



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

Ljubljana, 20 July 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 June 2018.

The condensed interim financial statements for the period ending 30 June 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 June 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 20 July 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 June 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's Management Board responsible for compiling the unaudited report of the Telekom Slovenije Group and Telekom Slovenije for the period January to June 2018, hereby find that:

- to the best of our knowledge, the unaudited report of the Telekom Slovenije Group and Telekom Slovenije was compiled and published in accordance with valid legislation and the International Financial Reporting Standards as adopted by the EU;
- the condensed interim financial statements for the period ending 30 June 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 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.



Rudolf Skobe, MSc,
President of the
Management Board



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



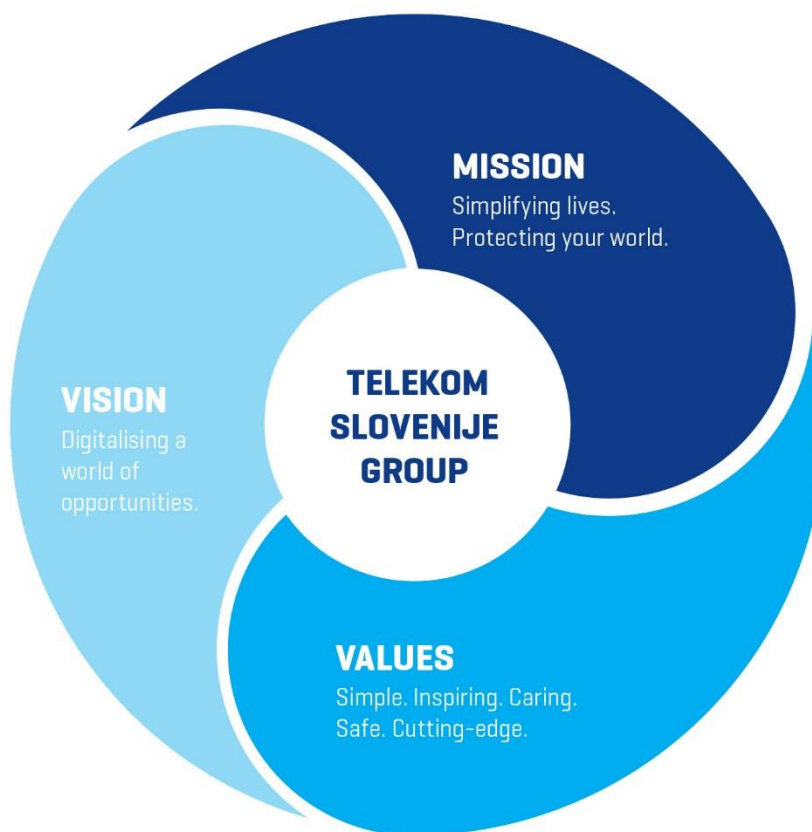
Ranko Jelača,
Member of the
Management
Board



Dean Žigon, Member of
the Management Board
and Workers Director

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

2.1. Vision, mission and values



2.2. Key strategic policies

Key strategic policies of the Telekom Slovenije Group in the period 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

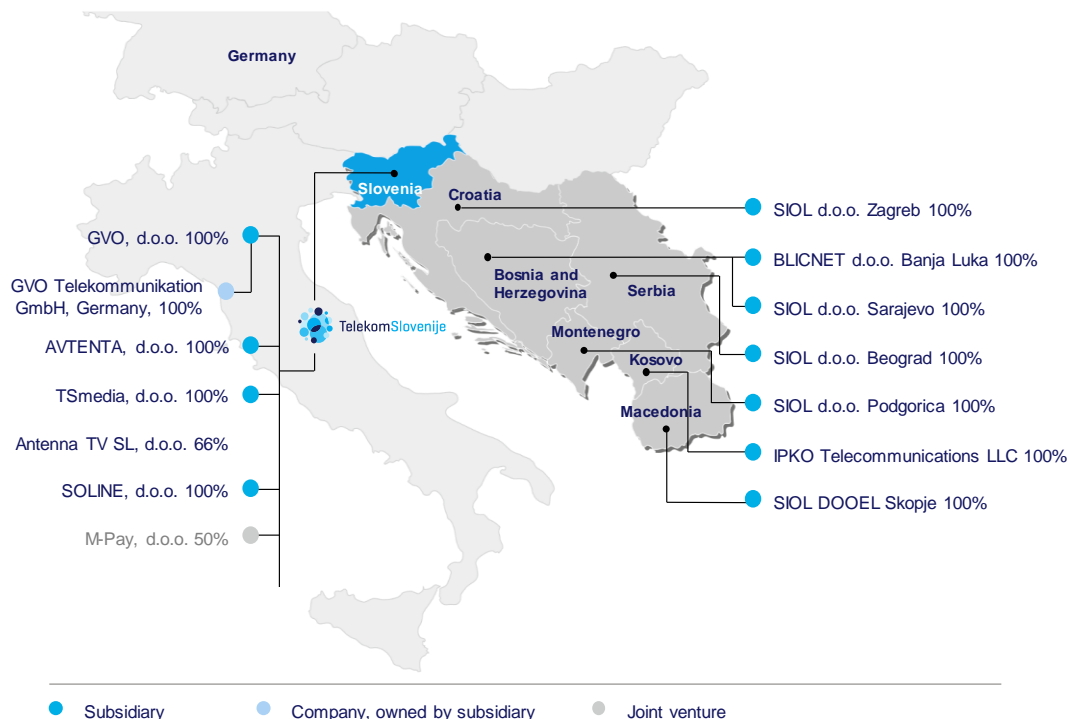
The achievement of established objectives depends on specific consolidation activities in Slovenia and on foreign markets.

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 30 June 2018



Changes in the composition of the Group in 2018

- 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, d. o. o. acquired ownership of a portion of the telecommunications network in commercial areas (so-called grey areas) in the municipalities of Komen, Sežana, Hrpelje-Kozina and Ilirska Bistrica.
- 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 June 2018:

- The Telekom Slovenije Group generated EUR 363.0 million in operating revenues during the first half of 2018, a decrease of 2% on the revenues generated during the same period in 2017. Net sales revenue totalled EUR 360.0 million, which is likewise a decrease of 2% or EUR 7.2 million relative to the revenues generated during the same period in 2017, which also included revenues from the implementation of the electronic toll collection project. Revenues in the fixed segment of the end-user market were up relative to the same period in 2017. Revenues were down in the mobile segment of the end-user market, primarily due to the optimisation of subscribers who are shifting to more affordable packages and EU regulations, and on the wholesale market.
- The operating expenses of the Telekom Slovenije Group amounted to EUR 346.1 million, similar to the level recorded during the first half of 2017. Primarily other operating expenses and the historical costs of goods sold were higher. Amortisation and depreciation were also higher, by 3% or EUR 2.5 million. The costs of services were down by 9%, while labour costs were down by 3%.
- Earnings before interest, taxes, amortisation and depreciation (EBITDA) totalled EUR 100.9 million, and accounted for 28.0% of net sales revenue. Earnings before interest and taxes (EBIT) amounted to EUR 16.8 million.
- Following the calculation of income tax (including deferred taxes), the Telekom Slovenije Group generated a net profit of EUR 14.5 million during the first half of 2018.

3.3. Key financial indicators for the Telekom Slovenije Group

EUR thousand / %	I - VI 2018 / 30.6.2018	I - VI 2017 / 31.12.2017	Index 18/17
Net sales revenues	359,979	367,145	98
Other operating income	2,994	2,938	102
Operating revenues	362,973	370,083	98
EBITDA	100,946	106,823	94
EBITDA margin	28.0%	29.1%	96
EBIT	16,842	25,185	67
Return on sales: ROS (EBIT/net sales revenue)	4.7%	6.9%	68
Net profit	14,535	24,257	60
Assets	1,219,123	1,351,994	90
Equity	600,605	680,865	88
Equity ratio	49.3%	50.4%	98
Net financial debt	350,640	281,785	124

3.4. Overview by company and key market

Operating revenues

EUR thousand	I - VI 2018	I - VI 2017	Index 18/17
Telekom Slovenije	325,313	335,977	97
Other companies in Slovenia	34,306	44,054	78
Ipko - Kosovo	34,244	34,611	99
Other companies abroad	9,498	10,397	91
Total - unconsolidated	403,361	425,039	95
Eliminations and adjustments	-40,388	-54,956	-
Telekom Slovenije Group	362,973	370,083	98

EBITDA – earnings before interest, taxes, depreciation and amortisation

EUR thousand	I - VI 2018	I - VI 2017	Index 18/17
Telekom Slovenije	83,786	92,822	90
Other companies in Slovenia	219	-549	-
Ipko - Kosovo	14,103	11,888	119
Other companies abroad	3,168	2,916	109
Total - unconsolidated	101,276	107,077	95
Eliminations and adjustments	-330	-254	-
Telekom Slovenije Group	100,946	106,823	94

EBIT – earnings before interest and taxes

EUR thousand	I - VI 2018	I - VI 2017	Index 18/17
Telekom Slovenije	17,100	25,894	66
Other companies in Slovenia	-1,754	-2,364	-
Ipko - Kosovo	433	398	109
Other companies abroad	959	1,086	88
Total - unconsolidated	16,738	25,014	67
Eliminations and adjustments	104	171	-
Telekom Slovenije Group	16,842	25,185	67

Net profit or loss

EUR thousand	I - VI 2018	I - VI 2017	Index 18/17
Telekom Slovenije	15,665	28,310	55
Other companies in Slovenia	-2,444	-2,758	-
Ipko - Kosovo	-1,046	-1,945	-
Other companies abroad	750	850	88
Total - unconsolidated	12,925	24,457	53
Eliminations and adjustments	1,610	-200	-
Telekom Slovenije Group	14,535	24,257	60

TELEKOM SLOVENIJE GROUP CONNECTIONS AND SERVICES BY TYPE AND MARKET

Broadband connections

Number of retail BB connections as at	30.6.2018	31.12.2017	Index 18/17
Slovenia	215,017	214,799	100
SE Europe	151,697	150,486	101
Kosovo	124,067	123,428	101
Bosnia and Herzegovina	27,630	27,058	102
Telekom Slovenije Group	366,714	365,285	100

Fixed and mobile telephony connections

Number of retail connections as at	30.6.2018	31.12.2017	Index 18/17
Slovenia, mobile telephony	1,091,518	1,124,605	97
Slovenia, fixed voice telephony	338,473	343,084	99
SE Europe, mobile telephony:	678,079	685,203	99
Kosovo	675,147	682,570	99
Bosnia and Herzegovina	2,932	2,633	111
SE Europe, fixed voice telephony	1,443	1,204	120
Telekom Slovenije Group	2,109,513	2,154,096	98
VoIP services			
Slovenia	193,639	192,563	101
SE Europe	23,443	19,414	121
Telekom Slovenije Group	217,082	211,977	102

Number of mobile and fixed telephony connections / services

Number of retail connections as at	30.6.2018	31.12.2017	Index 18/17
Total mobile telephony	1,769,597	1,809,808	98
Total fixed voice telephony services*	556,998	556,265	100
Telekom Slovenije Group	2,326,595	2,366,073	98

* Sum of fixed voice telephony connections and VoIP services.

Investments

EUR thousand	I - VI 2018	I - VI 2017	Index 18/17
Telekom Slovenije	37,885	55,575	68
Other companies in Slovenia	876	1,909	46
Ipko - Kosovo	7,169	3,026	237
Other companies abroad	3,097	2,068	150
Eliminations and adjustments	-551	-562	98
Telekom Slovenije Group	48,476	62,016	78

Employees

number of employees at	30.06.2018	31.12.2017	Ind. 18/17
Telekom Slovenije	2,315	2,338	99
Other companies in Slovenia	690	702	98
IPKO - Kosovo	528	528	100
Other companies abroad	101	105	96
Telekom Slovenije Group	3,634	3,673	99

3.5. Ownership structure and share trading

General information regarding Telekom Slovenije shares as at 30 June 2018

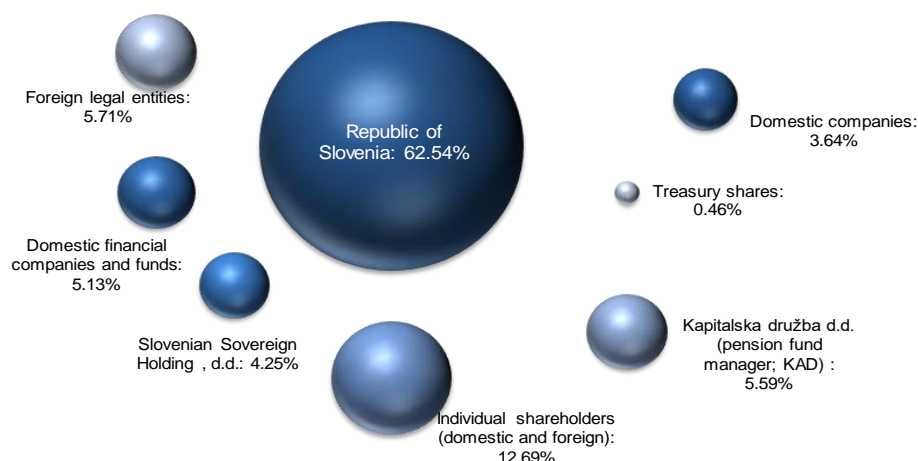
General information regarding shares	
Ticker symbol	TLSG
Listing	Ljubljana Stock Exchange, prime
Share capital (EUR)	272,720,664.33
Number of ordinary registered no-par value shares	6,535,478
Number of shares held in treasury	30,000
Number of shareholders as at 30 June 2018	9,518

Ownership structure and largest shareholders as at 30 June 2018

Telekom Slovenije had 9,518 shareholders at the end of June 2018, a decrease of 81 on the end of 2017. The number of individual shareholders was down by 92.

Domestic investors held a total ownership stake of 94% as at 30 June 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, which collectively held 73.46% of the Company's shares.

Ownership structure as at 30 June 2018



Ten largest shareholders as at 30 June 2018

The concentration of ownership, as measured by the ownership stake held by the ten largest shareholders, stood at 77.88% at the end of the first half of 2018, a decrease of 0.27 percentage points relative to the end of 2017.

	Shareholder as at 30. 6. 2018	%	Shareholder as at 31 December 2017	%
1	Republika Slovenija	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	1.02	Citibank N.A. – fiduciary account	0.92
6	Kritni sklad prvega pokojninskega sklada	0.84	Guarantee fund of the First Pension Fund	0.91
7	DBS, d.d.	0.70	DBS, d. d.	0.80
8	Splitska banka d.d – Client Account	0.65	Aktsiaselts Trigon Asset Management	0.73
9	Clearstream Banking SA - fiduciary	0.58	Splitska banka, d. d.	0.64
10	The Bank of New York Mellon - fiduciary	0.49	The Bank of New York Mellon – fiduciary	0.56
	Total	77.88	Total	78.15

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

The members of the Management Board and Supervisory Board stated below held 398 TLSG shares as at 30 June 2018.

Name	Office	Number of shares	% of equity
Management Board			
Rudolf Skobe, MSc	President of the Management Board	300	0.00459
Dean Žigon	Member of the Management Board and Workers Director	1	0.00002
Supervisory Board			
Samo Podgornik	Member of the Supervisory Board	92	0.00141
Primož Per	Member of the Supervisory Board	5	0.00008
Total		398	0.00609

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.

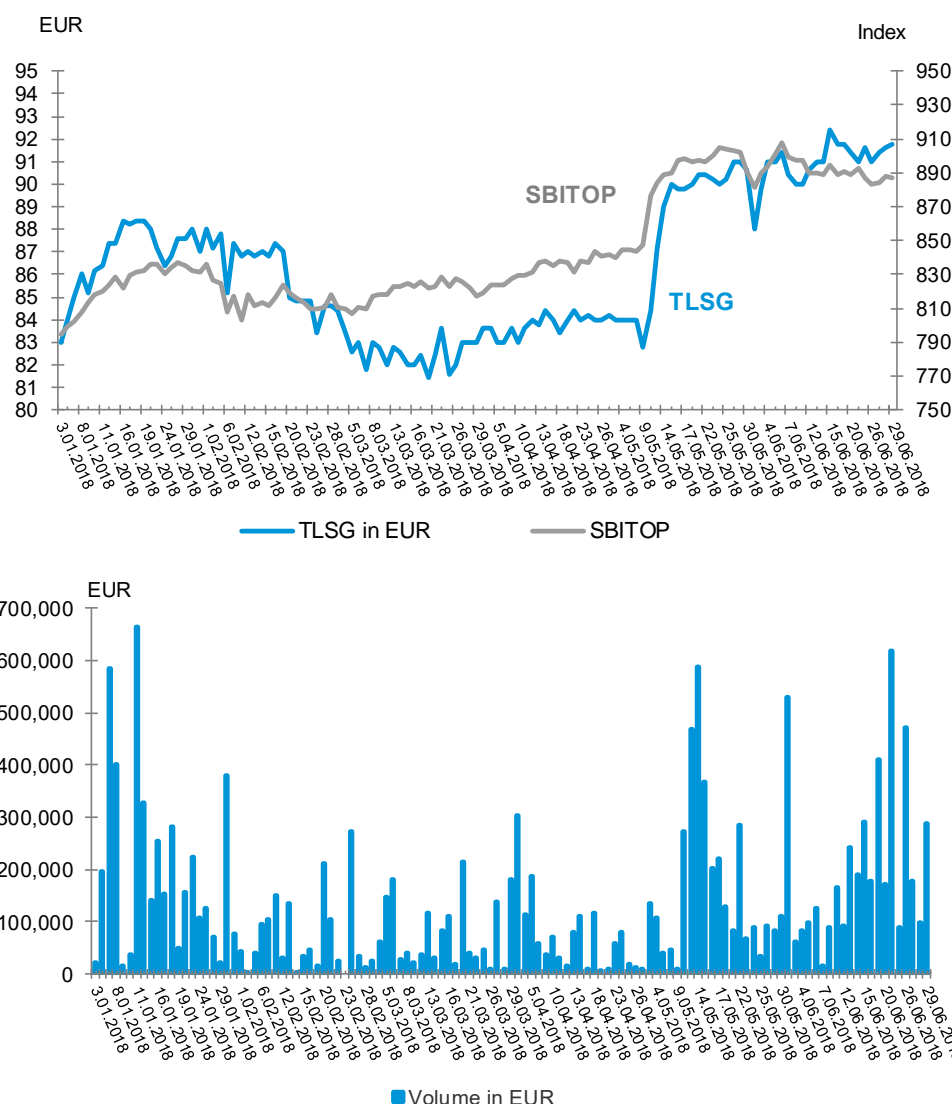
Share trading and key share-related financial data

Movement in the TLSG share price

Turnover in Telekom Slovenije shares totalled EUR 16.4 million during the first half of 2018, representing 8.9% of total turnover on the stock exchange. The price of TLSG shares closed at EUR 91.80 on the last trading day of June 2018, an increase in value of 10.76% during the first half of the year. The highest share price of EUR 92.4 was achieved in mid-June 2018. The market capitalisation of Telekom Slovenije stood at EUR 600.0 million on the last trading day of June 2018, accounting for 10.3% of the market capitalisation of all shares on the stock exchange.

Standard price in EUR	I - VI 2018	I - VI 2017
Highest daily price	92.40	88.00
Lowest daily price	81.40	71.01
Average daily price	86.43	83.35
Volume in EUR thousand	I – VI 2018	I - VI 2017
Total volume for the year	16,443.60	12,017.68
Highest daily volume	664.56	955.44
Lowest daily volume	1.13	0.33
Average daily volume	137.03	100.15

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



Sources: Ljubljana Stock Exchange, archive of share prices.

Key financial data relating to shares

	30. 6. 2018 / I – VI 2018	30. 6. 2017 / I – VI 2017
Closing price (P) of one share on the last trading day of the period in EUR	91.80	85.00
Book value (BV) ¹ of one share in EUR	91.90	104.18
Earnings per share (EPS) ² in EUR	2.23	3.73
P/BV	1.00	0.82
Capital return per share during the period in % ³	10.76	19.55
Dividend yield ⁴	5.45	5.88

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.

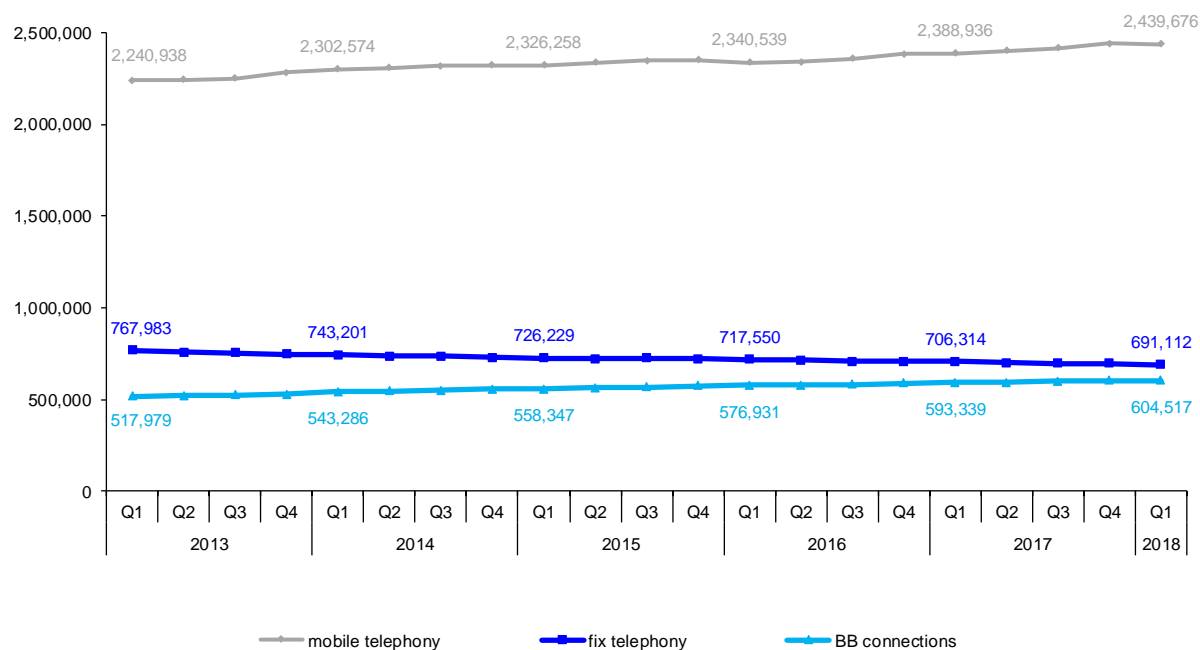
² Net earnings per share is calculated as the ratio of the Telekom Slovenije Group's net operating profit for the accounting period to the average number of issued ordinary shares, excluding treasury shares.

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.

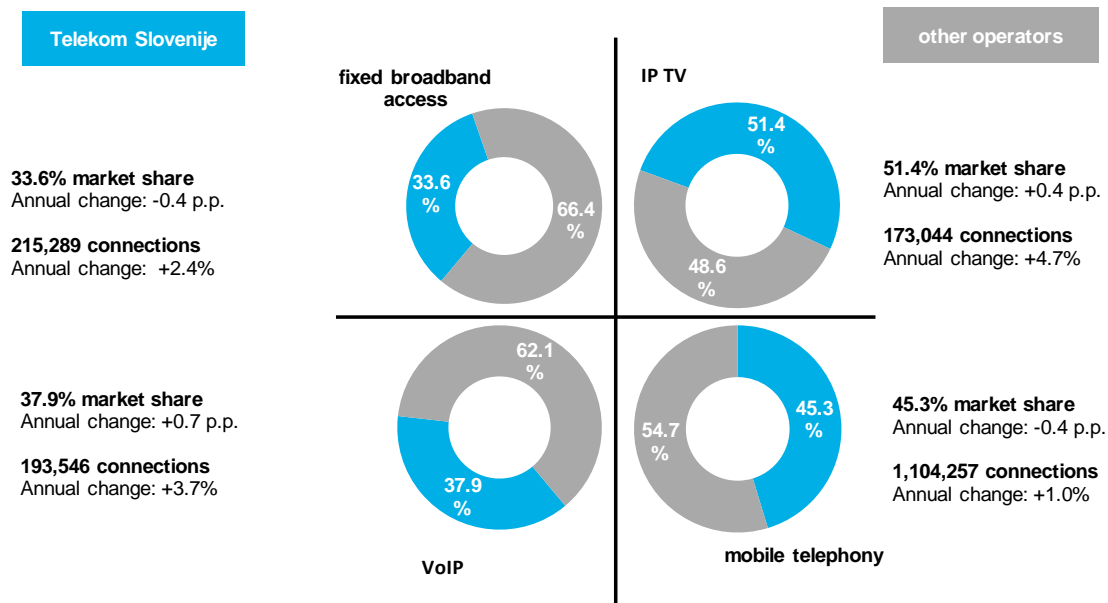
3.6. Market and market shares in key service segments

Number of connections in Slovenia



Sources: Report on the development of the electronic communications market for the first quarter of 2018, AKOS, June 2018; SORS, internal Telekom Slovenije figures.

Telekom Slovenije Group market shares in the first quarter of 2018 in key market segments



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

3.7. Risk management

Key risks are presented below by Telekom Slovenije Group company.

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 regularly monitors the dynamics of the financial environment that result in the various types of risks to which the Company is exposed in its operations. We actively monitor liquidity, credit and interest-rate risks. Telekom Slovenije takes steps to reduce its exposure using various financial risk management models and through the use of derivatives.• Liquidity risk is managed through the planning and management of cash flows, by ensuring the appropriate maturities and the diversification of financial debt, and through financing within the Group and the optimisation of working capital and cash. Short-term imbalances in cash flows are managed through short-term revolving loans from banks, while we also have long-term reserve credit lines as an additional element of financial security.• Credit risk is managed through the active monitoring of the operations of customers and their credit ratings, and by limiting maximum allowable exposures. We further hedge against the risk of the deteriorating financial position of customers through credit insurance and by regularly monitoring the appropriateness thereof. Monitoring of the settlement of contractual obligations and the active recovery of past-due debt are also elements of the Telekom Slovenije's systematic credit risk management tool.• We hedge against interest-rate risk by concluding interest rate swaps. Fixed or hedged interest rates account for 68.06% of interest-bearing financial liabilities at the Company. <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 700 MHz 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 the communication accompanying the adoption of the Directive establishing the European Electronic Communications Code, a deadline of two years from entry into force was set for transposition into national legislation.• 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, by putting forth opinions, comments and suggestions in public consultations regarding drafts of general and specific laws issued by the regulator, and by taking legal action against issued regulatory decisions.

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 security policies, 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 are managed in cooperation with external partners.

Antenna TV SL

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

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

- Risks associated with higher costs for the provision of construction services on account of general economic growth, major investment projects and a sharp increase in demand for construction works have been identified.

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 due to unfair and aggressive competition, and the risk of the loss of exclusive rights to TV content have been identified. We respond to those risks by taking the appropriate market approaches and by taking the necessary legal action. • Risks have been identified in connection 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. • We have also identified risks in connection with the methodology used by the regulatory body to set prices for the purchase of frequencies, which could result in excessively high costs to purchase those frequencies. The appropriate proceedings have been initiated in that regard. • The company is exposed to the risk of higher costs because 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. • It is also exposed to the risk of lower revenues due to the signing of an agreement to cut roaming costs in the Western Balkans, and the abolishment of roaming for Albania.
Blicnet
<ul style="list-style-type: none"> • The risk of the loss of users due to aggressive competition on the market is managed by adapting to market conditions and improving 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 its Management Board, comprising the following members as at 30 June 2018:

- Rudolf Skobe, MSc, President,
- Tomaž Seljak, MSc, Vice-President,
- Ranko Jelača, member, and
- Dean Žigon, member and Workers Director.

On 20 April 2018 member of the Management Board Aleš Aberšek tendered his irrevocable resignation to the President of the Supervisory Board for personal reasons. His term of office ended on that date.

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 began on 24 April 2018, following the expiration of the term of office of previous member of the Management Board and Workers Director Vesna Lednik.

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 30 June 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. Dean Žigon, member of the Supervisory Board and employee representative, resigned from his office, effective 22 January 2018. On 14 February 2018 the 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.

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: Vesna Lednik

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 June 2018

First quarter

January

- The ratings agency S&P Global Ratings confirmed 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 facilitated 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.
- Together with the Slovene Federation of Pensioners' Associations, Telekom Slovenije invited 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. Telekom Slovenije and municipalities involved in the project facilitate the co-financing and/or subsidisation of the service for their citizens.
- 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.

February

- Telekom Slovenije updated 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 14 February 2018 Telekom Slovenije's Works Council appointed 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 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. The agreed amount of consideration for the participating interest was EUR 2.98 million.
- Telekom Slovenije was the first Slovenian operator to receive the international MEF CE 2.0 certificate, which demonstrates the reliability and technological sophistication of the network, as well as compliance with international standards governing the quality of data services intended for business users and roaming between operators.
- Telekom Slovenije received a ruling from the Administrative Court of the Republic of Slovenia in which the latter partially upheld the claim of Telekom Slovenije, as plaintiff, and reversed the decision of the Competition Protection Agency (CPA), in the part in which Telekom Slovenije was accused of abusing its dominant position on the inter-operator broadband access market with bit-streaming in the Republic of Slovenia, by allegedly conditioning the provision of wholesale broadband access services with bit-streaming to alternative operators on the acceptance of additional obligations, i.e. the obligation to lease a telephony connection by an end-user or operator, in the period from 1 July 2005 to 22 September 2008. The CPA's decision was reversed in that part and the matter returned to the same body for readjudication. The Administrative Court rejected the remainder of the plaintiff's claim.

March

- Telekom Slovenije's Supervisory Board consented 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 received 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 ruled in favour of Telekom Slovenije's claim, overturned the contested ruling and returned the matter to the court of the first instance for retrial.
- As a partner in the European iCirrus project that includes partners from six countries, Telekom Slovenije used a 5G pilot network to demonstrate a transfer speed of 100 Gbit/s in the fronthaul segment of the network and 5 Gbit/s in the radio access 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 researched the impact of the architecture of the cloud radio access network (C-RAN) on the capacities of the 5G mobile network, such as communication between devices (D2D) and the introduction of virtual mobile cloud services.
- With the presentation of results, Telekom Slovenije completed the European CHARISMA project from the Horizon 2020 programme. In the scope of that project, experts from nine countries addressed the development of solutions for fifth-generation mobile networks. The focus of partners was on the development of mechanisms to ease the burden on the network, which would ensure the flow of data to end-users by the shortest path possible (offload) and the development of 'end-to-end' security mechanisms in the convergent virtualised open access network. Telekom Slovenije's primary role in the project was to set up a test environment, draft test scenarios and validate various concepts, such as solutions for smart grids, eHealth services and the Internet of Things.
- Telekom Slovenije increased IPKO Telecommunications LLC's capital by EUR 15 million on 12 March 2018.
- Telekom Slovenije set up a test environment in Ljubljana and Maribor for testing Internet of Things solutions on the basis of Narrowband Internet of Things (NB-IoT) technology. The test environment is intended for companies, independent developers and educational institutions that wish to test their Internet of Things solutions in a real environment.

Second quarter 2018

April

- On 4 April 2018 the Supervisory Board of Telekom Slovenije approved the annual report of the Telekom Slovenije Group and Telekom Slovenije for 2017.
- The Management Board of Telekom Slovenije convened the 29th General Meeting of Shareholders on 11 May 2018. Telekom Slovenije published the convening of the General Meeting of Shareholders, together with the agenda, explanations of resolutions and information regarding the rights of shareholders on its website, in the Ljubljana Stock Exchange's SEOnet system and on the AJPES website.
- Telekom Slovenije published 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 represents an integral part of the annual report of the Telekom Slovenije Group and Telekom Slovenije for 2017.
- Member of the Management Board Aleš Aberšek tendered his irrevocable resignation to the President of the Supervisory Board on 20 April 2018. His term of office ended on that date.

May

- At Telekom Slovenije's 29th General Meeting of Shareholders held on 11 May, shareholders supported the counterproposal of the Republic of Slovenia and Slovenski državni holding, d. d. regarding the use of distributable profit, which amounted to EUR 115,366,425.12 for 2017. Shareholders supported the proposal that EUR 93,028,335.40 be earmarked for the payment of dividends, representing a gross dividend of EUR 14.30 per share, while the remainder in the amount of EUR 22,338,089.72 is brought forward to the next year. Dividends shall be paid to shareholders and other beneficiaries who were entered in the register of shareholders with the right to dividends on the cut-off date of 9 July 2018, and to other beneficiaries with the right to dividends. Dividends will be paid on 10 July 2018. The Management Board and Supervisory Board proposed the payment of gross dividends of EUR 6.30 per share in accordance with the Company's dividend policy. The General Meeting of Shareholders adopted the rules of procedure of the aforementioned body. Shareholders were briefed on the Supervisory Board's written report on the approval of the 2017 annual report, and conferred official approval on the Management Board and Supervisory Board for the 2017 financial year. The General Meeting of Shareholders was briefed on changes to Company's Supervisory Board following the expiration of the term office of member of the

Supervisory Board and employee representative Dean Žigon on 22 January 2018. Urban Škrjanc was elected by the Works Council to serve as replacement member of the Supervisory Board on 14 February 2018. His term of office began on the date of election and will expire on 14 November 2021. The General Meeting of Shareholders was briefed on the report on court proceedings filed against former members of the Management Board.

- Telekom Slovenije presented the updated IZI brand. Through its new image, the *Moj IZI* mobile application and new *IZI Vračilo* packages, IZI is more user-friendly, simpler and more accessible. With the *Moj IZI* mobile application, users can top up their IZI account anytime with ease or check their credit balance. They can also switch to one of any new packages at any time. *IZI Vračilo* packages bring a new feature to the numerous prepaid mobile service packages in Slovenia, as users' unused quantities of data transfer at the end of a given month do not expire, but are converted into credit on their IZI account. A user receives one euro for each whole unused gigabyte. The most popular existing packages remain part of the IZI offer. Double quantities of mobile services became a part of regular *IZI Mesec* packages in June.
- Together with its business partners Marg and APS Plus and the Ministry of Public Administration as the contracting authority, Avtenta joined public administration and economic experts at the ZAUH (capturing, archiving, managing and storing data) conference. It presented to more than 300 participants an IT solution that will be used by all public administration bodies. The Ministry of Public Administration decided to upgrade its existing system for managing documentary materials. The new system brings lower costs, increased transparency, easier upgrades, and the implementation and maintenance of the entire system. It will provide the conditions for paperless operations and the increased mobility of public administration officials.
- According to data from MOSS research (which measures visits to websites), the Siol.net online media was the most visited website in Slovenia for the third month in a row, as well as the most visited website amongst mobile users. Siol.net was visited by 583,670 different users in May. That success rounds off the first place secured by TSmedia's network in terms of the number of users.

June

- The spring 2018 Slovenian telephone directory was issued on DVD on 4 June. It contains more than 700,000 telephone numbers and other contact data for legal entities and natural persons.
- In the scope of World Blood Donor Day on 14 June, Telekom Slovenije joined the international Missing Type campaign. In the scope of Missing Type, companies that support the campaign remove the letters A, O, B and AB, which represent blood types, from their logos. Telekom Slovenije removed the letter O from its logo in support of donating blood. Communication activities were accompanied by the slogan 'It's Wise to Donate Blood'.
- Avtenta served as the main sponsor of high-profile SAP NOW Slovenija 2018 technological innovation event. The event held at Brdo pri Kranju hosted internationally renowned experts and representatives of smart companies that already operate in a digital world. As an SAP partner, the company used the exhibition area to present SAP cloud solutions that are appropriate for medium-sized and small companies in Slovenia.
- Telekom Slovenije amended its financial calendar for 2018. The date of publication of the Business Report of the Telekom Slovenije Group and Telekom Slovenije for the period January to June 2018 was amended.
- Avtenta received the international ISO 9001:2015 certificate, which defines quality management system requirements, the management function, resource management, implementation of the core activity and control (measurement, analyses and improvements).
- After receiving the international ISO 27001 certificate, which represents the standard for a high-quality and secure information security management system back in 2014, Telekom Slovenije expanded that certificate this year to include cyber security and the control of the network and services. In this way, it further solidifies its position as a responsible and innovative operator that is committed to the highest quality standards in the security of services and the infrastructure, as well. ISO 27001 is only received by those companies that meet the most stringent requirements in the area of information security.
- As part of a working visit to Slovenia, representatives of the Government of the Republic of Cyprus from the Ministry of Health and the Nicosia Development Agency were briefed on the remote health and care services being developed by Telekom Slovenije and possibility of bringing those services to their country. Telekom Slovenije has attracted the attention of several EU countries in the last year with its eCare service, which facilitates longer and safer living at home for the elderly, disabled persons and persons with chronic diseases. The visit to Telekom Slovenije also included a round table discussion where representatives of Slovenian ministries and other institutions spoke about effects and the need for the remote provision of health and care services at the national level.

6. Significant events after the balance-sheet date

Third quarter of 2018

July

- The international ratings agency S&P Global Ratings confirmed Telekom Slovenije's existing rating of BB+, but defined its rating as 'Credit Watch Negative'. S&P decided for the aforementioned definition due to the payment of significantly higher dividends than expected and the resulting expectations of increased pressure on the Company's future liquidity.

7. Condensed interim accounting report of the Telekom Slovenije Group and Telekom Slovenije for the period January to June 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 30 June 2018 were compiled in accordance with IAS 34 Interim Financial Reporting. The financial statements for the period January to June 2018 and for the comparative period January to June 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 began applying new standards, as well as amendments to other standards on 1 January 2018, as follows:

- **IFRS 9 Financial Instruments.** The standard introduces new requirements regarding the recognition and measurement of financial instruments, and replaces IAS 39. The new standard defines new rules for the recognition of financial assets that are based on basic business models and cash flow characteristics, and introduces a new model for the recognition of expected losses upon the initial recognition of a financial instrument. The impact of the new standard on the financial statements of the Group and Telekom Slovenije is described below.
- **IFRS 15 Revenue from Contracts with Customers.** The new standard provides a framework that replaces the existing guidance for recognising revenue according to the IFRS. The standard introduces a five-step model to determine when revenue should be recognised and in what amount. The aforementioned standard supersedes IAS 18 Revenue and IAS 11 Construction Contracts. When first applying the standard, changes must be applied in full for the current period. This includes retrospective application for contracts that were not yet complete at the beginning of the reporting period. For prior periods, the standard allows for the application of changes in the opening balance of equity as at the date of initial application of the standard. The effects of the transition to the new standard are disclosed in notes **Napaka! Vira sklicevanja ni bilo mogoče najti.** and **Napaka! Vira sklicevanja ni bilo mogoče najti.**
- **Amendment to and interpretation of IFRS 15 Revenue from Contracts with Customers.** Mandatory application of IFRS 15 and the interpretation for annual periods beginning on or after 1 January 2018.
- **Amendment to IAS 40.** Transfers to and from investment property. The standard has no significant impact on the financial statements of the Group and Telekom Slovenije.
- **Amendments to IFRS 2 Share-Based Payments.** Classification and Measurement of Share-Based Payment Transactions. The standard has no significant impact on the financial statements of the Group and Telekom Slovenije.
- **IFRIC 22 Foreign Currency Transactions and Advance Consideration.** The aforementioned interpretation states that the date of a transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment or deferred income liability. If there are several early repayments or receipts of advance consideration, the transaction date is determined separately for each payment or

amount of consideration received. The standard has no significant impact on Telekom Slovenije's financial statements.

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 statement of financial position date.

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

Estimates and assumptions are reviewed on a regular basis. Revisions to accounting estimates are recognised in the period in which estimates are revised, and in all future years affected by such revisions. 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 30 June 2018

EUR thousand	I - VI 2018	I - VI 2017
Operating revenue	359,979	367,145
Other operating income	2,994	2,938
Cost of goods sold	-44,009	-30,275
Cost of materials and energy	-7,200	-7,560
Cost of services	-153,460	-168,188
Employee benefits expense	-53,283	-54,784
Amortisation and depreciation expense	-84,104	-81,638
Other operating expenses	-4,075	-2,453
Total operating expenses	-346,131	-344,898
Profit from operations	16,842	25,185
Finance income	2,927	2,221
Finance costs	-3,962	-3,938
Share of profit of loss of associates and jointly controlled entities	0	2
Profit before tax	15,807	23,470
Income tax expense	-280	-683
Deferred tax	-992	1,470
Net profit for the period	14,535	24,257
Profit attributable to		
Owners of the company	15,486	25,722
Non-controlling interest	-951	-1,465
Earnings per share - basic and diluted (in EUR)	2.23	3.73

Consolidated statement of other comprehensive income for the period ending 30 June 2018

EUR thousand	I - VI 2018	I - VI 2017
Net profit for the period	14,535	24,257
<i>Other comprehensive income that may be reclassified subsequently to profit or loss</i>		
Translation reserves	9	23
Change in revaluation of available-for-sale financial assets	76	120
Deferred tax	-14	-23
Change in revaluation surplus of available-for-sale financial assets (net)	62	97
Changes in fair value of hedging instruments	-178	-546
Deferred tax	34	104
Net gain on changes in fair value of hedging instruments	-144	-442
Other comprehensive income for the period after tax	-73	-322
Total comprehensive income for the period	14,462	23,935
Total comprehensive income attributable to		
Owners of the company	15,413	25,400
Non-controlling interest	-951	-1,465

Consolidated statement of financial position as at 30 June 2018

EUR thousand	30. 6. 2018	31. 12. 2017
ASSETS		
Intangible assets	210,196	214,412
Property, plant and equipment	651,725	679,239
Investments in joint ventures	129	129
Other investments	5,151	4,952
Long-term contract assets	5,343	0
Other non-current assets	37,689	42,298
Investment property	3,981	4,006
Deferred tax assets	44,207	44,876
Total non-current assets	958,421	989,912
Assets held for sale	601	754
Inventories	25,181	22,239
Trade and other receivables	158,131	159,818
Short-term contract assets	10,711	0
Deferred expenses and accrued revenues	45,627	72,053
Income tax credits	526	6
Current financial assets	662	77,967
Cash and cash equivalents	19,263	29,245
Total current assets	260,702	362,082
Total assets	1,219,123	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	45,803	125,039
<i>Retain earnings from previous periods</i>	<i>30,317</i>	<i>113,836</i>
<i>Profit or loss for the period</i>	<i>15,486</i>	<i>11,203</i>
Fair value reserve on available-for-sale financial assets	401	483
Fair value reserve for actuarial deficit and surplus	-2,585	-2,585
Translation reserve	9	0
Equity attributable to owners of the Company	604,316	683,625
Non-controlling interest	-3,711	-2,760
Total capital	600,605	680,865
Long-term contract liabilities	11,559	0
Long-term deferred income	2,737	13,229
Provisions	54,945	57,501
Non-current operating liabilities	14,685	16,426
Interest bearing borrowings	161,271	168,890
Other non-current financial liabilities	100,732	100,526
Deferred tax liabilities	1,897	1,882
Total non-current liabilities	347,826	358,454
Trade and other payables	102,828	135,211
Income tax payable	142	574
Interest-bearing borrowings	15,270	115,252
Other current financial liabilities	93,292	4,329
Short-term contract liabilities	1,464	0
Short-term deferred income	7,166	8,678
Accrued costs and expenses	50,530	48,631
Total current liabilities	270,692	312,675
Total liabilities	618,518	671,129
Total equity and liabilities	1,219,123	1,351,994

Consolidated statement of changes in equity for the period ending 30 June 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 changes in accounting policies								-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								15,486							15,486	-951	14,535
Other comprehensive income for the period											62	-144		9	-73		-73
Total comprehensive income for the period	0	0	0	0	0	0	0	0	15,486	0	62	-144	0	9	15,413	-951	14,462
Dividends paid								-93,028							-93,028		-93,028
Transactions with owners	0	0	0	0	0	0	0	-93,028	0	0	0	0	0	0	-93,028	0	-93,028
Transfer of retained earnings from previous years to retained earnings								11,203	-11,203						0		0
Other								1							1		1
Balance at 30 Jun 2018	272,721	181,488	51,612	3,671	-3,671	54,854	13	30,317	15,486	0	1,017	-616	-2,585	9	604,316	-3,711	600,605

Consolidated statement of changes in equity for the period ending 30 June 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									25,722						25,722	-1,465	24,257
Other comprehensive income for the period											97	-442		23	-322		-322
Total comprehensive income for the period	0	0	0	0	0	0	0	0	25,722	0	97	-442	0	23	25,400	-1,465	23,935
Dividends paid								-32,527							-32,527		-32,527
Transactions with owners	0	0	0	0	0	0	0	-32,527	0	0	0	0	0	0	-32,527	0	-32,527
Transfer of retained earnings from previous years to retained earnings								19,710	-19,710						0		0
Other								-525							-525		-525
Balance at 30 Jun 2017	272,721	181,488	51,612	3,671	-3,671	54,854	132,307	-18,264	25,722	0	775	-442	-1,982	-1	698,790	-2,045	696,745

Consolidated cash flow statement for the period ending 30 June 2018

EUR thousand	I - VI 2018	I - VI 2017
Cash flows from operating activities		
Profit	14,535	24,257
Adjustments for:		
Depreciation and amortization	84,104	81,638
Gain or loss on disposal of property, plant and equipment	-129	-228
Finance income	-2,927	-2,221
Finance costs	3,962	3,936
Income tax expense and deferred tax	1,272	-787
Operating cash flow prior to changes in net working capital and provisions	100,817	106,595
Change in trade and other receivables	1,687	8,973
Change in deferred costs, accrued income and contract assets	12,737	-27,782
Change in other non-current assets	1,644	1,711
Change in inventories	-2,254	-7,113
Change in provisions	-2,556	-10,982
Change in long-term, short-term deferred income and contract liabilities	771	-391
Change in accrued costs and expenses	1,782	5,905
Change in trade and other payables	-34,471	-17,343
Income tax paid	-1,077	-468
Net cash from operating activities	79,080	59,105
Cash flows from investing activities		
Receipts from investing activities	78,209	1,734
Sale of property, plant and equipment	620	1,377
Dividends received	153	147
Interest received	14	3
Disposal of non-current investments	398	192
Disposal of current investments	77,024	15
Disbursements from investing activities	-55,198	-63,804
Acquisition of property, plant and equipment	-27,973	-34,171
Acquisition of intangible assets	-20,504	-27,845
Acquisition of investments	-273	-1,787
Investments in subsidiaries and associates	-6,447	0
Interest-bearing loans	-1	-1
Net cash from investing activities	23,011	-62,070
Cash flows from financing activities		
Receipts from financing activities	0	0
Current borrowings	0	0
Disbursements from financing activities	-112,073	-17,697
Loan originating costs and bond issued	0	-5
Repayment of current borrowings	0	0
Repayment of non-current borrowings	-107,723	-13,110
Interest paid	-4,350	-4,577
Dividends paid	0	-5
Net cash from financing activities	-112,073	-17,697
Net increase/decrease in cash and cash equivalents	-9,982	-20,662
Opening balance of cash	29,245	42,554
Closing balance of cash	19,263	21,892

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.

In the enclosed condensed interim financial statements of the Telekom Slovenije Group, the period ending 30 June 2018 is presented in accordance with the valid IFRS 15 Revenue from Contracts with Customers, while the periods ending 30 June 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 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 30 June 2018:

Consolidated statement of financial position as at 30 June 2018

EUR thousand	As at 30 June 2018 according to IFRS 15	Adjustments as at 30 June 2018	As at 30 June 2018 according to IAS 18
ASSETS			
Intangible assets	210,196	28	210,224
Other non-current assets	660,986	0	660,986
Non-current contract assets	5,343	-5,343	0
Long-term contract assets	37,689	2,806	40,495
Deferred tax assets	44,207	-378	43,829
Total non-current assets	958,421	-2,887	955,534
Other short-term assets	204,364	0	204,364
Short-term contract assets	10,711	-10,711	0
Deferred expenses and accrued revenues	45,627	15,129	60,756
Total current assets	260,702	4,418	265,120
Total assets	1,219,123	1,531	1,220,654
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	45,803	1,725	47,528
<i>Retained earnings from previous years</i>	<i>30,317</i>	<i>1,695</i>	<i>32,012</i>
<i>Profit or loss for the current year</i>	<i>15,486</i>	<i>30</i>	<i>15,516</i>
Fair value reserve	-2,184	0	-2,184
Translation reserve	9	0	9
Equity attributable to owners of the Company	604,316	1,725	606,041
Non-controlling interest	-3,711	0	-3,711
Total capital	600,605	1,725	602,330
Long-term contract liabilities	11,559	-11,559	0
Long-term deferred income	2,737	11,367	14,104
Other non-current financial liabilities	333,530	0	333,530
Total non-current liabilities	347,826	-192	347,634
Short-term contract liabilities	1,464	-1,464	0
Income tax payable	142	-1	141
Short-term deferred income	7,166	1,463	8,629
Other current financial liabilities	261,920	0	261,920
Total current liabilities	270,692	-2	270,690
Total liabilities	618,518	-194	618,324
Total equity and liabilities	1,219,123	1,531	1,220,654

Consolidated income statement for the period ending 30 June 2018

EUR thousand	As at 30 June 2018 according to IFRS 15	Adjustments as at 30 June 2018	As at 30 June 2018 according to IAS 18
Operating revenue	359,979	432	360,411
Other operating income	2,994	0	2,994
Cost of goods sold	-44,009	8,035	-35,974
Cost of materials and energy	-7,200	0	-7,200
Cost of services	-153,460	-8,934	-162,394
Employee benefits expense	-53,283	0	-53,283
Amortisation and depreciation expense	-84,104	0	-84,104
Other operating expenses	-4,075	592	-3,483
Total operating expenses	-346,131	-307	-346,438
Dobiček iz poslovanja	16,842	125	16,967
Finance income	2,927	0	2,927
Finance costs	-3,962	0	-3,962
Profit before tax	15,807	125	15,932
Income tax expense	-280	-7	-287
Deferred tax	-992	-88	-1,080
Net profit for the period	14,535	30	14,565
Profit attributable to:			
Owners of the company	15,486	30	15,516
Non-controlling interest	-951		-951
Earnings per share - basic and diluted (in EUR)	2.23	0	2.24

Consolidated statement of other comprehensive income for the period ending 30 June 2018

EUR thousand	I - VI 2018 according to IFRS 15	I - VI 2018 – adjusted	I - VI 2018 IAS 18
Net profit for the period	14,535	30	14,565
<i>Other comprehensive income that may be reclassified subsequently to profit or loss</i>			
Translation reserve	9		9
Change in revaluation of available-for-sale financial assets	76		76
Deferred tax	-14		-14
Change in revaluation surplus of available-for-sale financial assets (net)	62	0	62
Changes in fair value of hedging instruments	-178		-178
Deferred tax	34		34
Net gain on changes in fair value of hedging instruments	-144	0	-144
Other comprehensive income for the period after tax	-73	0	-73
Total comprehensive income for the period	14,462	30	14,492

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	FV* through comprehensive income – investments in capital instruments	106,536	106,536
Impact on retained earnings				271,982	271,982

* FV = fair value

- a) 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.

- b) 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	30. 6. 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 Telekommunikation 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 in the amount of EUR 1,501 thousand through the acquisition 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 – VI 2018

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

Other data by segment Balance as at 30 June 2018	Slovenia	Other countries	Eliminations and adjustments	Consolidated
Segment assets	1,288,468	144,733	-214,078	1,219,123
Segment liabilities	645,755	114,486	-141,723	618,518

Net revenues by operating segment: I - VI 2018

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

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

Operating segments I – VI 2017

EUR thousand	Slovenia	Other countries	Eliminations and adjustments	Consolidated
External sales	333,830	33,315	0	367,145
Intersegment sales	43,811	11,031	-54,842	0
Total segment revenue	377,641	44,346	-54,842	367,145
Other revenue	2,390	662	-114	2,938
Total operating expenses	-356,501	-43,524	55,127	-344,898
Operating profit per segment	23,530	1,484	171	25,185
Share of profit or loss in associates and joint ventures	2			2
Finance income				2,221
Finance costs				-3,938
Profit before tax				23,470
Income tax expense				-683
Deferred tax				1,470
Profit for the period				24,257

Other segment information at 31. 12. 2017	Slovenija	Druge države	Izločitve in prilagoditve	Uskupinjeno
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 - VI 2017

EUR thousand	Slovenia	Other countries	Eliminations and adjustments	Consolidated
Mobile services in end-customer market	113,965	15,484	-704	128,745
Fixed-line telephone services on end-customer market	103,069	17,514	-406	120,177
New sources of revenue	1,249	0	0	1,249
Wholesale market	94,820	11,210	-14,863	91,167
Other revenues and merchandise	64,538	138	-38,869	25,807
Total revenue	377,641	44,346	-54,842	367,145

EUR thousand	Slovenia	Other countries	Eliminations and adjustments	Consolidated
Revenues from sale of services	343,689	43,336	-50,844	336,181
Revenues from sale of goods	33,952	1,010	-3,998	30,964
Total revenue	377,641	44,346	-54,842	367,145

Net sales revenue

EUR thousand	I - VI 2018	I - VI 2017
Mobile services in end-customer market	125,755	128,745
Fixed-line telephone services on end-customer market	132,505	120,177
New sources of revenue	2,144	1,249
Wholesale market	85,643	91,167
Other revenues and merchandise	13,932	25,807
Total revenue	359,979	367,145

EUR thousand	I - VI 2018	I - VI 2017
Revenues from sale of services	316,146	336,181
Revenues from sale of goods	43,833	30,964
Total revenue	359,979	367,145

Net sales revenue was down by EUR 7,166 thousand during the period January to June 2018 relative to the same period the previous year, to stand at EUR 359,979 thousand. Revenues in the fixed segment of the end-user market were up by EUR 12,328 thousand, while new revenue sources were up by EUR 895 thousand. Other revenues and revenues from merchandise were down by EUR 11,875 thousand, while revenues on the wholesale market were down by EUR 5,524 thousand and revenues in the mobile segment of the end-user market were down by EUR 2,990 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 - VI 2018	I - VI 2017
Telecommunications services	67,693	72,071
- network interconnection	16,882	17,812
- roaming	5,593	4,339
- international services	44,799	49,579
- other telecommunication services	419	341
Cost of leased lines	4,513	5,506
Multimedia services	17,170	12,415
Sale incentives	0	9,149
Sale commissions	1,595	1,887
Maintenance of property, plant and equipment	11,012	11,617
Lease of property, plant and equipment	6,840	6,920
Costs of fairs, marketing, sponsorships and entertainment	5,509	5,136
Professional and personal services	4,475	5,936
Refund of work-related costs	559	401
Insurance premiums	1,635	2,036
Cost of communication services	1,656	1,233
Banking services	560	515
Other services	30,243	33,366
Total cost of services	153,460	168,188

Costs of services were down by 9% or EUR 14,728 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 June 2018 due to the transition to new IFRS 15, which governs the recognition of revenue. The costs of the following items were down: intellectual and personal services, insurance premiums, leased lines, sales commission, other services, telecommunication services, and the maintenance and leasing of property, plant and equipment. The costs of the following items were up: reimbursements of work-related costs, multimedia content, communication services, banking services, trade fairs, advertising, and sponsorship and representation.

Operating profit and net profit

Operating profit (EBIT) was down EUR 8,343 thousand or 33% on the same period last year, to stand at EUR 16,842 thousand. A net profit of EUR 14,535 thousand was achieved for the accounting period (a decrease of 40% on the same period last year), in the context of a net financial loss of EUR 1,035 thousand.

Intangible assets

Intangible assets were down by the total amount of EUR 4,216 thousand relative to the end of 2017. Commitments for intangible assets totalled EUR 6,527 thousand as at 30 June 2018.

Property, plant and equipment

Property, plant and equipment totalled EUR 651,725 thousand as at 30 June 2018, accounting for 53% of total assets. Assets were down by EUR 27,514 thousand primarily as a result of the higher amount of depreciation charged compared with new acquisitions. Commitments for property, plant and equipment totalled EUR 10,267 thousand as at 30 June 2018.

Trade and other receivables

Trade and other receivables were down EUR 1,687 thousand relative to the balance at the end of 2017.

Financial instruments

Current financial assets in the amount of EUR 662 thousand were down by EUR 77,305 thousand on the balance as at 31 December 2017 due to the repayment of a tranche of a long-term loan in the amount of EUR 100 million.

Non-current financial assets were up by EUR 199 thousand.

Financial liabilities

Financial liabilities totalled EUR 370,565 thousand as at 30 June 2018, a decrease of EUR 18,432 thousand on the end of 2017, broken down as follows:

- borrowings received in the amount of EUR 176,541 thousand were down by EUR 107,601 thousand;
- liabilities for bonds issued in the amount of EUR 99,990 thousand were down by EUR 961 thousand on the balance at the end of the year; and
- other liabilities in the amount of EUR 94,034 thousand, of which EUR 760 thousand relates to a hedge against exposure to interest-rate risk. Other financial liabilities were up by EUR 90,130 thousand relative to the end of 2017, primarily due to liabilities for the payment of dividends.

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 30 June 2018

EUR thousand	Carrying amount	Fair value	Level 1	Level 2	Level 3
Non-current financial assets					
Available-for-sale financial assets	1,872	1,872	1,872		
Loans given	282	282			282
Current financial assets					
Loans given	137	137			137
Non-current financial liabilities					
Bonds	99,920	101,000	101,000		
Borrowings	161,271	161,271			161,271
Liabilities for interest rate swap	760	760		760	
Current financial liabilities					
Bonds	-42	-42			-42
Interest on bonds	112	112			112
Borrowings	15,270	15,270			15,270
Other financial liabilities	93,222	93,222			93,222

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 six months of 2018.

Contingent liabilities from guarantees issued

The Group had provided the following guarantees as at 30 June 2018:

- performance guarantees and warranty bonds in the amount of EUR 5,818 thousand,
- other guarantees in the amount of EUR 582 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 398 shares in Telekom Slovenije as at 30 June 2018, representing a holding of 0.00609%.

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	30. 6. 2018	31. 12. 2017
Outstanding operating receivables	4,935	3,875
Short-term accrued revenue	0	20,558
Outstanding operating liabilities	1,394	1,561

Revenues and expenses

EUR thousand	I - VI 2018	I - VI 2017
Operating revenue	13,503	22,287
Purchase costs of material and services	5,031	5,136

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 June 2018.

7.2. Condensed interim accounting report of Telekom Slovenije

7.2.1. Condensed interim financial statements of Telekom Slovenije

Income statement of Telekom Slovenije for the period ending 30 June 2018

EUR thousand	I - VI 2018	I - VI 2017
Revenue	324,180	333,916
Other operating income	1,133	2,061
Cost of goods sold	-46,133	-33,822
Cost of material and energy	-5,325	-4,949
Cost of services	-142,895	-158,753
Employee benefits expense	-43,359	-44,579
Amortisation and depreciation expense	-66,686	-66,928
Other operating expenses	-3,815	-1,052
Total operating expenses	-308,213	-310,083
Profit from operations	17,100	25,894
Finance income	3,322	4,988
Finance costs	-3,832	-3,893
Profit before tax	16,590	26,989
Income tax expense	0	0
Deferred tax	-925	1,321
Net profit for the period	15,665	28,310

Statement of other comprehensive income of Telekom Slovenije for the period ending 30 June 2018

EUR thousand	I - VI 2018	I - VI 2017
Net profit for the period	15,665	28,310
<i>Other comprehensive income that may be reclassified subsequent to profit or loss</i>		
Change in revaluation of available-for-sale financial assets	76	120
Deferred tax	-14	-23
Change in revaluation surplus of available-for-sale financial assets (net)	62	97
Changes in fair value of cash flow hedges	-178	-546
Deferred tax	34	104
Net gain on changes in fair value of cash flow hedges	-144	-442
Other comprehensive income for the period	-82	-345
Total comprehensive income for the period	15,583	27,965

Statement of the financial position of Telekom Slovenije as at 30 June 2018

EUR thousand	30. 6. 2018	31. 12. 2017
ASSETS		
Intangible assets	160,830	174,413
Property, plant and equipment	566,006	582,178
Investments in subsidiaries	51,079	36,079
Investments in associates and joint ventures	63	63
Other investments	78,273	85,407
Long term contract assets	4,619	0
Other non current assets	28,955	33,097
Investment property	3,981	4,006
Deferred tax assets	43,534	44,136
Total non-current assets	937,340	959,379
Assets held for sale	601	754
Inventories	21,165	18,106
Trade and other receivables	150,234	151,302
Short term contract assets	10,711	0
Deferred expenses and accrued revenues	40,980	68,929
Income tax credits	80	0
Current financial assets	33,163	121,731
Cash and cash equivalents	13,766	17,358
Total current assets	270,700	378,180
Total assets	1,208,040	1,337,559
EQUITY AND LIABILITIES		
Called-up capital	272,721	272,721
Capital surplus	180,956	180,956
Revenue reserves	104,978	104,978
<i>Legal reserves</i>	<i>50,434</i>	<i>50,434</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>54,544</i>	<i>54,544</i>
<i>Other revenue reserves</i>	<i>0</i>	<i>0</i>
Retained earnings	59,158	137,756
<i>Retained earnings from previous periods</i>	<i>43,493</i>	<i>136,036</i>
<i>Profit or loss for the period</i>	<i>15,665</i>	<i>1,720</i>
Fair value reserve for financial instruments	401	483
Fair value reserve for actuarial deficit and surplus	-2,539	-2,539
Total capital and reserves	615,675	694,355
Long term contract liability	11,538	0
Long term deferred income	2,062	12,547
Provisions	51,296	53,229
Non current operating liabilities	11,906	16,358
Interest bearing borrowings	161,177	168,796
Other non current financial liabilities	100,680	100,481
Deferred tax liabilities	239	224
Total non-current liabilities	338,898	351,635
Trade and other payables	93,456	121,195
Income tax payable	0	0
Interest bearing borrowings	15,239	115,189
Other current financial liabilities	93,283	4,296
Short term contract liability	1,464	0
Short term deferred income	3,092	4,307
Accrued costs and expenses	46,933	46,582
Total current liabilities	253,467	291,569
Total liabilities	592,365	643,204
Total equity and liabilities	1,208,040	1,337,559

Statement of changes in equity of Telekom Slovenije for the period ending 30 June 2018

EUR thousand	Called-up capital	Capital surplus	Revenue reserves					Retained earnings		Fair value reserve on available-for-sale financial assets	Fair value reserve for hedging instruments	Fair value reserve for actuarial deficit and surplus	Total
			Legal reserves	Treasury share reserve	Treasury shares	Statutory reserves	Other revenue reserves	Retained earnings from previous years	Profit or loss for the period				
Balance at 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									15,665				15,665
Other comprehensive income for the period										62	-144	0	-82
Total comprehensive income for the period	0	0	0	0	0	0	0	0	15,665	62	-144	0	15,583
Dividends paid								-93,028					-93,028
Transactions with owners	0	0	0	0	0	0	0	-93,028	0	0	0	0	-93,028
Transfer of retained earnings from previous years to retained earnings								1,720	-1,720				0
Balance at 30 June 2018	272,721	180,956	50,434	3,671	-3,671	54,544	0	43,493	15,665	1,017	-616	-2,539	615,675

Statement of changes in equity of Telekom Slovenije for the period ending 30 June 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	0	0	0	0	0	0	0	0	28,310	0	0	0	28,310
Other comprehensive income for the period	0	0	0	0	0	0	0	0	0	97	-442	0	-345
Total comprehensive income for the period	0	0	0	0	0	0	0	0	28,310	97	-442	0	27,965
Dividends paid	0	0	0	0	0	0	0	-32,527	0	0	0	0	-32,527
Transactions with owners	0	0	0	0	0	0	0	-32,527	0	0	0	0	-32,527
Transfer of retained earnings from previous years to retained earnings	0	0	0	0	0	0	0	20,230	-20,230	0	0	0	0
Balance at 30 June 2017	272,721	180,956	50,434	3,671	-3,671	54,544	132,294	3,729	28,310	775	-442	-1,828	721,493

Cash flow statement of Telekom Slovenije for the period ending 30 June 2018

EUR thousand	I - VI 2018	I - VI 2017
Cash flows from operating activities		
Profit	15,665	28,310
Adjustments for:		
Depreciation and amortisation	66,686	66,928
Gain or loss on disposal of property, plant and equipment	-121	-266
Finance income	-3,322	-4,988
Finance costs	3,832	3,893
Income tax expense and deferred tax	925	-1,321
Operating cash flow prior to changes in net working capital and provisions	83,665	92,556
Change in trade and other receivables	1,068	8,675
Change in deferred costs and accrued income	15,600	-27,630
Change in other non-current assets	1,143	1,987
Change in inventories	-2,371	-6,647
Change in provisions	-1,933	-12,230
Change in long-term and short-term deferred income	1,066	304
Change in accrued costs and expenses	249	4,069
Change in trade and other payables	-32,559	-5,510
Income tax paid	0	115
Net cash from operating activities	65,928	55,689
Cash flows from investing activities		
Receipts from investing activities	103,035	13,586
Sale of property, plant and equipment	615	1,366
Dividends received	153	147
Interest received	1,757	2,462
Disposal of non-current investments	23,486	6,287
Disposal of current investments	77,024	3,324
Disbursements from investing activities	-60,517	-70,078
Acquisition of property, plant and equipment	-24,667	-28,935
Acquisition of intangible assets	-13,185	-26,640
Acquisition of investments	-273	-1,787
Investments in subsidiaries and associates	-17,980	-3,620
Interest-bearing loans	-4,412	-9,096
Cash used in investing activities	42,518	-56,492
Cash flows from financing activities		
Receipts from financing activities	0	500
Current borrowings	0	500
Disbursements from financing activities	-112,038	-17,662
Loan originating costs and bond issue costs	0	-5
Repayment of current borrowings	0	0
Repayment of non-current borrowings	-107,692	-13,079
Interest paid	-4,346	-4,573
Dividends paid	0	-5
Cash flow used in financing activities	-112,038	-17,162
Net increase/decrease in cash and cash equivalents	-3,592	-17,965
Opening balance of cash	17,358	34,448
Closing balance of cash	13,766	16,483

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 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 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.

In the enclosed condensed interim financial statements of Telekom Slovenije, the period ending 30 June 2018 is presented in accordance with the valid IFRS 15 Revenue from Contracts with Customers, while the periods ending 30 June 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 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
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 30 June 2018:

Statement of financial position as at 30 June 2018

EUR thousand	As at 30 June 2018 according to IFRS 15	Adjustments as at 30 June 2018	As at 30 June 2018 according to IAS 18
Other non-current assets			
Non-current contract assets	860,232	0	860,232
Other non-current assets	4,619	-4,619	0
Deferred tax assets	28,955	2,819	31,774
Total non-current assets	43,534	-378	43,156
	937,340	-2,178	935,162
Other current assets	219,009	0	219,009
Current contract assets	10,711	-10,711	0
Current deferred expenses and accrued income	40,980	13,843	54,823
Total current assets	270,700	3,132	273,832
Total assets	1,208,040	954	1,208,994
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	59,158	1,125	60,283
<i>Retained earnings from previous years</i>	43,493	1,235	44,728
<i>Profit or loss for the current year</i>	15,665	-110	15,555
Fair value reserve	-2,138		-2,138
Total equity	615,675	1,125	616,800
Non-current contract liabilities	11,538	-11,538	0
Non-current deferred income	2,062	11,367	13,429
Other non-current liabilities	325,298	0	325,298
Total non-current liabilities	338,898	-171	338,727
Current contract liabilities	1,464	-1,464	0
Current deferred income	3,092	1,464	4,556
Other current liabilities	248,911	0	248,911
Total current liabilities	253,467	0	253,467
Total liabilities	592,365	-171	592,194
Total equity and liabilities	1,208,040	954	1,208,994

Income statement of Telekom Slovenije for the period ending 30 June 2018

EUR thousand	I - VI 2018 IFRS 15	I - VI 2018 adjustments	I - VI 2018 IAS 18
Revenue	324,180	279	324,459
Other operating income	1,133		1,133
Cost of goods sold	-46,133	7,329	-38,804
Cost of material and energy	-5,325		-5,325
Cost of services	-142,895	-8,222	-151,117
Employee benefits expense	-43,359		-43,359
Amortisation and depreciation expense	-66,686		-66,686
Other operating expenses	-3,815	592	-3,223
Total operating expenses	-308,213	-301	-308,514
Profit from operations	17,100	-22	17,078
Finance income	3,322		3,322
Finance costs	-3,832		-3,832
Profit before tax	16,590	-22	16,568
Income tax expense	0	0	0
Deferred tax	-925	-88	-1,013
Net profit for the period	15,665	-110	15,555
Earnings per share - basic and diluted (in EUR)	2.41		2.39

EUR thousand	I - VI 2018 according to IFRS 15	I - VI 2018 adjustments	I - VI 2018 IAS 18
Net profit for the period	15.665	-110	15.555
Other comprehensive income that may be reclassified subsequent to profit or loss			
Change in revaluation of available-for-sale financial assets	76		76
Deferred tax	-14		-14
Change in revaluation surplus of available-for-sale financial assets (net)	62	0	62
Changes in fair value of cash flow hedges	-178		-178
Deferred tax	34		34
Net gain on changes in fair value of cash flow hedges	-144	0	-144
Other comprehensive income for the period	-82	0	-82
Total comprehensive income for the period	15.583	-110	15.473

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.

Spodnja tabela prikazuje razvrstitev finančnih instrumentov v skladu z MRS 39 in z novim MSRP 9 na 1. 1. 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

- a) 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.
- b) 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.
- c) In accordance with the new standard, the Company 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 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 - VI 2018	I - VI 2017
Mobile services on end-customer market	111,100	113,965
Fixed-line telephone services on end-customer market	114,906	103,069
New sources of revenue	2,146	1,249
Wholesale market	89,098	94,820
Other revenue and other merchandise	6,930	20,813
Total revenue	324,180	333,916

EUR thousand	I - VI 2018	I - VI 2017
Sale of services	279,126	300,361
Sale of goods and materials	45,054	33,555
Total revenue	324,180	333,916

Net sales revenue was down EUR 9,736 thousand during the period January to June 2018 relative to the same period last year. Other revenues and revenues from other merchandise were down by EUR 13,883 thousand, while revenues on the wholesale market were down by EUR 5,722 thousand and revenues in the mobile segment of the end-user market were down by EUR 2,865 thousand. Revenues in the fixed segment of the end-user market were up by EUR 11,837 thousand, while new revenue sources were up by EUR 897 thousand.

Costs of services

EUR thousand	I - VI 2018	I - VI 2017
Telecommunications services	71,840	76,689
- network interconnection	13,883	13,545
- roaming	6,319	5,017
- international services	51,638	58,127
Cost of leased lines	6,714	7,574
Multimedia services costs	9,359	3,406
Sale incentives	0	7,794
Sale commissions	424	607
Maintenance of property, plant and equipment	12,203	12,950
Lease of property, plant and equipment	4,665	4,557
Costs of trade fairs, marketing, sponsorship and entertainment	5,332	4,342
Professional and personal services	3,110	3,417
Refond of work-related costs	348	225
Insurance premiums	1,394	1,760
Cost of postal services and transportation	1,527	1,576
Banking services	342	317
Other services	25,637	33,539
Total cost of services	142,895	158,753

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 June 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, insurance premiums, leased lines, intellectual and personal services, telecommunication services, the maintenance of property, plant and equipment, and communication services. The costs of the following items were up: multimedia content, reimbursements of work-related costs, trade fairs, advertising, sponsorship and representation, banking services, and the leasing of property, plant and equipment.

Operating profit

Operating profit (EBIT) was down by EUR 8,794 thousand on the same period last year to stand at EUR 17,100 thousand.

Finance income

Finance income was down by 33% or EUR 1,666 thousand on the same period in 2017.

Finance costs

Finance costs were down by 2% or EUR 61 thousand on the same period in 2017.

Net profit

Net profit in the amount of EUR 15,665 thousand was down 45% or EUR 12,645 thousand on the period January to June 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 13,583 thousand. Commitments for intangible assets totalled EUR 7,234 thousand as at 30 June 2018.

Property, plant and equipment

Property, plant and equipment accounted for 47% of the Company's total assets. The decrease in property, plant and equipment in the amount of EUR 16,172 thousand was primarily the result of depreciation charged during the accounting period in the amount of EUR 38,807 thousand, while new acquisitions totalled EUR 25,418 thousand. Commitments for property, plant and equipment totalled EUR 21,755 thousand as at 30 June 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.

Trade and other receivables

Trade and other receivables were down by EUR 1,068 thousand relative to the balance at the end of 2017.

Financial instruments

Current financial assets were down by EUR 88,568 thousand due to the repayment a tranche of a long-term loan in the amount of EUR 100 million. Non-current financial assets were down by EUR 7,134 thousand.

Financial liabilities

Financial liabilities totalled EUR 370,379 thousand as at 30 June 2018, a decrease of EUR 18,383 thousand on the end of 2017, broken down as follows:

- borrowings received in the amount of EUR 176,416 thousand were down by EUR 107,569 thousand;
- liabilities for bonds issued in the amount of EUR 99,990 thousand were down by EUR 961 thousand; and
- other liabilities in the amount of EUR 93,973 thousand, of which EUR 760 thousand relates to a hedge against exposure to interest-rate risk. Other financial liabilities were up by EUR 89,970 thousand relative to the end of 2017, primarily due to liabilities for the payment of dividends.

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 30 June 2018

EUR thousand	Carrying amount	Fair value	Level 1	Level 2	Level 3
Non-current financial assets					
Available-for-sale financial assets	1,872	1,872	1,872		
Loans given	73,413	73,413			73,413
Current financial assets					
Loans given	32,865	32,865			32,865
Non-current financial liabilities					
Bonds	99,920	101,000	101,000		
Borrowings	161,177	161,177			161,177
Liabilities for interest rate swap	760	760		760	
Current financial liabilities					
Bonds	-42	-42			-42
Interest on bonds	112	112			112
Borrowings	15,239	15,239			15,239
Other financial liabilities	93,213	93,213			93,213

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 six months of 2018.

Contingent liabilities from guarantees issued

The Company had provided the following guarantees as at 30 June 2018:

- performance guarantees and warranty bonds in the amount of EUR 4,745 thousand,
- guarantees as security for contractual obligations in the amount of EUR 1,989 thousand, and
- other guarantees in the amount of EUR 274 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	30.06.2018	31.12.2017
Receivables from Group companies	8,266	8,953
Subsidiaries	8,266	8,953
Joint ventures	0	0
Loans to Group companies	105,878	124,478
Subsidiaries	105,878	124,478
Liabilities to Group companies	14,745	23,500
Subsidiaries	14,745	23,498
Joint ventures	0	2

EUR thousand	I - VI 2018	I - VI 2017
Net revenues within the Group	9,119	9,726
Subsidiaries	9,119	9,726
Joint ventures	0	0
Purchase of materials and services within the Group	17,751	30,675
Subsidiaries	17,747	30,671
Joint ventures	4	4

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 398 shares in Telekom Slovenije as at 30 June 2018, representing a holding of 0.00609%.

Transactions with owners and parties related thereto

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

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

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

Receivables and liabilities

EUR thousand	30. 6. 2018	31. 12. 2017
Outstanding operating receivables	4,670	3,649
Short-term accrued revenue	0	20,558
Outstanding operating liabilities	1,326	1,416

Revenues and expenses

EUR thousand	I - VI 2018	I - VI 2017
Operating revenue	12,822	21,885
Purchase costs of material and services	4,578	4,625

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 June 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	30. 6. 2018	31. 12. 2017
Loans given	419	889
Other current investments	532	77,518
Trade and other receivables	158,131	159,818
- <i>whereof trade receivables</i>	152,593	151,839
Cash and cash equivalents	19,263	29,245
Total	178,345	267,470

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 152,593 thousand as at 30 June 2018, an increase of EUR 754 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 the concentration risk associated with financial assets is low, as investments are appropriately diversified and the credit ratings and capital adequacy of banks are monitored when funds are placed.

Ageing structure of receivables as at the reporting date

EUR thousand	30.6.2018			31.12.2017		
	Gross value	Allowances	Neto vrednost	Gross value	Allowances	Neto vrednost
Total trade receivables	187,551	-34,958	152,593	188,240	-36,401	151,839
Not past due trade receivables	126,697	-2	126,695	126,075	0	126,075
Overdue						
Up to and including 30 days	13,208	-1	13,207	14,076	-4	14,072
31 to and including 60 days	4,323	-4	4,319	4,689	-11	4,678
61 to and including 90 days	2,419	-15	2,404	1,766	-13	1,753
91 to and including 120 days	784	-421	363	1,212	-480	732
121 days and more	40,120	-34,515	5,605	40,422	-35,893	4,529
Total overdue trade receivables	60,854	-34,956	25,898	62,165	-36,401	25,764
Other operating receivables	5,546	-8	5,538	7,987	-8	7,979
Total receivables	193,097	-34,966	158,131	196,227	-36,409	159,818

Maturity profile of loans given

EUR thousand	30. 6. 2018	31. 12. 2017
Overdue	10	137
Due in:	409	752
- less than 3 months	26	82
- 3 to 12 months	102	238
- 1 to 2 years	75	189
- 2 to 5 years	150	171
- more than 5 years	57	72
Total	419	889

Ageing structure of loans given as at 30 June 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	409	10	0	0	0	0	419

Ageing structure of loans given as at 31 December 2017

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

The Company's senior management assesses the credit quality of the above-stated financial assets, which were not impaired or overdue as at 30 June 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 170 million as at 30 June 2018. Credit lines will be partially drawn when dividends are paid in July 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 176.9 million and issued bonds in the amount of EUR 100 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 30 June 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
30. 6. 2018								
Loans and borrowings	0	0	0	15,416	15,385	146,247	0	177,048
Anticipated interest on loans	0	0	0	2,939	2,712	2,614	0	8,265
Other financial liabilities	185	0	93,028	121	4	100,808	0	194,146
Anticipated interest in bonds	0	0	0	1,950	1,950	1,950	0	5,850
Trade payables and other operating liabilities	10,996	1,019	75,536	15,277	13,783	762	140	117,513
Total	11,181	1,019	168,564	35,703	33,834	252,381	140	502,822
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 on account of interest-sensitive liabilities.

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

Liabilities from loans raised and finance leases with variable interest rates tied to the 3- and 6-month EURIBOR accounted for 63.91% of interest-bearing financial liabilities as at 30 June 2018. The remaining liabilities are accounted for by issued bonds 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 88.5 million as at 30 June 2018. The principal is hedged against a rise in the reference interest rate if the latter is higher than or equal to zero. Fixed or hedged interest rates account for 68.01% of interest-bearing financial liabilities at the Group level.

Exposure to interest-rate risk

EUR thousand	30.6.2018	31.12.2017
Financial instruments with variable interest rate		
Financial receivables	0	344
Financial liabilities	88,647	192,540
Net financial liabilities	88,647	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.

Interest rate increase/decrease		Effect on profit before tax in EUR thousand
30.6.2018		
EURO	+100 bps	-409
EURO	-100 bps	-883
Interest rate increase/decrease		Effect on profit before tax in EUR thousand
31.12.2017		
EURO	+100 bps	-1.150
EURO	-100 bps	-926

Value of EURIBOR

EURIBOR	Value as at 30.6.2018	Value as at 31.12.2017	Change in percentage
3-month	-0.324	-0.329	1.52
6-month	-0.270	-0.271	0.37

Capital management

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

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

EUR thousand	30. 6. 2018	31. 12. 2017
Borrowings and other financial liabilities	370,565	388,997
Less short-term investments and cash with short-term deposits	-19,925	-107,212
Net debt	350,640	281,785
Equity	600,605	680,865
Total assets	1,219,123	1,351,994
Debt/equity ratio	58.4%	41.4%
Equity/total assets ratio	49.3%	50.4%