		28
Total comprehensive income for the period	0	0	0	0	0	0	0	0	10,114	0	123	-95	0	0	10,142	-439	9,703
Transfer of retained earnings from previous years to retained earnings								11,203	-11,203						0		0
Balance at 31 Mar 2018	272,721	181,488	51,612	3,671	-3,671	54,854	13	123,344	10,114	0	1,078	-567	-2,585	0	692,072	-3,199	688,873

Consolidated statement of changes in equity for the period ending 31 March 2017

EUR thousand	Called-up capital	Capital surplus	Revenue reserves					Retained earnings		Revaluation reserves for property, plant and equipment	Fair value reserve on available-for-sale financial assets	Fair value reserve for hedging instruments	Fair value reserve for actuarial deficit and surplus	Translation reserve	Total	Non-controlling interests	Total
			Legal reserves	Treasury share reserve	Treasury shares	Statutory reserves	Other revenue reserves	Retained earnings from previous years	Profit or loss for the period								
Balance at 1 Jan 2017	272,721	181,488	51,612	3,671	-3,671	54,854	132,307	-4,922	19,710	0	678	0	-1,982	-24	706,442	-580	705,862
Net profit or loss for the period									10,559						10,559	-824	9,735
Other comprehensive income for the period											136	-476		13	-327		-327
Total comprehensive income for the period	0	0	0	0	0	0	0	0	10,559	0	136	-476	0	13	10,232	-824	9,408
Transfer of retained earnings from previous years to retained earnings								19,710	-19,710						0		0
Other								-525							-525		-525
Balance at 31 Mar 2017	272,721	181,488	51,612	3,671	-3,671	54,854	132,307	14,263	10,559	0	814	-476	-1,982	-11	716,149	-1,404	714,745

Consolidated cash flow statement for the period ending 31 March 2018

EUR thousand	I - III 2018	I - III 2017
Cash flows from operating activities		
Profit	9,675	9,735
Adjustments for:		
Depreciation and amortization	42,248	40,582
Gain or loss on disposal of property, plant and equipment	-61	-268
Finance income	-2,198	-785
Finance costs	2,079	1,987
Income tax expense and deferred tax	720	-741
Operating cash flow prior to changes in net working capital and provisions	52,463	50,510
Change in trade and other receivables	-12,721	10,218
Change in deferred costs, accrued income and contract assets	3,576	-19,319
Change in other non-current assets	268	1,315
Change in inventories	-5,890	-6,203
Change in provisions	4	-10,126
Change in long-term, short-term deferred income and contract liabilities	-261	-75
Change in accrued costs and expenses	3,694	7,524
Change in trade and other payables	-28,588	-10,867
Income tax paid	-206	-181
Net cash from operating activities	12,339	22,796
Cash flows from investing activities		
Receipts from investing activities	40,686	1,109
Sale of property, plant and equipment	145	1,031
Interest received	14	3
Cash proceeds from sale of investment property	147	0
Disposal of non-current investments	370	59
Disposal of current investments	40,010	16
Disbursements from investing activities	-29,813	-36,508
Acquisition of property, plant and equipment	-12,055	-13,751
Acquisition of intangible assets	-11,310	-22,469
Acquisition of investments	0	-287
Investments in subsidiaries and associates	-6,447	0
Interest-bearing loans	-1	-1
Net cash from investing activities	10,873	-35,399
Cash flows from financing activities		
Receipts from financing activities	56,000	0
Current borrowings	56,000	0
Disbursements from financing activities	-100,498	-2,798
Loan originating costs and bond issued	0	-5
Repayment of non-current borrowings	-100,016	-2,709
Interest paid	-482	-80
Dividends paid	0	-4
Net cash from financing activities	-44,498	-2,798
Net increase/decrease in cash and cash equivalents	-21,286	-15,401
Opening balance of cash	29,245	42,554
Closing balance of cash	7,959	27,153

7.1.2. Notes to the interim consolidated financial statements of the Telekom Slovenije Group

The Group has transitioned to new IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments, which entered into force on 1 January 2018.

IFRS 15 Revenue from Contracts with Customers

The new standard provides a framework that replaces the existing rules on the recognition of revenue. The aforementioned standard supersedes IAS 18 Revenue and IAS 11 Construction Contracts.

The Group applies a five-step model to determine when revenue should be recognised and in what amount. The new model states that revenue is recognised when the Group transfers control of goods or services to a customer, in the amount to which it expects to be entitled. Revenue is recognised as follows, provided that the relevant criteria are met:

- over the period in question, or
- in a given moment.

The Group recognises revenue from contracts with customers based on contracts concluded with customers, and when goods and services are transferred to customers in amounts that reflect the compensation to which the Group expects to be entitled.

Every promised product or services is treated as an independent performance obligation, if it is distinct. It is distinct if the customer can benefit from the product or service. A performance obligation is a promise to a customer to provide a product or service.

The Group recognises revenue primarily through the provision of telecommunication services in the mobile and fixed segments. The Group identified the following performance obligations:

- services,
- installation, and
- goods.

In contracts with customers for a term of 12 or 24 months that include several performance obligations, the Group allocates the price of an entire transaction to individual performance obligations based on the relative standalone prices of products or services (a standalone price is the price at which the Company sells products or services to a customer, i.e. the price excluding discounts). The price of an entire transaction is the amount of compensation that the Group can expect in return for transfers of promised products or services. That price may be fixed or variable. Revenue is recognised at the moment the Group fulfils its performance obligation, i.e. when control over a product or service is transferred to the customer. Control means that a customer is able to direct the use of and obtain all substantial benefits of an asset, and is also able to prevent others from using and obtaining the benefits of an asset.

The Group transitioned to new IFRS 15 Revenue from Contracts with Customers by recognising the cumulative effect of initial application. In accordance with that method, the Group recognised the cumulative effect of initial application as an adjustment to the opening balance of retained earnings as at 1 January 2018. Accordingly, the Group did not recalculate comparable data for 2017, which are presented in accordance with IAS 18. The effects of changes are disclosed separately.

The effects of the transition to IFRS 15 Revenue from Contracts with Customers on retained earnings due to the application of the new standard as at 1 January 2018 are presented in the table below.

EUR thousand	Note	Adjustments according to IFRS 15 as at 1 January 2018
Costs associated with attracting customers	a)	84
Services and goods from mobile and fixed telephony	b)	16,478
Elimination of sales incentives and other discounts	c)	-18,539
Deferred tax assets		290
Liabilities for corporate income tax		-8
Impact on retained earnings		-1,695

- a) In accordance with the provisions of new IFRS 15, the Group began capitalising the costs of sales incentives, which were recognised as costs of services prior to the change in the associated accounting policy.
- b) The Group primarily sells telecommunication services and merchandise in the fixed and mobile segments. Contracts with customers include a subscription fee, and fixed and mobile merchandise. When customers enter into a contract for 12 or 24 months, they receive benefits in the form of a discount on merchandise or the subscription fee. In this case, the price of the entire transaction is allocated, in accordance with the new standard, to individual performance obligations based on the relative standalone selling prices of the merchandise or service in question. Revenue from subscription fees is recognised over the entire term of a subscriber agreement, while revenue from merchandise is recognised at the moment that merchandise is sold to a customer. The Group recognises revenue from installation as revenue from services at the moment a service is rendered.
- c) On account of the transition to the new standard, the Group reversed non-current and current deferred expenses and accrued income from sales incentives and other discounts given, which were deferred and/or accrued over the term of a customer's subscriber agreement prior to the entry into force of the new standard.

Effects of the transition to IFRS 15 Revenue from Contracts with Customers on the interim financial statements of the Telekom Slovenije Group as at 31 March 2018:

Consolidated statement of financial position as at 31 March 2018

EUR thousand	As at 31 March 2018 according to IFRS 15	Adjustments as at 31 March 2018	As at 31 March 2018 according to IAS 18
ASSETS			
Intangible assets	208,249	23	208,272
Other non-current assets	680,109	0	680,109
Non-current contract assets	5,459	-5,459	0
Long-term contract assets	38,949	3,005	41,954
Deferred tax assets	44,555	-222	44,333
Total non-current assets	977,321	-2,653	974,668
Other short-term assets	247,411	0	247,411
Short-term contract assets	11,541	-11,541	0
Deferred expenses and accrued revenues	53,322	15,481	68,803
Total current assets	312,274	3,940	316,214
Total assets	1,289,595	1,287	1,290,882
EQUITY AND LIABILITIES			
Called-up capital	272,721	0	272,721
Capital surplus	181,488	0	181,488
Revenue reserves	106,479	0	106,479
Retained earnings	133,458	1,523	134,981
<i>Retained earnings from previous years</i>	<i>123,344</i>	<i>1,695</i>	<i>125,039</i>
<i>Profit or loss for the current year</i>	<i>10,114</i>	<i>-172</i>	<i>9,942</i>
Fair value reserve	-2,074	0	-2,074
Equity attributable to owners of the Company	692,072	1,523	693, 595
Non-controlling interest	-3,199	0	-3,199
Total capital	688,873	1,523	690, 396
Long-term contract liabilities	10,717	-10,717	0
Long-term deferred income	2,782	10,487	13,269
Other non-current financial liabilities	342,367	0	342,367
Total non-current liabilities	355,866	-230	355,636
Short-term contract liabilities	1,449	-1,449	0
Income tax payable	389	-6	383
Short-term deferred income	6,946	1,449	8,395
Other current financial liabilities	236,072	0	236,072
Total current liabilities	244,856	-6	244,850
Total liabilities	600,722	-236	600,486
Total equity and liabilities	1,289,595	1,287	1,290,882

Consolidated income statement for the period ending 31 March 2018

EUR thousand	I - III 2018 according to IFRS 15	I - III 2018 – adjusted	I - III 2018 IAS 18
Operating revenue	182,158	-210	181,948
Other operating income	1,237	0	1,237
Cost of goods sold	-23,311	4,482	-18,829
Cost of materials and energy	-3,535	0	-3,535
Cost of services	-75,045	-4,509	-79,554
Employee benefits expense	-26,618	0	-26,618
Amortisation and depreciation expense	-42,248	0	-42,248
Other operating expenses	-2,362	0	-2,362
Total operating expenses	-173,119	-27	-173,146
Profit from operations	10,276	-237	10,039
Finance income	2,198	0	2,198
Finance costs	-2,079	0	-2,079
Profit before tax	10,395	-237	10,158
Income tax expense	-86	-3	-89
Deferred tax	-634	68	-566
Net profit for the period	9,675	-172	9,503
Profit attributable to:			
Owners of the company	10,114	-172	9,942
Non-controlling interest	-439		-439
Earnings per share - basic and diluted (in EUR)	1.49	0	1.46

Consolidated statement of other comprehensive income for the period ending 31 March 2018

EUR thousand	I - III 2018 according to IFRS 15	I - III 2018 – adjusted	I - III 2018 IAS 18
Net profit for the period	9,675	-172	9,503
<i>Other comprehensive income that may be reclassified subsequently to profit or loss</i>			
Change in revaluation of available-for-sale financial assets	152		152
Deferred tax	-29		-29
Change in revaluation surplus of available-for-sale financial assets (net)	123	0	123
Changes in fair value of hedging instruments	-118		-118
Deferred tax	23		23
Net gain on changes in fair value of hedging instruments	-95	0	-95
Other comprehensive income for the period after tax	28	0	28
Total comprehensive income for the period	9,703	-172	9,531

IFRS 9 Financial Instruments

This standard defines the requirements and rules for the recognition and measurement of financial instruments. It replaces IAS 39 Financial Instruments: Recognition and Measurement.

The standard introduces new criteria for the classification of financial instruments to categories based on the Group's business model and the characteristics of a particular instrument, and also introduces an expected loss impairment model.

The table below presents the classification of financial instruments according to IAS 39 and new IFRS 9 as at 1 January 2018:

EUR thousand	Note	Classification in accordance with IAS 39	Classification in accordance with IFRS 9	Value according to IAS 39	Value according to IFRS 9
Investments in listed shares	a)	available-for-sale financial assets	FV* through comprehensive income – investments in capital instruments	1,796	1,796
Investments in other shares and participating interests	b)	available-for-sale financial assets	FV* through comprehensive income – investments in capital instruments	2,716	2,716
Loans given	c)	loans and receivables	amortised cost	889	889
Operating receivables	d)	loans and receivables	amortised cost	160,045	160,045
Cash and cash equivalents, and deposits		loans and receivables	at historical cost	106,536	106,536
Impact on retained earnings				271,982	271,982

* FV = fair value

- The Group recorded investments in capital instruments listed on the securities exchange and classified as available-for-sale assets at fair value through comprehensive income. The Group will continue to value those investments in the same manner in the future, as it classified them to financial assets at fair value through other comprehensive income in accordance with IFRS 9.
- The Group irrevocably classified capital investments previously classified as available-for-sale and valued at historical cost in accordance with IAS 39 to financial assets at fair value through other

comprehensive income at the time of initial recognition. Dividends are recognised in the income statement.

- c) In accordance with the new standard, the Group will classify financial investments in loans and receivables to financial assets measured at amortised cost.
- d) Trade receivables and assets from contracts with customers are classified to assets measured at amortised cost. The Group will apply a simplified approach for receivables which requires that an impairment loss always be measured as an amount equal to expected credit losses over the entire life of the instrument in question.

The new model for calculating impairments in accordance with IFRS 9 replaces the incurred loss model as recognised by IAS 39, which also encompasses the expected credit loss model; the latter means that impairment may be recognised before a loss even occurs. At each reporting date, the Group measures impairment loss for a financial instrument as an amount equal to expected credit losses over the entire life of that instrument, if the associated credit risk has increased significantly since initial recognition.

There was no effect on the retained earnings disclosed in the Group's financial statements as the result of the adoption of new IFRS 9 Financial Instruments.

Telekom Slovenije Group

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

Company	Country	31. 3. 2018
GVO, d.o.o.	Slovenia	100 %
TSmedia, d.o.o.	Slovenia	100 %
AVTENTA, d.o.o.	Slovenia	100 %
SOLINE d.o.o.	Slovenia	100 %
TSinpo, d.o.o.	Slovenia	100 %
Optic-Tel, d.o.o.	Slovenia	100 %
INFRATEL, d.o.o.	Slovenia	100 %
Antenna TV SL d.o.o.	Slovenia	66 %
IPKO Telecommunications LLC	Kosovo	100 %
Blicnet d. o. o. Banja Luka	Bosnia and Herzegovina	100 %
SIOL d.o.o.	Croatia	100 %
SIOL d.o.o. Sarajevo	Bosnia and Herzegovina	100 %
SIOL d.o.o. Podgorica	Montenegro	100 %
GVO Telekomunikation GmbH	Germany	100 %
SiOL DOOEL Skopje	Macedonia	100 %
SiOL d.o.o. Beograd	Serbia	100 %

In February 2018 Telekom Slovenije signed an agreement with the minority owners of IPKO on the acquisition of a 6.89% participating interest, for which the Company paid consideration in the amount of EUR 2.98 million.

In January 2018 the Group purchased a 100% participating interest in INFRATEL, telekomunikacijska infrastruktura, d. o. o. through its subsidiary GVO. INFRATEL was included in the financial statements of the Telekom Slovenije Group effective 1 January 2018. Consideration for that 100% participating interest amounted to EUR 3,469 thousand. The Group generated a bargain purchase gain of EUR 1,501 thousand through the merger of the aforementioned company, and recognised that amount in the income statement as other finance income.

Fair value of the identifiable assets and liabilities of INFRATEL, d. o. o. on the acquisition date

EUR thousand	Carrying amount and fair value
Property, plant and equipment	4,819
Trade receivables	96
Cash and cash equivalents	44
Other assets	78
Total assets	5,037
Trade payables	-33
Other accounts payable	-34
Total liabilities	-67
Fair value of net assets	4,970
Payment of consideration and assumed liabilities	3,469
Gain on bargain sale	1,501
Payment of consideration	-3,469
Receipt of cash	44
Net cash from acquisition	-3,425

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

Segment reporting

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

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

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

Operating segments: I - III 2018

EUR thousand	Slovenia	Other countries	Eliminations and adjustments	Consolidated
External sales	165,595	16,563	0	182,158
Intersegment sales	13,716	4,089	-17,805	0
Total segment revenue	179,311	20,652	-17,805	182,158
Other revenue	696	639	-98	1,237
Total operating expenses	-170,711	-20,368	17,960	-173,119
Operating profit per segment	9,296	923	57	10,276
Finance income				2,198
Finance costs				-2,079
Profit before tax				10,395
Income tax expense				-86
Deferred tax				-634
Profit for the period				9,675

Other data by segment Balance as at 31 March 2018	Slovenia	Other countries	Eliminations and adjustments	Consolidated
Segment assets	1,357,823	149,423	-217,651	1,289,595
Segment liabilities	627,103	118,868	-145,249	600,722

Net revenues by operating segment: I - III 2018

EUR thousand	Slovenia	Other countries	Eliminations and adjustments	Consolidated
Mobile services in end-customer market	56,860	7,431	-314	63,977
Fixed-line telephone services on end-customer market	56,715	8,963	-209	65,469
New sources of revenue	1,015	0	-1	1,014
Wholesale market	44,019	4,193	-6,049	42,163
Other revenues and merchandise	20,702	65	-11,232	9,535
Total revenue	179,311	20,652	-17,805	182,158

EUR thousand	Slovenia	Other countries	Eliminations and adjustments	Consolidated
Revenues from sale of services	155,577	20,124	-16,592	159,109
Revenues from sale of goods	23,734	528	-1,213	23,049
Total revenue	179,311	20,652	-17,805	182,158

Operating segments: I - III 2017

EUR thousand	Slovenia	Other countries	Eliminations and adjustments	Consolidated
External sales	163,643	16,229	0	179,872
Intersegment sales	16,703	4,948	-21,651	0
Total segment revenue	180,346	21,177	-21,651	179,872
Other revenue	1,195	246	-32	1,409
Total operating expenses	-171,851	-21,203	21,969	-171,085
Operating profit per segment	9,690	220	286	10,196
Finance income				785
Finance costs				-1,987
Profit before tax				8,994
Income tax expense				-168
Deferred tax				909
Profit for the period				9,735

Other data by segment Balance as at 31 December 2017	Slovenia	Other countries	Eliminations and adjustments	Consolidated
Segment assets	1,420,726	154,336	-223,068	1,351,994
Segment liabilities	701,859	138,283	-169,013	671,129

Net revenues by operating segment: I - III 2017

EUR thousand	Slovenia	Other countries	Eliminations and adjustments	Consolidated
Mobile services in end-customer market	55,588	7,370	-608	62,350
Fixed-line telephone services on end-customer market	55,087	8,652	-146	63,593
New sources of revenue	607	0	0	607
Wholesale market	45,861	5,091	-6,424	44,528
Other revenues and merchandise	23,203	64	-14,473	8,794
Total revenue	180,346	21,177	-21,651	179,872

EUR thousand	Slovenia	Other countries	Eliminations and adjustments	Consolidated
Revenues from sale of services	164,108	20,591	-19,515	165,184
Revenues from sale of goods	16,238	586	-2,136	14,688
Total revenue	180,346	21,177	-21,651	179,872

Net sales revenue

EUR thousand	I - III 2018	I - III 2017
Mobile services in end-customer market	63,977	62,350
Fixed-line telephone services on end-customer market	65,469	63,638
New sources of revenue	1,014	607
Wholesale market	42,163	44,483
Other revenues and merchandise	9,535	8,794
Total revenue	182,158	179,872

EUR thousand	I - III 2018	I - III 2017
Revenues from sale of services	159,109	165,184
Revenues from sale of goods	23,049	14,688
Total revenue	182,158	179,872

Net sales revenue was up by EUR 2,286 thousand during the period January to March 2018 relative to the same period last year, to stand at EUR 182,158 thousand. Revenues were up by EUR 1,627 thousand in the mobile segment of the end-user market, while revenues in the fixed segment of the end-user market were up by EUR 1,831 thousand. Other revenues and revenues from other merchandise were up by EUR 741 thousand. Revenues on the wholesale market were down by EUR 2,320 thousand, while new revenue sources were up by EUR 407 thousand.

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

Costs of services

EUR thousand	I - III 2018	I - III 2017
Telecommunications services	33,574	35,114
- network interconnection	7,916	7,999
- roaming	2,662	1,806
- international services	22,812	25,142
- other telecommunication services	184	167
Cost of leased lines	2,143	2,782
Multimedia services	7,453	7,513
Sale incentives	0	4,810
Sale commissions	835	872
Maintenance of property, plant and equipment	5,389	5,737
Lease of property, plant and equipment	3,466	3,495
Costs of fairs, marketing, sponsorships and entertainment	2,087	2,529
Professional and personal services	2,643	2,643
Refund of work-related costs	203	154
Insurance premiums	916	1,018
Cost of communication services	829	674
Banking services	272	265
Other services	15,233	17,238
Total cost of services	75,045	84,844

Costs of services were down by 12% or EUR 9,799 thousand during the reporting period relative to the same period last year. There were no costs of sales incentives during the reporting period January to March 2018 due to the transition to new IFRS 15, which governs the recognition of revenue. The costs of the following items were down: leased lines, trade fairs, advertising, sponsorship and representation, other services, insurance premiums, the maintenance of property, plant and equipment, telecommunication services, sales commissions, multimedia content, and the leasing of property, plant and equipment. The costs of the following items were up: reimbursements of work-related costs, communication services and banking services.

Operating profit and net profit

Operating profit (EBIT) was up by EUR 80 thousand or 1% on the same period last year, to stand at EUR 10,276 thousand. A net profit of EUR 9,675 thousand was achieved for the accounting period (a decrease of 1% on the same period last year), in the context of a net financial gain of EUR 119 thousand.

Intangible assets

Intangible assets were down by the total amount of EUR 6,163 thousand relative to the end of 2017. Commitments for intangible assets totalled EUR 5,631 thousand as at 31 March 2018.

Property, plant and equipment

Property, plant and equipment totalled EUR 671,011 thousand as at 31 March 2018, accounting for 52% of total assets. Assets were down by EUR 8,228 thousand primarily as a result of the higher amount of depreciation charged compared with new acquisitions. Commitments for property, plant and equipment totalled EUR 2,881 thousand as at 31 March 2018.

Operating and other receivables

Trade and other receivables were up by EUR 12,721 thousand relative to the balance at the end of 2017.

Financial instruments

Current financial assets were down by EUR 40,281 thousand on the balance as at 31 December 2017 to stand at EUR 37,686 thousand.

Non-current financial assets were up by EUR 23 thousand.

Financial liabilities

Financial liabilities totalled EUR 342,710 thousand as at 31 March 2018, a decrease of EUR 46,287 thousand on the end of 2017, broken down as follows:

- borrowings received in the amount of EUR 240,211 thousand were down by EUR 43,931 thousand;
- liabilities for bonds issued in the amount of EUR 101,443 thousand were up by EUR 492 thousand on the balance at the end of the year; and
- other liabilities in the amount of EUR 1,056 thousand, of which EUR 701 thousand relates to a hedge against exposure to interest-rate risk. Other financial liabilities were down by EUR 2,848 thousand relative to the end of 2017.

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 financial instruments as at 31 March 2018

EUR thousand	Carrying amount	Fair value	Level 1	Level 2	Level 3
Non-current financial assets					
Available-for-sale financial assets	1,949	1,949	1,949		
Loans given	303	303			303
Current financial assets					
Loans given	144	144			144
Non-current financial liabilities	118,897	118,897			118,897
Bonds					
Borrowings	99,909	101,000	101,000		
Liabilities for interest rate swap	168,925	168,925			168,925
Current financial assets	701	701		701	
Current financial liabilities					
Bonds	-42	-42			-42
Interest on bonds	1,576	1,576			1,576
Borrowings	71,286	71,286			71,286
Other financial liabilities	308	308			308

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

Contingent liabilities from lawsuits

No new lawsuits were filed against the Group in the period from 1 January 2018 until the day this report was compiled that could have a significant impact on the financial statements for the first three months of 2018.

Contingent liabilities from guarantees issued

The Group had provided the following guarantees as at 31 March 2018:

- performance guarantees and warranty bonds in the amount of EUR 6,798 thousand, and
- other guarantees in the amount of EUR 1,341 thousand.

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

Transactions with related parties

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

Transactions with individuals

Natural persons (the President and a member of the Management Board, and the Vice-President and two members of the Supervisory Board) held 448 shares in Telekom Slovenije as at 31 March 2018, representing a holding of 0.00687%.

Transactions with owners and parties related thereto

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

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

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

Receivables and liabilities

EUR thousand	31. 3. 2018	31. 12. 2017
Outstanding operating receivables	33,005	3,875
Short-term accrued revenue	0	20,558
Outstanding operating liabilities	1,818	1,561

Revenues and expenses

EUR thousand	I - III 2018	I - III 2017
Operating revenue	8,527	8,700
Purchase costs of material and services	2,778	2,987

All transactions between related parties are executed at market prices.

Events after the reporting date

There were no events after the reporting period that could affect the financial statements for the period January to March 2018.

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

7.2.1. Condensed interim financial statements of Telekom Slovenije, d. d.

Income statement of Telekom Slovenije for the period ending 31 March 2018

EUR thousand	I - III 2018	I - III 2017
Revenue	164,653	164,082
Other operating income	506	986
Cost of goods sold	-24,087	-16,180
Cost of material and energy	-2,706	-2,461
Cost of services	-69,920	-77,965
Employee benefits expense	-21,751	-22,237
Amortisation and depreciation expense	-33,607	-33,246
Other operating expenses	-2,368	-801
Total operating expenses	-154,439	-152,890
Profit from operations	10,720	12,178
Finance income	1,676	2,331
Finance costs	-2,053	-1,969
Profit before tax	10,343	12,540
Income tax expense	0	0
Deferred tax	-629	871
Net profit for the period	9,714	13,411

Statement of other comprehensive income of Telekom Slovenije for the period ending 31 March 2018

EUR thousand	I - III 2018	I - III 2017
Net profit for the period	9,714	13,411
<i>Other comprehensive income that may be reclassified subsequent to profit or loss</i>		
Change in revaluation of available-for-sale financial assets	152	168
Deferred tax	-29	-32
Change in revaluation surplus of available-for-sale financial assets (net)	123	136
Changes in fair value of cash flow hedges	-118	-588
Deferred tax	23	112
Net gain on changes in fair value of cash flow hedges	-95	-476
<i>Other comprehensive income that shall not be transferred to profit or loss in future periods</i>		
Other comprehensive income for the period	28	-340

Statement of the financial position of Telekom Slovenije as at 31 March 2018

EUR thousand	31. 3. 2018	31. 12. 2017
ASSETS		
Intangible assets	166,092	174,413
Property, plant and equipment	572,399	582,178
Investments in subsidiaries	51,079	36,079
Investments in associates and joint ventures	63	63
Other investments	85,435	85,407
Long-term contract assets	4,719	
Other non-current assets	29,952	33,097
Investment property	3,994	4,006
Deferred tax assets	43,820	44,136
Total non-current assets	957,553	959,379
Assets held for sale	661	754
Inventories	24,421	18,106
Trade and other receivables	165,014	151,302
Short-term contract assets	11,486	0
Deferred expenses and accrued revenues	51,964	68,929
Income tax credits	43	0
Current financial assets	65,365	121,731
Cash and cash equivalents	1,432	17,358
Total current assets	320,386	378,180
Total assets	1,277,939	1,337,559
	31. 3. 2018	31. 12. 2017
EQUITY AND LIABILITIES		
Called-up capital	272,721	272,721
Capital surplus	180,956	180,956
Revenue reserves	104,978	104,978
Legal reserves	50,434	50,434
Treasury share reserve	3,671	3,671
Treasury shares	-3,671	-3,671
Statutory reserves	54,544	54,544
Other revenue reserves	0	0
Retained earnings	146,235	137,756
Retained earnings from previous periods	136,521	136,036
Profit or loss for the period	9,714	1,720
Revaluation reserves	-2,028	-2,056
Total capital and reserves	702,862	694,355
Long-term contract liability	10,705	0
Long-term deferred income	2,103	12,547
Provisions	53,245	53,229
Non-current operating liabilities	13,231	16,358
Interest bearing borrowings	168,833	168,796
Other non-current financial liabilities	100,610	100,481
Deferred tax liabilities	253	224
Total non-current liabilities	348,980	351,635
Trade and other payables	95,556	121,195
Income tax payable	0	0
Interest bearing borrowings	72,939	115,189
Other current financial liabilities	1,823	4,296
Short term contract liability	1,449	0
Short-term deferred income	2,764	4,307
Accrued costs and expenses	51,566	46,582
Total current liabilities	226,097	291,569
Total liabilities	575,077	643,204
Total equity and liabilities	1,277,939	1,337,559

Statement of changes in equity of Telekom Slovenije for the period ending 31 March 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 31 Dec 2017	272,721	180,956	50,434	3,671	-3,671	54,544	0	133,566	1,720	955	-472	-2,539	691,885
Effect of transition to IFRS 15								1,235					1,235
Balance at 1 Jan 2018	272,721	180,956	50,434	3,671	-3,671	54,544	0	134,801	1,720	955	-472	-2,539	693,120
Net profit or loss for the period									9,714				9,714
Other comprehensive income for the period										123	-95	0	28
Total comprehensive income for the period	0	0	0	0	0	0	0	0	9,714	123	-95	0	9,742
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	136,521	9,714	1,078	-567	-2,539	702,862

Statement of changes in equity of Telekom Slovenije for the period ending 31 March 2017

EUR thousand	Called-up capital	Capital surplus	Revenue reserves					Retained earnings		Fair value reserve on available-for-sale financial assets	Fair value reserve for hedging instruments	Fair value reserve for actuarial deficit and surplus	Total
			Legal reserves	Treasury share reserve	Treasury shares	Statutory reserves	Other revenue reserves	Retained earnings from previous years	Profit or loss for the period				
Balance at 1 Jan 2017	272,721	180,956	50,434	3,671	-3,671	54,544	132,294	16,026	20,230	678	0	-1,828	726,055
Net profit or loss for the period									13,411				13,411
Other comprehensive income for the period										136	-476		-340
Total comprehensive income for the period	0	0	0	0	0	0	0	0	13,411	136	-476	0	13,071
Transfer of retained earnings from previous years to retained earnings								20,230	-20,230				0
Balance at 31 March 2017	272,721	180,956	50,434	3,671	-3,671	54,544	132,294	36,256	13,411	814	-476	-1,828	739,126

Cash flow statement of Telekom Slovenije for the period ending 31 March 2018

EUR thousand	I - III 2018	I - III 2017
Cash flows from operating activities		
Profit	9,714	13,411
Adjustments for:		
Depreciation and amortisation	33,607	33,246
Gain or loss on disposal of property, plant and equipment	-56	-261
Finance income	-1,676	-2,331
Finance costs	2,053	1,969
Income tax expense and deferred tax	629	-871
Operating cash flow prior to changes in net working capital and provisions	44,271	45,163
Change in trade and other receivables	-13,712	9,902
Change in deferred costs and accrued income	3,002	-17,417
Change in other non-current assets	33	1,444
Change in inventories	-6,043	-5,245
Change in provisions	16	-10,134
Change in long-term and short-term deferred income	-69	204
Change in accrued costs and expenses	3,997	9,056
Change in trade and other payables	-28,458	-12,278
Income tax paid	0	-31
Net cash from operating activities	3,037	20,664
Cash flows from investing activities		
Receipts from investing activities	60,691	6,072
Sale of property, plant and equipment	143	1,031
Cash proceeds from sale of investment property	147	0
Interest received	1,056	865
Disposal of non-current investments	19,336	4,176
Disposal of current investments	40,009	0
Disbursements from investing activities	-36,876	-39,545
Acquisition of property, plant and equipment	-10,462	-11,839
Acquisition of intangible assets	-5,360	-22,227
Acquisition of investments	0	-633
Investments in subsidiaries and associates	-17,980	0
Interest-bearing loans	-3,074	-4,846
Cash used in investing activities	23,815	-33,473
Cash flows from financing activities		
Receipts from financing activities	57,700	2,000
Current borrowings	57,700	2,000
Disbursements from financing activities	-100,478	-2,780
Loan originating costs and bond issue costs	0	-5
Repayment of non-current borrowings	-100,000	-2,693
Sell derivatives	0	0
Interest paid	-478	-78
Dividends paid	0	-4
Cash flow used in financing activities	-42,778	-780
Net increase/decrease in cash and cash equivalents	-15,926	-13,589
Opening balance of cash	17,358	34,448
Closing balance of cash	1,432	20,859

7.2.2. Notes to the condensed interim financial statements of Telekom Slovenije

The Company has transitioned to IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments, which entered into force on 1 January 2018.

IFRS 15 Revenue from Contracts with Customers

The new standard provides a framework that replaces the existing rules on the recognition of revenue. The aforementioned standard supersedes IAS 18 Revenue and IAS 11 Construction Contracts.

The Company applies a five-step model to determine when revenue should be recognised and in what amount. The new model states that revenue is recognised when the Company transfers control of goods or services to a customer, in the amount to which it expects to be entitled. Revenue is recognised as follows, provided that the relevant criteria are met:

- over the period in question, or
- in a given moment.

The Company recognises revenue from contracts with customers based on contracts concluded with customers, and when goods and services are transferred to customers in amounts that reflect the compensation to which the Company expects to be entitled.

Every promised product or service is treated as an independent performance obligation, if it is distinct. It is distinct if the customer can benefit from the product or service. A performance obligation is a promise to a customer to provide a product or service.

The Company recognises revenue primarily through the provision of telecommunication services in the mobile and fixed segments. The Company identified the following performance obligations:

- services,
- installation, and
- goods.

In contracts with customers for a term of 12 or 24 months that include several performance obligations, the Company allocates the price of an entire transaction to individual performance obligations based on the relative standalone prices of products or services (a standalone price is the price at which the Company sells products or services to a customer, i.e. the price excluding discounts). The price of an entire transaction is the amount of compensation that the Company can expect in return for transfers of promised products or services. That price may be fixed or variable. Revenue is recognised at the moment the Company fulfils its performance obligation, i.e. when control over a product or service is transferred to the customer. Control means that a customer is able to direct the use of and obtain all substantial benefits of an asset, and is also able to prevent others from using and obtaining the benefits of an asset.

The Company transitioned to new IFRS 15 Revenue from Contracts with Customers by recognising the cumulative effect of initial application. In accordance with that method, the Company recognised the cumulative effect of initial application as an adjustment to the opening balance of retained earnings as at 1 January 2018. Accordingly, the Company did not recalculate comparable data for 2017, which are presented in accordance with IAS 18. The effects of the change must be disclosed separately.

The effects of the transition to IFRS 15 Revenue from Contracts with Customers on retained earnings due to the application of the new standard as at 1 January 2018 are presented in the table below.

EUR thousand	Note	Adjustments according to IFRS 15 as at 1 January 2018
Costs associated with attracting customers	a)	84
Services and goods from mobile and fixed telephony	b)	15,624
Elimination of sales incentives and other discounts	c)	-17,233
Deferred tax assets		290
Liabilities for corporate income tax		0
Impact on retained earnings		-1,235

- a) In accordance with the provisions of new IFRS 15, the Company began capitalising the costs of sales incentives, which were recognised as costs of services prior to the change in the associated accounting policy.
- b) The Company primarily sells telecommunication services and merchandise in the fixed and mobile segments. Contracts with customers include a subscription fee, and fixed and mobile merchandise. When customers enter into a contract for 12 or 24 months, they receive benefits in the form of a discount on merchandise or the subscription fee. In this case, the price of the entire transaction is allocated, in accordance with the new standard, to individual performance obligations based on the relative standalone selling prices of the merchandise or service in question. Revenue from subscription fees is recognised over the entire term of a subscriber agreement, while revenue from merchandise is recognised at the moment that merchandise is sold to a customer. The Company recognises revenue from installation as revenue from services at the moment a service is rendered.
- c) On account of the transition to the new standard, the Company reversed non-current and current deferred expenses and accrued income from sales incentives and other discounts given, which were deferred and/or accrued over the term of a customer's subscriber agreement prior to the entry into force of the new standard.

Effects of the transition to IFRS 15 Revenue from Contracts with Customers on the interim financial statements of Telekom Slovenije as at 31 March 2018:

Statement of financial position as at 31 March 2018

EUR thousand	As at 31 March 2018 according to IFRS 15	Adjustments as at 31 March 2018	As at 31 March 2018 according to IAS 18
Other non-current assets	879,062	0	879,062
Non-current contract assets	4,719	-4,719	0
Other non-current assets	29,952	3,018	32,970
Deferred tax assets	43,820	-222	43,598
Total non-current assets	957,553	-1,923	955,630
Other current assets	256,936	0	256,936
Current contract assets	11,486	-11,486	0
Current deferred expenses and accrued income	51,964	14,152	66,116
Total current assets	320,386	2,666	323,052
Total assets	1,277,939	743	1,278,682
EQUITY AND LIABILITIES			
Called-up capital	272,721	0	272,721
Capital surplus	180,956	0	180,956
Revenue reserves	104,978	0	104,978
Retained earnings	146,235	961	147,196
<i>Retained earnings from previous years</i>	136,521	1,235	137,756
<i>Profit or loss for the current year</i>	9,714	-274	9,440
Fair value reserve	-2,028		-2,028
Total equity	702,862	961	703,823
Non-current contract liabilities	10,705	-10,705	0
Non-current deferred income	2,103	10,487	12,590
Other non-current liabilities	336,172	0	336,172
Total non-current liabilities	348,980	-218	348,762
Current contract liabilities	1,449	-1,449	0
Current deferred income	2,764	1,449	4,213
Other current liabilities	221,884	0	221,884
Total current liabilities	226,097	0	226,097
Total liabilities	575,077	-218	574,859
Total equity and liabilities	1,277,939	743	1,278,682

Income statement of Telekom Slovenije, d. d. for the period ending 31 March 2018

EUR thousand	I - III 2018 MSRP 15	I - III 2018 prilagoditve	I - III 2018 MRS 18
Revenue	164,653	-286	164,367
Other operating income	506		506
Cost of goods sold	-24,087	4,082	-20,005
Cost of material and energy	-2,706		-2,706
Cost of services	-69,920	-4,138	-74,058
Employee benefits expense	-21,751		-21,751
Amortisation and depreciation expense	-33,607		-33,607
Other operating expenses	-2,368		-2,368
Total operating expenses	-154,439	-56	-154,495
Profit from operations	10,720	-342	10,378
Finance income	1,676		1,676
Finance costs	-2,053		-2,053
Profit before tax	10,343	-342	10,001
Income tax expense	0	0	0
Deferred tax	-629	68	-561
Net profit for the period	9,714	-274	9,440
Earnings per share - basic and diluted (in EUR)	1.49		1.45

Statement of other comprehensive income of Telekom Slovenije, d. d. for the period ending 31 March 2018

EUR thousand	I - III 2018 MSRP 15	I - III 2018 prilagoditve	I - III 2018 MRS 18
Net profit for the period	9,714	-274	9,440
Other comprehensive income that may be reclassified subsequent to profit or loss			
Change in revaluation of available-for-sale financial assets	152		152
Deferred tax	-29		-29
Net gain on changes in fair value of cash flow hedges	123	0	123
Other comprehensive income that shall not be transferred to profit or loss in future periods			
Change in fair value of hedging financial instruments (net)	-95	0	-95
Other comprehensive income for the period	28	0	28
Total comprehensive income for the period	9,742	-274	9,468

IFRS 9 Financial Instruments

This standard defines the requirements and rules for the recognition and measurement of financial instruments. It replaces IAS 39 Financial Instruments: Recognition and Measurement.

The standard introduces new criteria for the classification of financial instruments to categories based on the Company's business model and the characteristics of a particular instrument, and also introduces an expected loss impairment model.

The table below presents the classification of financial instruments according to IAS 39 and new IFRS 9 as at 1 January 2018:

EUR thousand	Note	Classification in accordance with IAS 39	Classification in accordance with IFRS 9	Value according to IAS 39	Value according to IFRS 9
Investments in listed shares	a)	available-for-sale financial assets	FV through comprehensive income – investments in capital instruments	1,796	1,796
Investments in other shares and participating interests	b)	available-for-sale financial assets	FV through comprehensive income – investments in capital instruments	2,714	2,714
Loans given	c)	loans and receivables	amortised cost	125,345	125,345
Operating receivables	d)	loans and receivables	amortised cost	151,302	151,302
Cash and cash equivalents, and deposits		loans and receivables	at historical cost	94,641	94,641
Impact on retained earnings				375,798	375,798

* FV = fair value

- The Company recorded investments in capital instruments listed on the securities exchange and classified as available-for-sale assets at fair value through comprehensive income. The Company will continue to value those investments in the same manner in the future, as it classified them to financial assets at fair value through other comprehensive income in accordance with IFRS 9.
- The Company irrevocably classified capital investments previously classified as available-for-sale and valued at historical cost in accordance with IAS 39 to financial assets at fair value through other comprehensive income at the time of initial recognition. Dividends are recognised in the income statement.
- In accordance with the new standard, the Company will classify financial investments in loans and receivables to financial assets measured at amortised cost.
- Trade receivables and assets from contracts with customers are classified to assets measured at amortised cost. The Company will apply a simplified approach for receivables which requires that an impairment loss always be measured as an amount equal to expected credit losses over the entire life of the instrument in question.

The new model for calculating impairments in accordance with IFRS 9 replaces the incurred loss model as recognised by IAS 39, which also encompasses the expected credit loss model; the latter means that impairment may be recognised before a loss even occurs. At each reporting date, the Company measures impairment loss for a financial instrument as an amount equal to expected credit losses over the entire life of that instrument, if the associated credit risk has increased significantly since initial recognition.

There was no effect on the retained earnings disclosed in the Company's financial statements as the result of the adoption of new IFRS 9 Financial Instruments.

Net sales revenue

EUR thousand	I - III 2018	I - III 2017
Mobile services on end-customer market	56,860	55,588
Fixed-line telephone services on end-customer market	56,715	55,087
New sources of revenue	1,015	607
Wholesale market	43,632	45,861
Other revenue and other merchandise	6,431	6,939
Total revenue	164,653	164,082
EUR thousand	I - III 2018	I - III 2017
Sale of services	141,032	147,902
Sale of goods and materials	23,621	16,180
Total revenue	164,653	164,082

Net sales revenue was up by EUR 571 thousand during the period January to March 2018 relative to the same period last year. Revenues on the wholesale market were down by EUR 2,229 thousand, while other revenues and revenues from other merchandise were down by EUR 508 thousand. Revenues in the fixed segment of the end-user market were up by EUR 1,628 thousand, while new revenue sources were up by EUR 408 thousand. Revenues were also up by EUR 1,272 thousand in the mobile segment of the end-user market.

Costs of services

EUR thousand	I - III 2018	I - III 2017
Telecommunications services	35,498	37,021
- network interconnection	6,823	6,029
- roaming	2,984	2,186
- international services	25,691	28,806
Cost of leased lines	3,226	3,820
Multimedia services costs	4,515	3,276
Sale incentives	0	3,913
Sale commissions	231	297
Maintenance of property, plant and equipment	5,936	6,248
Lease of property, plant and equipment	2,341	2,294
Costs of trade fairs, marketing, sponsorship and entertainment	1,987	2,116
Professional and personal services	1,455	1,396
Refond of work-related costs	118	73
Insurance premiums	796	882
Cost of postal services and transportation	768	813
Banking services	167	162
Other services	12,882	15,654
Total cost of services	69,920	77,965

Total costs of services were down relative to the level recorded during the same period in 2017. There were no costs of sales incentives during the reporting period January to March 2018 due to the transition to new IFRS 15, which governs the recognition of revenue. The costs of the following items were down: attracting customers, other services, leased lines, insurance premiums, trade fairs, advertising, sponsorship and representation, banking services, communication services, maintenance of property, plant and equipment, and telecommunication services. The costs of the following items were up: reimbursements of work-related costs,

multimedia content, intellectual and personal services, banking services, and the leasing of property, plant and equipment.

Operating profit

Operating profit (EBIT) was down by EUR 1,458 thousand on the same period last year to stand at EUR 10,720 thousand.

Finance income

Finance income was down by 28% or EUR 655 thousand on the same period in 2017.

Finance costs

Finance costs were up 4% or EUR 84 thousand on the same period in 2017.

Net profit

Net profit in the amount of EUR 9,714 thousand was down 28% or EUR 3,697 thousand on the period January to March 2017.

Intangible assets

Intangible assets primarily comprise concessions, licences, broadcasting rights, sales commissions and computer programmes, and were down by the total amount of EUR 8,321 thousand. Commitments for intangible assets totalled EUR 6,008 thousand as at 31 March 2018.

Property, plant and equipment

Property, plant and equipment accounted for 45% of the Company's total assets. The decrease in property, plant and equipment in the amount of EUR 9,779 thousand was primarily the result of depreciation charged during the accounting period in the amount of EUR 19,828 thousand, while new acquisitions totalled EUR 10,815 thousand. Commitments for property, plant and equipment totalled EUR 12,882 thousand as at 31 March 2018.

Investments in subsidiaries and joint ventures

Telekom Slovenije paid minority owners in February 2018 and became the owner of a 100% participating interest in IPKO. Telekom Slovenije, as the sole owner, increased the capital of the subsidiary IPKO in March 2018 with a cash contribution of EUR 15,000 thousand.

Operating and other receivables

Trade and other receivables were up by EUR 13,712 thousand relative to the balance at the end of 2017.

Financial instruments

Current financial assets were down by EUR 56,366 thousand, while non-current financial assets were up by EUR 28 thousand.

Financial liabilities

Financial liabilities totalled EUR 344,205 thousand as at 31 March 2018, a decrease of EUR 44,557 thousand on the end of 2017, broken down as follows:

- borrowings received in the amount of EUR 241,772 thousand were down by EUR 42,213 thousand;
- liabilities for bonds issued in the amount of EUR 101,443 thousand were up by EUR 492 thousand; and
- other liabilities in the amount of EUR 990 thousand, of which EUR 701 thousand relates to a hedge against exposure to interest-rate risk. Other liabilities were down by EUR 2,836 thousand relative to the end of 2017.

Fair value hierarchy

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

1. Level 1: fair value is determined by directly quoting an officially published price on an active market;
2. Level 2: other techniques for determining fair value based on assumptions with a significant impact on fair value that are in line with current observable market transactions with the same instruments, either directly or indirectly; and

3. Level 3: other techniques for determining fair value based on assumptions with a significant impact on fair value that are not in line with current observable market transactions with the same instruments. The fair values of financial instruments are compared with their carrying amounts in the table below.

Carrying amount and fair value of financial instruments as at 31 March 2018

EUR thousand	Carrying amount	Fair value	Level 1	Level 2	Level 3
Non-current financial assets					
Available-for-sale financial assets	1,949	1,949	1,949		
Loans given	80,773	80,773			80,773
Current financial assets					
Loans given	28,054	28,054			28,054
Non-current financial liabilities					
Bonds	99,909	101,000	101,000		
Borrowings	168,833	168,833			168,833
Liabilities for interest rate swap	701	701		701	
Current financial liabilities					
Bonds	-42	-42			-42
Interest on bonds	1,576	1,576			1,576
Borrowings	72,939	72,939			72,939
Other financial liabilities	289	289			289

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

Contingent liabilities from lawsuits

No new lawsuits were filed against the Company in the period from 1 January 2018 until the day this report was compiled that could have a significant impact on the financial statements for the first three months of 2018.

Contingent liabilities from guarantees issued

The Company had provided the following guarantees as at 31 March 2018:

- performance guarantees and warranty bonds in the amount of EUR 5,776 thousand,
- guarantees as security for contractual obligations in the amount of EUR 2,196 thousand, and
- other guarantees in the amount of EUR 536 thousand.

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

Transactions with related parties

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

Transactions with related parties

EUR thousand	31 March 2018	31 December 2017
Receivables from Group companies	8,845	8,953
Subsidiaries	8,845	8,953
Joint ventures	0	0
Loans to Group companies	108,401	124,478
Subsidiaries	108,401	124,478
Liabilities to Group companies	15,517	23,500
Subsidiaries	15,517	23,498
Joint ventures	0	2

EUR thousand	I - III 2018	I - III 2017
Net revenues within the Group	4,241	4,667
Subsidiaries	4,241	4,667
Joint ventures	0	0
Purchase of materials and services within the Group	7,783	10,887
Subsidiaries	7,783	10,885
Joint ventures	0	2

Transactions with individuals

Natural persons (the President and a member of the Management Board, and the Vice-President and two members of the Supervisory Board) held 448 shares in Telekom Slovenije as at 31 March 2018, representing a holding of 0.00687%.

Transactions with owners and parties related thereto

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

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

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

Receivables and liabilities

EUR thousand	31. 3. 2018	31. 12. 2017
Outstanding operating receivables	32,013	3,649
Short-term accrued revenue	0	20,558
Outstanding operating liabilities	1,335	1,416

Revenues and expenses

EUR thousand	I - III 2018	I - III 2017
Operating revenue	7,372	8,325
Purchase costs of material and services	2,333	2,378

All transactions between related parties are executed at market prices.

Events after the reporting date

There were no events after the reporting period that could affect the financial statements for the period January to March 2018.

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	31. 3. 2018	31. 12. 2017
Loans given	447	889
Other current investments	37,550	77,518
Trade and other receivables	172,539	159,818
- <i>whereof trade receivables</i>	167,105	151,839
Cash and cash equivalents	7,959	29,245
Total	218,495	267,470

The Group ensures an appropriate level of diversification in the placement of financial assets. The risk of concentration is therefore low.

Credit risk or the risk of counterparty default derives from default by subscribers (retail) and by operators (wholesale). The highest exposure to credit risk is seen in trade receivables. The latter amounted to EUR 167,105 thousand as at 31 March 2018, an increase of EUR 15,266 thousand relative to the end of 2017. 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 according to a predefined timetable 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 postpaid 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 financial risks in other areas of its 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 third parties and employees, and from investments in short-term deposits. Risks associated with loans are managed by including various collateral instruments in loan agreements (e.g. the assignment of existing and future receivables, the pledging of participating interests and declarations of surety), while risks associated with financial assets are mitigated through the appropriate diversification of investments and by monitoring the credit ratings and capital adequacy of specific banks.

Ageing structure of receivables as at the reporting date

EUR thousand	31.3.2018			31.12.2017		
	Gross value	Allowances	Net value	Gross value	Allowances	Net value
Total trade receivables	204,392	-37,287	167,105	188,240	-36,401	151,839
Not past due trade receivables	145,132	-4	145,128	126,075	0	126,075
Overdue						
Up to and including 30 days	11,813	-3	11,810	14,076	-4	14,072
31 to and including 60 days	4,830	-4	4,826	4,689	-11	4,678
61 to and including 90 days	2,320	-5	2,315	1,766	-13	1,753
91 to and including 120 days	2,188	-1,109	1,079	1,212	-480	732
121 days and more	38,109	-36,162	1,947	40,422	-35,893	4,529
Total overdue trade receivables	59,260	-37,283	21,977	62,165	-36,401	25,764
Other operating receivables	5,442	-8	5,434	7,987	-8	7,979
Total receivables	209,834	-37,295	172,539	196,227	-36,409	159,818

Maturity profile of loans given

EUR thousand	31.3.2017	31.12.2017
Overdue	11	137
Due in:	436	752
- less than 3 months	27	82
- 3 to 12 months	106	238
- 1 to 2 years	79	189
- 2 to 5 years	160	171
- more than 5 years	64	72
Total	447	889

Ageing structure of loans given as at 31 March 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	436	11	0	0	0	0	447

Ageing structure of loans given as at 31 March 2017

EUR thousand	Not yet due	Overdue					Total
		Less than 3 months	3 to 12 months	1 to 2 years	2 to 5 years	More than 5 years	
Loans given	752	108	0	0	29	0	889

The Company's senior management assesses the credit quality of the above-stated financial assets, which were not impaired or overdue as at 31 March 2018, 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 need.

Long-term credit lines were secured back in 2017 as a form of liquidity reserves, 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 100 million as at 31 March 2018

Debt is relatively low at the Group level, which represents a sound basis for achieving an appropriate credit rating and thus lower borrowing costs. The majority of the Group's financial liabilities relate to a long-term syndicated loan in the amount of EUR 184.6 million, issued bonds in the amount of EUR 100 million and short-term loans in the amount of EUR 56 million. The first tranche of the long-term syndicated loan in the amount of EUR 100 million was repaid at the end of March.

Maturity of the Telekom Slovenije Group's financial liabilities as at 31 March 2018 and 31 December 2017 based on contractual non-discounted payments

EUR thousand	Overdue	On demand	Up to 3 months	3 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	Total
31. 3. 2018								
Loans and borrowings	0	0	36,000	35,432	15,477	153,846	0	240,755
Anticipated interest on loans	0	0	12	3,091	2,816	3,924	0	9,843
Other financial liabilities	289	0	0	1,595	4	100,744	0	102,632
Anticipated interest in bonds	0	0	1,950	1,950	3,900	0	0	7,800
Trade payables and other operating liabilities	6,870	2,659	83,938	16,162	12,502	727	140	122,998
Total	7,159	2,659	121,900	58,230	34,699	259,241	140	484,028
31. 12. 2017								
Loans and borrowings	0	0	100,000	15,448	15,479	146,153	7,692	284,772
Anticipated interest on loans	0	0	404	3,091	3,891	2,816	32	10,234
Other financial liabilities	3,244	0	0	1,127	23	100,359	245	104,998
Anticipated interest in bonds	0	0	0	1,950	3,900	1,950	0	7,800
Trade payables and other operating liabilities	7,716	3,841	102,865	20,789	14,144	2,212	70	151,637
Total	10,960	3,841	203,269	42,405	37,437	253,490	8,039	559,441

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 31 March 2017 derives from a potential rise in the EURIBOR reference interest rate, as Group companies have more interest-sensitive liabilities than assets.

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

Liabilities from loans raised and finance leases with variable interest rates tied to the 1-, 3- and 6-month EURIBOR accounted for 66.26% of interest-bearing financial liabilities as at 31 March 2018. The remaining liabilities are accounted for by issued bonds and short-term loans 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 hedged principal stood at EUR 92.3 million as at 31 March 2018. The principal is hedged against growth in the reference interest rate if the latter is higher than or equal to zero. Fixed or hedged interest rates account for 60.83% of interest-bearing financial liabilities at the Group level.

Exposure to interest-rate risk

EUR thousand	31.3.2018	31.12.2017
Financial instruments with variable interest rate		
Financial receivables	0	344
Financial liabilities	133,514	192,540
Net financial liabilities	133,514	192,196

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

Sensitivity analysis

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

Interest-rate risk table

Interest rate increase/decrease		Effect on profit before tax in EUR thousand
31.3.2018		
EURO	+100 bt	-691
EURO	-100 bt	-921
Interest rate increase/decrease		Effect on profit before tax in EUR thousand
31.12.2017		
EURO	+100 bt	-1,150
EURO	-100 bt	-926

Value of EURIBOR

EURIBOR	Value as at 31 March 2018	Value as at 31 December 2017	Change in percentage
1-month	-0.371	-0.368	-0.82
3-month	-0.329	-0.329	0
6-month	-0.271	-0.271	0

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	31. 3. 2018	31. 12. 2017
Borrowings and other financial liabilities	342.710	388.997
Less short-term investments and cash with short-term deposits	-45.645	-107.212
Net debt	297.065	281.785
Equity	688.873	680.865
Total assets	1.289.595	1.351.994
Debt/equity ratio	43.1%	41.4%
Equity/total assets ratio	53.4%	50.4%