



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

Ljubljana, 25 October 2018

Contents

1.	Introductory note	1
1.1.	Statement of responsibility of the Management Board	1
2.	Vision, mission and values of the Telekom Slovenije Group	2
2.1.	Vision, mission and values	2
2.2.	Key strategic policies.....	2
3.	Telekom Slovenije Group.....	4
3.1.	Markets and companies of the Telekom Slovenije Group.....	4
3.2.	Operating highlights	5
3.3.	Key financial indicators for the Telekom Slovenije Group	5
3.4.	Overview by company and key market	6
3.5.	Ownership structure and share trading	9
3.6.	Market and market shares in key service segments.....	12
3.7.	Risk management	13
4.	Corporate governance	16
5.	Significant events in the period January to September 2018.....	18
6.	Significant events after the balance-sheet date.....	21
7.	Condensed interim accounting report of the Telekom Slovenije Group and Telekom Slovenije, d. d. for the period January to September 2018	22
7.1.	Introductory notes	22
7.1.1.	Condensed interim financial statements of the Telekom Slovenije Group.....	24
7.1.2.	Notes to the interim consolidated financial statements of the Telekom Slovenije Group	30
7.2.	Condensed interim accounting report of Telekom Slovenije	43
7.2.1.	Condensed interim financial statements of Telekom Slovenije	43
7.2.2.	Notes to the condensed interim financial statements of Telekom Slovenije	49
7.3.	Financial risk management.....	59

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 September 2018.

The condensed interim financial statements for the period ending 30 September 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 September 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 24 October 2018.

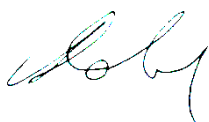
Any significant changes to the data contained in the prospectus for listing on the stock exchange are regularly published by the Company on the Ljubljana Stock Exchange's SEOnet website and on the Company's website at www.telekom.si.

The Unaudited Business Report for the period January to September 2018 is also available 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 September 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 September 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



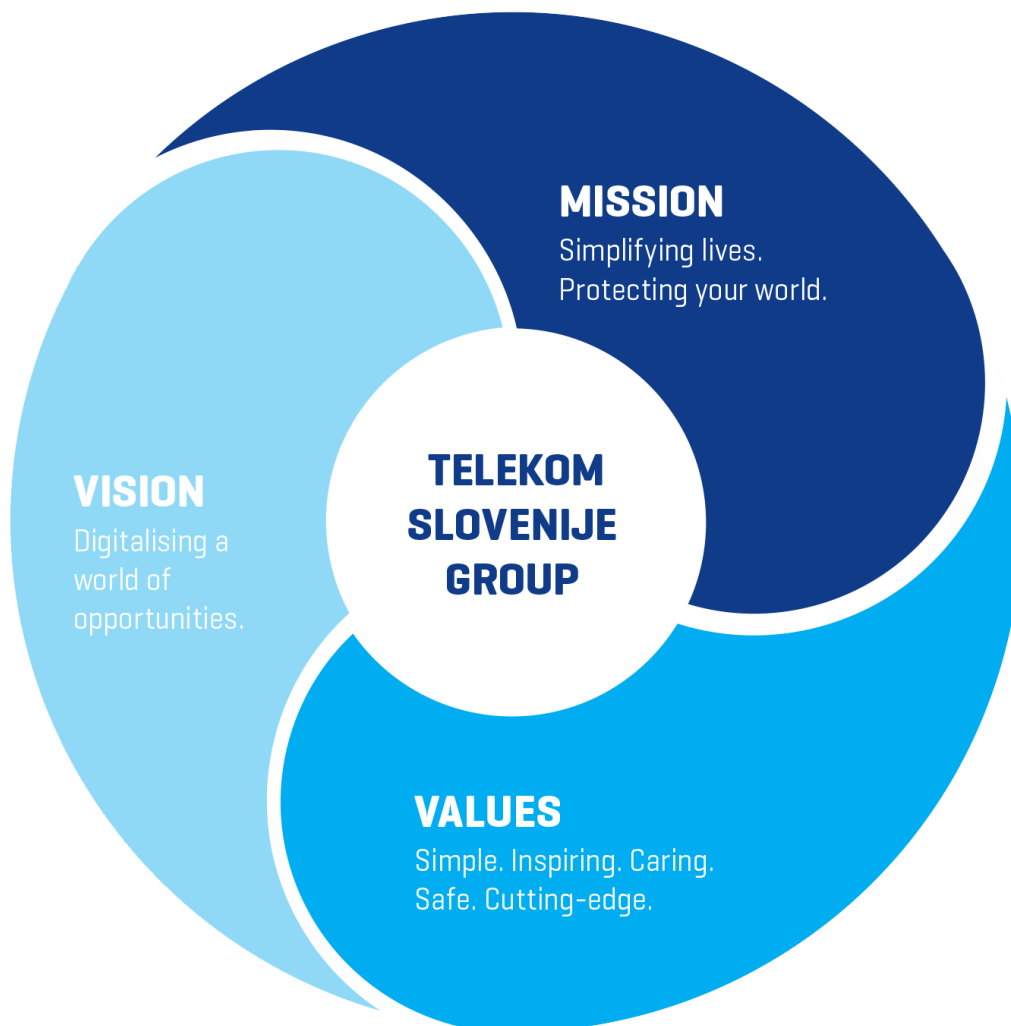
Ranko Jelača,
Member of the
Management Board



Dean Žigon, member
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

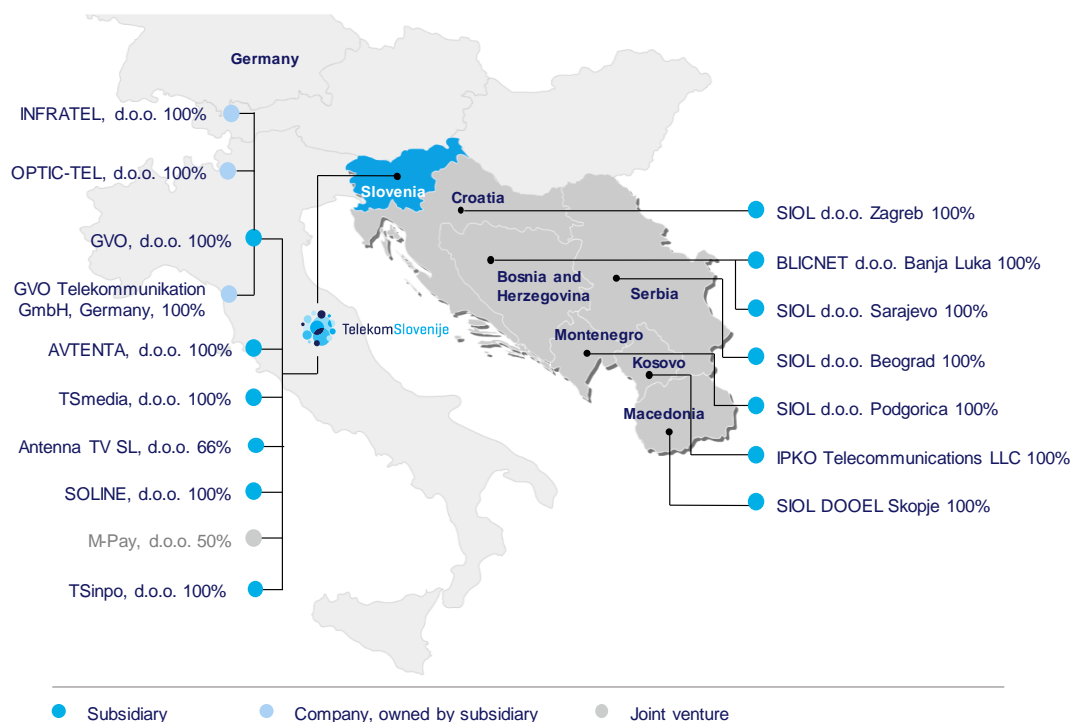
The achievement of established objectives depends on specific consolidation activities in Slovenia and on foreign markets.

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 September 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 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 September 2018:

- The Telekom Slovenije Group generated EUR 542.2 million in operating revenues during the first nine months of 2018, a decrease of 0.8% on the revenues generated during the same period in 2017. Net sales revenue totalled EUR 538.1 million, which is likewise a decrease of 0.7% or EUR 3.9 million relative to the revenues generated during the same period in 2017, when net sales revenue also included revenues from the implementation of the electronic toll collection project. Revenues in the fixed segment were up relative to the same period in 2017, primarily on account of broadband and IT services. Revenues were lower on the wholesale market, primarily due to a decrease in international voice services, and in the mobile segment of the end-user market due to the shift of subscribers to more affordable packages and on account of EU regulations.
- The operating expenses of the Telekom Slovenije Group amounted to EUR 514.4 million, similar to the level recorded during the first nine months of 2017. Primarily the historical cost of goods sold, the costs of materials and other operating expenses were higher. Amortisation and depreciation were also higher, by 2% or EUR 2.7 million. The costs of services were down by 8%, while labour costs were down by 3%.
- Earnings before interest, taxes, amortisation and depreciation (EBITDA) totalled EUR 152.9 million, and accounted for 28.4% of net sales revenue. Earnings before interest and taxes (EBIT) amounted to EUR 27.8 million.
- Following the calculation of income tax (including deferred taxes), the Telekom Slovenije Group generated a net profit of EUR 23.5 million during the first nine months of 2018.

3.3. Key financial indicators for the Telekom Slovenije Group

EUR thousand / %	I - IX 2018 / 30.9.2018	I - IX 2017 / 31.12.2017	Index 18/17
Net sales revenues	538,118	542,046	99
Other operating income	4,070	4,619	88
Operating revenues	542,188	546,665	99
EBITDA	152,933	154,245	99
EBITDA margin	28.4%	28.5%	100
EBIT	27,759	31,748	87
Return on sales: ROS (EBIT/net sales revenue)	5.2%	5.9%	88
Net profit	23,544	30,060	78
Assets	1,204,668	1,351,994	89
Equity	609,605	680,865	90
Equity ratio	50.6%	50.4%	100
Net financial debt	333,202	281,785	118

3.4. Overview by company and key market

Operating revenues

EUR thousand	I - IX 2018	I - IX 2017	Index 18/17
Telekom Slovenije	483,772	493,138	98
Other companies in Slovenia	54,613	63,545	86
Ipko - Kosovo	54,598	54,861	100
Other companies abroad	14,782	15,628	95
Total - unconsolidated	607,765	627,172	97
Eliminations and adjustments	-65,577	-80,507	-
Telekom Slovenije Group	542,188	546,665	99

EBITDA – earnings before interest, taxes, depreciation and amortisation

EUR thousand	I - IX 2018	I - IX 2017	Index 18/17
Telekom Slovenije	124,050	130,754	95
Other companies in Slovenia	1,706	615	277
Ipko - Kosovo	23,386	19,922	117
Other companies abroad	4,738	4,273	111
Total - unconsolidated	153,880	155,564	99
Eliminations and adjustments	-947	-1,319	-
Telekom Slovenije Group	152,933	154,245	99

EBIT – earnings before interest and taxes

EUR thousand	I - IX 2018	I - IX 2017	Index 18/17
Telekom Slovenije	24,908	30,245	82
Other companies in Slovenia	-1,246	-2,134	-
Ipko - Kosovo	3,023	2,755	110
Other companies abroad	1,351	1,543	88
Total - unconsolidated	28,036	32,409	87
Eliminations and adjustments	-277	-661	-
Telekom Slovenije Group	27,759	31,748	87

Net profit or loss

EUR thousand	I - IX 2018	I - IX 2017	Index 18/17
Telekom Slovenije	22,687	33,228	68
Other companies in Slovenia	-2,324	-2,898	-
Ipko - Kosovo	900	-459	-
Other companies abroad	1,053	1,219	86
Total - unconsolidated	22,316	31,090	72
Eliminations and adjustments	1,228	-1,030	-
Telekom Slovenije Group	23,544	30,060	78

TELEKOM SLOVENIJE GROUP CONNECTIONS AND SERVICES BY TYPE AND MARKET

Broadband connections

Number of retail BB connections as at	30.9.2018	31.12.2017	Index 18/17
Slovenia	214,831	214,799	100
SE Europe	163,330	150,486	109
Kosovo	135,753	123,428	110
Bosnia and Herzegovina	27,577	27,058	102
Telekom Slovenije Group	378,161	365,285	104

Fixed and mobile telephony connections

Number of retail connections as at	30.9.2018	31.12.2017	Index 18/17
Slovenia, mobile telephony	1,081,950	1,124,605	96
Slovenia, fixed voice telephony	334,883	343,084	98
SE Europe, mobile telephony:	773,507	685,203	113
Kosovo	770,581	682,570	113
Bosnia and Herzegovina	2,926	2,633	111
SE Europe, fixed voice telephony	1,340	1,204	111
Telekom Slovenije Group	2,191,680	2,154,096	102
VoIP services			
Slovenia	193,787	192,563	101
SE Europe	23,806	19,414	123
Telekom Slovenije Group	217,593	211,977	103

Number of mobile and fixed telephony connections / services

Number of retail connections as at	30.9.2018	31.12.2017	Index 18/17
Total mobile telephony	1,855,457	1,809,808	103
Total fixed voice telephony services*	553,816	556,265	100
Telekom Slovenije Group	2,409,273	2,366,073	102

* Sum of fixed voice telephony connections and VoIP services.

Investments

EUR thousand	I - IX 2018	I - IX 2017	Index 18/17
Telekom Slovenije	63,132	79,414	79
Other companies in Slovenia	1,988	2,547	78
Ipko - Kosovo	11,547	6,600	175
Other companies abroad	9,514	2,976	320
Eliminations and adjustments	-6,735	-1,385	-
Telekom Slovenije Group	79,446	90,152	88

Employees

number of employees at	30.09.2018	31.12.2017	Index 18/17
Telekom Slovenije	2,228	2,338	95
Other companies in Slovenia	709	702	101
Ipko - Kosovo	528	528	100
Other companies abroad	99	105	94
Telekom Slovenije Group	3,564	3,673	97

3.5. Ownership structure and share trading

General information regarding Telekom Slovenije shares as at 30 September 2018

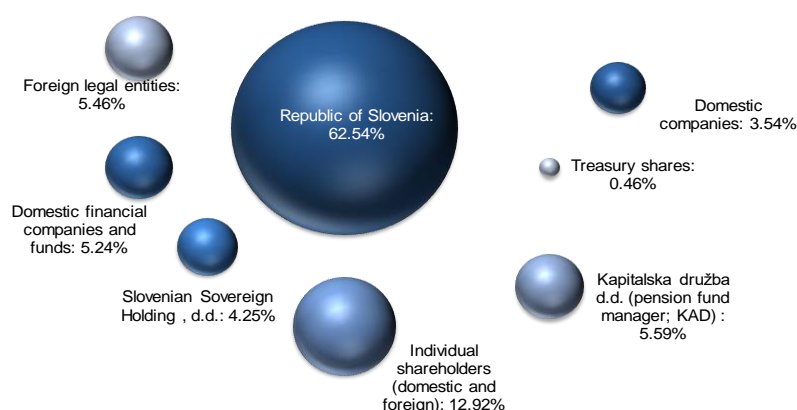
General information regarding shares	
Ticker symbol	TLSG
Listing	Prva kotacija Ljubljanske borze
Share capital (EUR)	272,720,664.33
Number of ordinary registered no-par value shares	6,535,478
Number of shares held in treasury	30,000
Number of shareholders as at 30 September 2018	9,477

Ownership structure and largest shareholders as at 30 September 2018

Telekom Slovenije had 9,477 shareholders at the end of September 2018, a decrease of 122 on the end of 2017. The number of individual shareholders was down by 121.

Domestic investors held a total ownership stake of 94% as at 30 September 2018. The Company's largest shareholder is 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 hold 73.46% of the Company's shares.

Ownership structure as at 30 September 2018



Ten largest shareholders as at 30 September 2018

The concentration of ownership, as measured by the ownership stake held by the ten largest shareholders, stood at 77.72% at the end of the first nine months of 2018, a decrease of 0.43 percentage points relative to the end of 2017.

Shareholder as at 30. 9. 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. - fiduciarni račun	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.	0.66	DBS, d. d.		0.80
8	Splitska banka d.d – Client Account	0.64	Aktsiaselts Trigon Asset Management		0.73
9	The Bank of New York Mellon - fiduciarni	0.48	Splitska banka, d. d.		0.64
10	Clearstream Banking SA - fiduciarni	0.48	The Bank of New York Mellon – fiduciary		0.56
Total		77.72	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 553 TLSG shares as at 30 September 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			
Drago Kijevčanin	Member of the Supervisory Board	212	0.00324
Dušan Pišek	Member of the Supervisory Board	36	0.00055
Jana Žižek Kuhar	Member of the Supervisory Board	4	0.00006
Total		553	0.00846

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

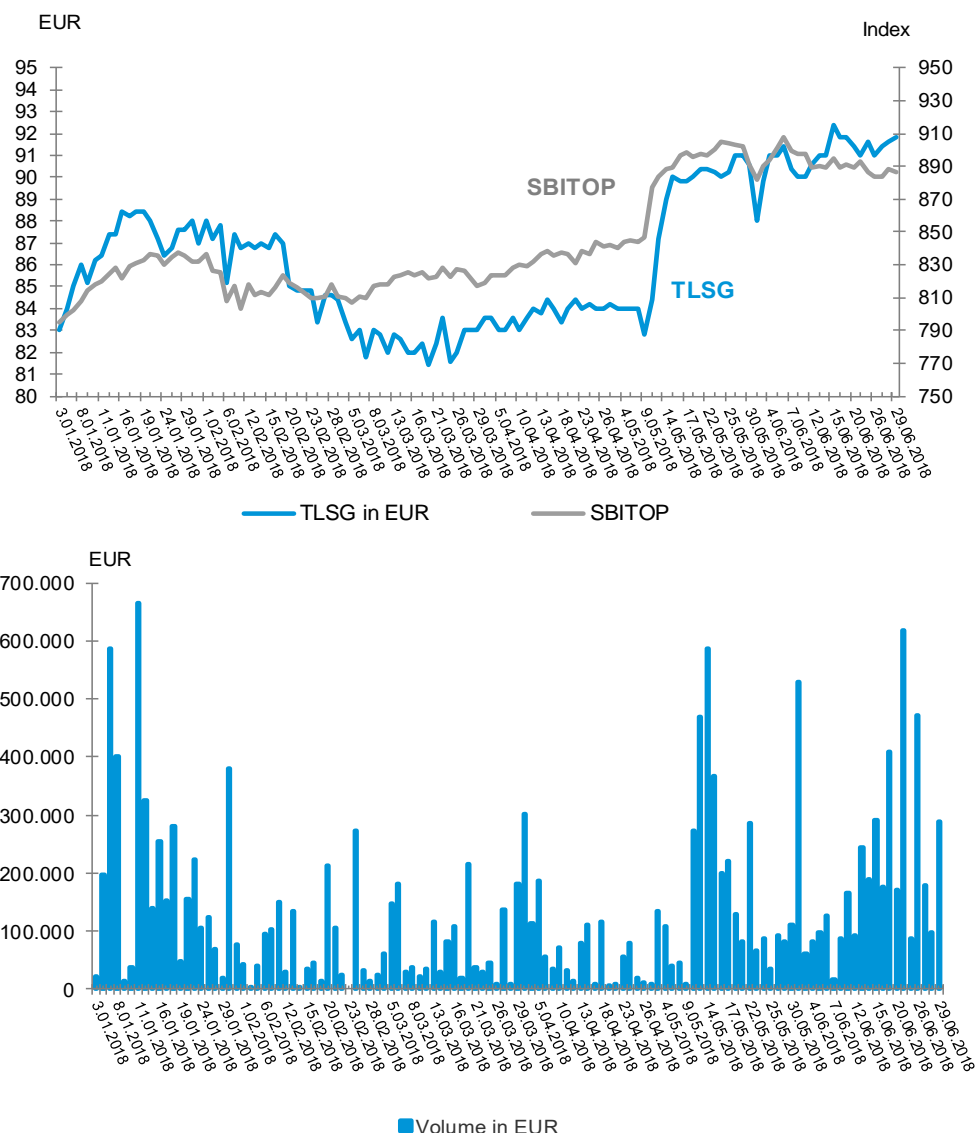
Share trading and key share-related financial data

Movement in the TLSG share price

Turnover in Telekom Slovenije shares totalled EUR 21.8 million during the period January to September 2018, representing 8.8% of total turnover on the stock exchange. The price of TLSG shares closed at EUR 68.40 on the last trading day of September 2018. The share price fell by 17.47% during the first nine months 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 447.0 million on the last trading day of September 2018, accounting for 8.2% of the market capitalisation of all shares on the stock exchange.

Standard price in EUR	I - IX 2018	I - IX 2017
Highest daily price	92.40	88.00
Lowest daily price	68.40	71.01
Average daily price	82.89	83.26
Volume in EUR thousand	I - IX 2018	I - IX 2017
Total volume for the year	21,834.11	17,552.64
Highest daily volume	664.56	955.44
Lowest daily volume	0.38	0.33
Average daily volume	119.31	95.92

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. 9. 2018 / I – IX 2018	30. 9. 2017 / I – IX 2017
Closing price (P) of one share on the last trading day of the period in EUR	68.40	81.07
Book value (BV) ¹ of one share in EUR	93.28	104.18
Earnings per share (EPS) ² in EUR	3.62	4.62
P/BV	0.73	0.78
Capital return per share during the period in % ³	-17.47	14.02
Dividend yield ⁴	20.91	6.17

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.

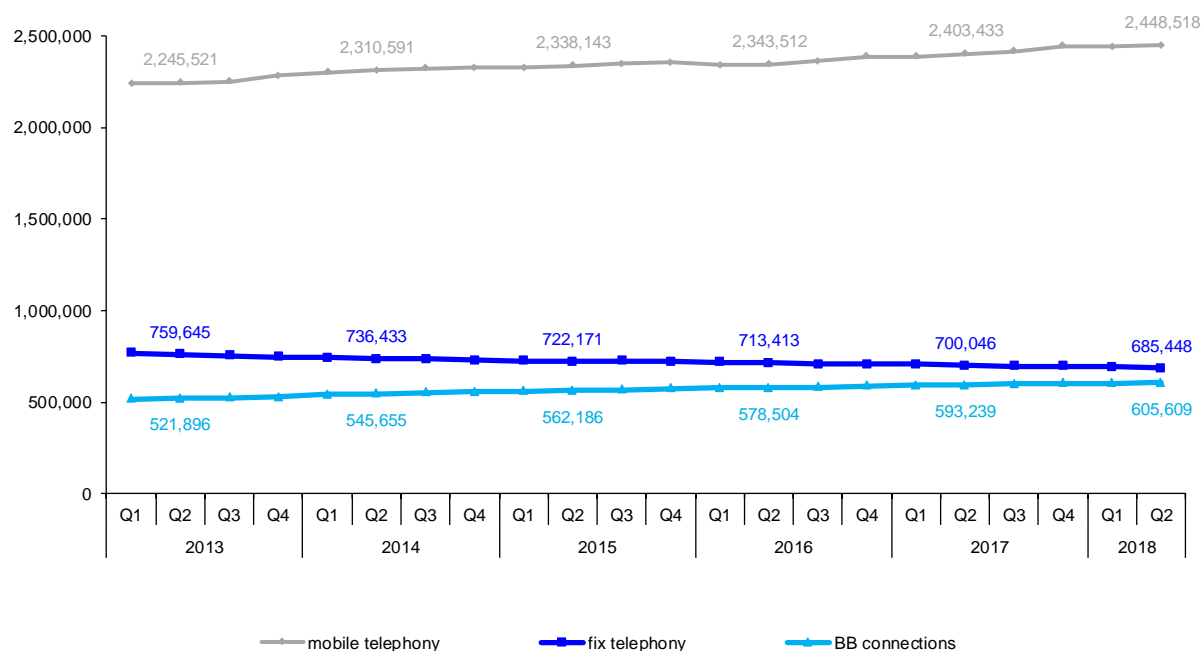
² Net earnings per share is calculated as the ratio of the Telekom Slovenije Group's net operating profit for the accounting period to the average number of issued ordinary shares, excluding treasury shares.

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.

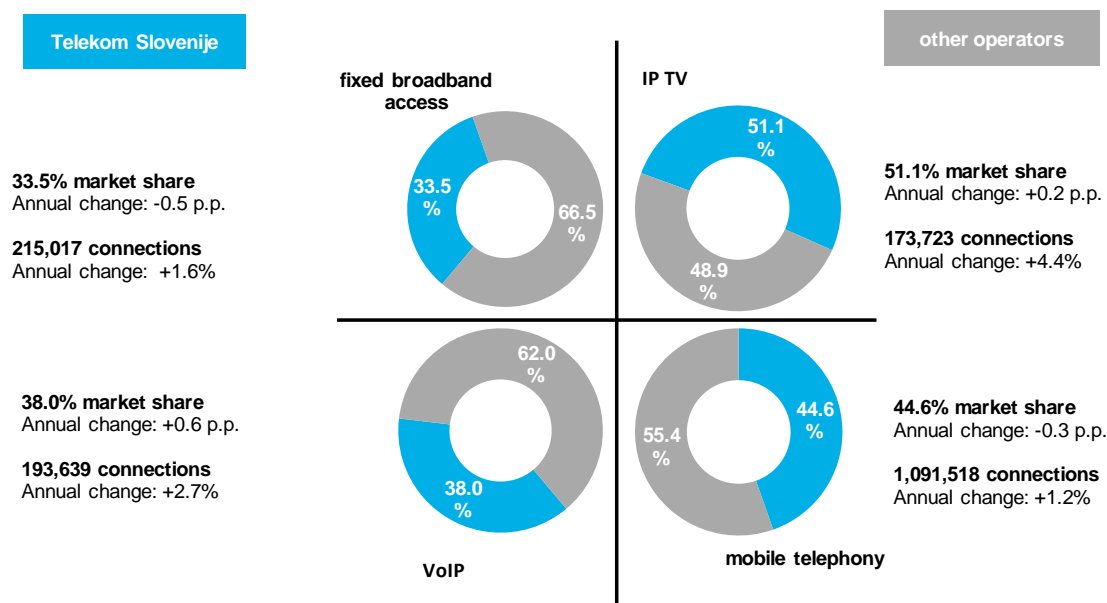
3.6. Market and market shares in key service segments

Number of connections in Slovenia



Sources: Report on the development of the electronic communications market for the second quarter of 2018, AKOS, September 2018, SORS and internal Telekom Slovenije figures.

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



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

3.7. Risk management

Key risks are presented below by Telekom Slovenije Group company.

Telekom Slovenije
Strategic (business) risks <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.
Financial risks <ul style="list-style-type: none">Telekom Slovenije regularly monitors the dynamics of the financial environment, which are reflected 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 59.86% of interest-bearing financial liabilities at the Company.
Regulatory and compliance-related risks <ul style="list-style-type: none">Regulatory risks remain high 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, risks have been identified in connection 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 the entry into force of that directive was set for transposition into national legislation.Of significance in terms of compliance is the implementation of Regulation (EU) 2016/679 of the European Parliament and of the Council on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, the application of which began on 25 May 2018. Telekom Slovenije adapted business processes and upgraded information support systems as part of its preparations for initial application of that regulation, with the aim of ensuring compliance with the requirements thereof. The EU's new ePrivacy Regulation is currently being coordinated by stakeholders.

That regulation will affect data processing as it relates to the provision of electronic communication services.

- 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 an internal Cyber Security Operation Centre. 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
<ul style="list-style-type: none"> 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 market position 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. Risks associated with the erroneous interpretation of legislation in the area of public procurement are managed by monitoring changes in that area and informing all competent bodies of potential issues.
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 equipment represents an operational risk associated with business continuity. 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 September 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 September 2018:

Shareholder representatives:

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

Employee representatives:

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

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

On 14 November 2017 the Works Council appointed employee representatives Dean Žigon, Samo Podgornik and Primož Per 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. On 18 September 2018 the Works Council recalled Samo Podgornik, Primož Per and Urban Škrjanc from their positions on the Supervisory Board as employee representatives, and appointed Drago

Kijevčanin, Dušan Pišek and Jana Žižek Kuhar as new employee representatives, effective 19 September 2018. The terms of office of employee representatives on the Supervisory Board expire on 14 November 2021.

Composition of management and governance bodies at subsidiaries of the Telekom Slovenije Group as at 30 September 2018

Slovenia
GVO, d. o. o. Managing Director: Borut Radi
Avtenta, d. o. o. Managing Director: Miha Praunseis
TSmedia, d. o. o. Managing Director: Tina Česen, MSc
Soline, d. o. o. Managing Director: Klavdij Godnič
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, MSc; 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 September 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

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 the Company's Supervisory Board and 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, as 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.

Third quarter

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.

- On 6 July the Novo Mesto Town Hall was the site of the ceremonial signing of an agreement on the implementation of a Smart City system, which will allow the citizens of the three partner municipalities – Novo Mesto, Nova Gorica and Kranj – to use and pay for various services. The agreement was signed on behalf of the aforementioned municipalities by the mayors of Novo Mesto and Nova Gorica, and on behalf of the consortium by Igor Bohorč, MSc, Head of Telekom Slovenije's Commercial Market strategic business unit. Telekom Slovenije is joined in the project by the consortium partner Petrol, while the companies Imovation and mBills are involved in implementation.

August

- Telekom Slovenije became the first Slovenian operator to facilitate the use of voice services via the WiFi network, also known as VoWiFi (Voice over WiFi) services, by its subscribers who use the most advanced Samsung mobile phones. The aforementioned service brings subscribers the simultaneous use of voice and data transfer services, as well as the quicker establishment of calls, high-quality sound through the default use of HD voice, reduced battery usage, and the seamless transition between a WiFi connection and LTE/4G technology in the domestic network.
- Telekom Slovenije prepared the *Doma* promotional package for all users who only need mobile services in Slovenia. The package's monthly subscription fee includes unlimited calls and messages in all Slovenian networks and 40 GB of data transfer in Telekom Slovenije's LTE/4G+ mobile network. For roaming in countries covered by the EU tariff, the package includes an alternative tariff, meaning that incoming calls while roaming in the aforementioned countries are free, while outgoing calls, SMS and mobile data transfer are charged separately, if used by a subscriber.

September

- Telekom Slovenije's Works Council recalled Samo Podgornik, Primož Per and Urban Škrjanc from their positions on the Supervisory Board as employee representatives, and appointed Drago Kijevčanin, Dušan Pišek and Jana Žižek Kuhar as new employee representatives, effective 19 September 2018. The terms of office of employee representatives on the Supervisory Board expire on 14 November 2021.
- The 19th of September marked precisely 15 years since Telekom Slovenije (SiOL at that time) became the first operator on the market to offer its users TV viewing via a broadband connection. Since that time, the Company has continuously upgraded that platform and the TV experience (including the development of TViN and the possibility of TV viewing on all screens in 2012). The next development step will follow soon, as an entirely new television experience will be presented to Slovenian users and will bring the full integration of entertainment, content and smart home services to various screens and devices.
- Telekom Slovenije and T-2, d. o. o. reached a court-brokered settlement, under which mutual relations arising from the commercial dispute between the plaintiff T-2, d. o. o. and the defendant Telekom Slovenije for the payment of damages in the amount of EUR 129,556,756.00 and appertaining amounts, as well as other unsettled mutual relations, were put in order. By reaching that court-brokered settlement, the two companies no longer have any liabilities vis-à-vis one another in connection with the aforementioned dispute and other mutual relations. Telekom Slovenije will not reveal the details of the signed court settlement.

6. Significant events after the balance-sheet date

Third quarter of 2018

October

- On 2 October 2018 Telekom Slovenije and the company Telekomunikacije Republike Srpske akcionarsko društvo Banja Luka signed an agreement on the sale of a 100% participating interest in Blicnet, Banja Luka from Bosnia and Herzegovina. The contracting parties plan to complete the transaction by the end of 2018, following the fulfilment of all suspensive conditions agreed in the sales agreement. Telekom Slovenije will not reveal the details of the transaction, including the amount of consideration, until the transaction is completed. The sale of Blicnet is in line with the adopted Business Plan of the Telekom Slovenije Group for 2018 and the Strategic Business Plan of the Telekom Slovenije Group for the period 2018 to 2022.

7. Condensed interim accounting report of the Telekom Slovenije Group and Telekom Slovenije, d. d. for the period January to September 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 September 2018 were compiled in accordance with IAS 34 Interim Financial Reporting. The financial statements for the period January to September 2018 and for the comparative period January to September 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 7.1.2 and 7.2.2.
- **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 Telekom Slovenije's financial statements.
- **Amendments to IFRS 2 Share-Based Payments.** Classification and Measurement of Share-Based Payment Transactions. The standard has no significant impact on Telekom Slovenije's financial statements.
- **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 September 2018

EUR thousand	I - IX 2018	I - IX 2017
Operating revenue	538,118	542,046
Other operating income	4,070	4,619
Cost of goods sold	-65,222	-47,522
Cost of materials and energy	-11,168	-10,852
Cost of services	-227,866	-246,996
Employee benefits expense	-80,242	-82,670
Amortisation and depreciation expense	-125,174	-122,497
Other operating expenses	-4,757	-4,380
Total operating expenses	-514,429	-514,917
Profit from operations	27,759	31,748
Finance income	3,360	3,149
Finance costs	-5,714	-6,056
Share of profit of loss of associates and jointly controlled entities	-1	2
Profit before tax	25,404	28,843
Income tax expense	-436	-1,087
Deferred tax	-1,424	2,304
Net profit for the period	23,544	30,060
Profit attributable to		
Owners of the company	24,637	31,912
Non-controlling interest	-1,093	-1,852
Earnings per share - basic and diluted (in EUR)	3.62	4.62

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

EUR thousand	I - IX 2018	I - IX 2017
Net profit for the period	23,544	30,060
<i>Other comprehensive income that may be reclassified subsequently to profit or loss</i>		
Translation reserves	14	34
Change in revaluation of actuarial deficits and surpluses		
Change in revaluation of available-for-sale financial assets	-9	256
Deferred tax	2	-48
Change in revaluation surplus of available-for-sale financial assets (net)	-7	208
Changes in fair value of hedging instruments	-109	-842
Deferred tax	21	160
Net gain on changes in fair value of hedging instruments	-88	-682
Other comprehensive income for the period after tax	-81	-440
Total comprehensive income for the period	23,463	29,620
Total comprehensive income attributable to		
Owners of the company	24,556	31,472
Non-controlling interest	-1,093	-1,852

Consolidated statement of financial position as at 30 September 2018

EUR thousand	30. 9. 2018	31. 12. 2017
ASSETS		
Intangible assets	197,347	214,412
Property, plant and equipment	653,498	679,239
Investments in joint ventures	128	129
Other investments	5,067	4,952
Long-term contract assets	5,208	0
Other non-current assets	37,396	42,298
Investment property	3,968	4,006
Deferred tax assets	43,763	44,876
Total non-current assets	946,375	989,912
Assets held for sale	601	754
Inventories	26,272	22,239
Trade and other receivables	159,452	159,818
Short-term contract assets	11,490	0
Deferred expenses and accrued revenues	50,916	72,053
Income tax credits	734	6
Current financial assets	588	77,967
Cash and cash equivalents	8,240	29,245
Total current assets	258,293	362,082
Total assets	1,204,668	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	54,953	125,039
<i>Retain earnings from previous periods</i>	<i>30,316</i>	<i>113,836</i>
<i>Profit or loss for the period</i>	<i>24,637</i>	<i>11,203</i>
Fair value reserve on available-for-sale financial assets	388	483
Fair value reserve for actuarial deficit and surplus	-2,585	-2,585
Translation reserve	14	0
Equity attributable to owners of the Company	613,458	683,625
Non-controlling interest	-3,853	-2,760
Total capital	609,605	680,865
Long-term contract liabilities	11,960	0
Long-term deferred income	2,782	13,229
Provisions	53,467	57,501
Non-current operating liabilities	9,735	16,426
Interest bearing borrowings	161,305	168,890
Other non-current financial liabilities	100,694	100,526
Deferred tax liabilities	1,880	1,882
Total non-current liabilities	341,823	358,454
Trade and other payables	110,588	135,211
Income tax payable	204	574
Interest-bearing borrowings	79,274	115,252
Other current financial liabilities	757	4,329
Short-term contract liabilities	1,565	0
Short-term deferred income	7,280	8,678
Accrued costs and expenses	53,572	48,631
Total current liabilities	253,240	312,675
Total liabilities	595,063	671,129
Total equity and liabilities	1,204,668	1,351,994

Consolidated statement of changes in equity for the period ending 30 September 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 IFRS 15 transition								-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									24,637						24,637	-1,093	23,544
Other comprehensive income for the period										0	-7	-88	0	14	-81		-81
Total comprehensive income for the period	0	0	0	0	0	0	0	0	24,637	0	-7	-88	0	14	24,556	-1,093	23,463
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		0	0					11,203	-11,203						0		0
Balance at 30 Sept 2018	272,721	181,488	51,612	3,671	-3,671	54,854	13	30,316	24,637	0	948	-560	-2,585	14	613,458	-3,853	609,605

Consolidated statement of changes in equity for the period ending 30 September 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									31,912						31,912	-1,852	30,060
Other comprehensive income for the period										0	208	-682	0	34	-440		-440
Total comprehensive income for the period	0	0	0	0	0	0	0	0	31,912	0	208	-682	0	34	31,472	-1,852	29,620
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 Sept 2017	272,721	181,488	51,612	3,671	-3,671	54,854	132,307	-18,264	31,912	0	886	-682	-1,982	10	704,862	-2,432	702,430

Consolidated cash flow statement for the period ending 30 September 2018

EUR thousand	I - IX 2018	I - IX 2017
Cash flows from operating activities		
Profit	23,544	30,060
Adjustments for:		
Depreciation and amortization	125,174	122,497
Impairment and write-offs of intangible assets, property, plant and equipment, intangible assets and investment property	15	0
Gain or loss on disposal of property, plant and equipment	-147	-177
Finance income	-3,360	-3,149
Finance costs	5,715	6,054
Income tax expense and deferred tax	1,860	-1,217
Operating cash flow prior to changes in net working capital and provisions	152,801	154,068
Change in trade and other receivables	366	531
Change in deferred costs, accrued income and contract assets	7,086	-31,733
Change in other non-current assets	2,072	2,077
Change in inventories	-3,094	-3,673
Change in provisions	-4,034	-11,333
Change in long-term, short-term deferred income and contract liabilities	1,432	1,130
Change in accrued costs and expenses	3,859	4,499
Change in trade and other payables	-31,456	-15,820
Income tax paid	-1,356	-607
Net cash from operating activities	127,676	99,139
Cash flows from investing activities		
Receipts from investing activities	78,740	2,427
Sale of property, plant and equipment	1,042	1,839
Dividends received	169	253
Interest received	14	3
Disposal of non-current investments	424	257
Disposal of current investments	77,091	76
Disbursements from investing activities	-86,180	-91,940
Acquisition of property, plant and equipment	-48,798	-55,355
Acquisition of intangible assets	-30,648	-34,797
Acquisition of investments	-288	-1,787
Investments in subsidiaries and associates	-6,445	0
Interest-bearing loans	-1	-1
Net cash from investing activities	-7,440	-89,512
Cash flows from financing activities		
Receipts from financing activities	64,000	9,500
Current borrowings	64,000	9,500
Disbursements from financing activities	-205,241	-50,283
Loan originating costs and bond issued	0	-5
Repayment of non-current borrowings	-107,739	-13,125
Interest paid	-4,474	-4,617
Dividends paid	-93,028	-32,536
Net cash from financing activities	-141,241	-40,783
Net increase/decrease in cash and cash equivalents	-21,005	-31,156
Opening balance of cash	29,245	42,554
Closing balance of cash	8,240	11,398

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

The Group has begun applying 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 September 2018 is presented in accordance with the valid IFRS 15 Revenue from Contracts with Customers, while the periods ending 30 September 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
Subscriber acquisition costs (SAC)	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 September 2018:

Consolidated statement of financial position as at 30 September 2018

EUR thousand	As at 30 Sept 2018 according to IFRS 15	Adjustments as at 30 Sept 2018	As at 30 Sept 2018 according to IAS 18
ASSETS			
Intangible assets	197,347	23	197,370
Other non-current assets	662,661	0	662,661
Non-current contract assets	5,208	-5,208	0
Long-term contract assets	37,396	3,135	40,531
Deferred tax assets	43,763	-228	43,535
Total non-current assets	946,375	-2,278	944,097
Other short-term assets	195,887	0	195,887
Short-term contract assets	11,490	-11,490	0
Deferred expenses and accrued revenues	50,916	15,600	66,516
Total current assets	258,293	4,110	262,403
Total assets	1,204,668	1,832	1,206,500
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	54,953	2,032	56,985
<i>Retained earnings from previous years</i>	<i>30,316</i>	<i>1,695</i>	<i>32,011</i>
<i>Profit or loss for the current year</i>	<i>24,637</i>	<i>337</i>	<i>24,974</i>
Fair value reserve	-2,197	0	-2,197
Translation reserve	14	0	14
Equity attributable to owners of the Company	613,458	2,032	615,490
Non-controlling interest	-3,853	0	-3,853
Total capital	609,605	2,032	611,637
Long-term contract liabilities	11,960	-11,960	0
Long-term deferred income	2,782	11,760	14,542
Other non-current financial liabilities	327,081	0	327,081
Total non-current liabilities	341,823	-200	341,623
Short-term contract liabilities	1,565	-1,565	0
Income tax payable	204	0	204
Short-term deferred income	7,280	1,565	8,845
Other current financial liabilities	244,191	0	244,191
Total current liabilities	253,240	0	253,240
Total liabilities	595,063	-200	594,863
Total equity and liabilities	1,204,668	1,832	1,206,500

Consolidated income statement for the period ending 30 September 2018

EUR thousand	I - IX 2018 IFRS 15	I - IX 2018 adjustments	I - IX 2018 IAS 18
Operating revenue	538,118	-218	537,900
Other operating income	4,070	0	4,070
Cost of goods sold	-65,222	12,926	-52,296
Cost of materials and energy	-11,168	0	-11,168
Cost of services	-227,866	-13,320	-241,186
Employee benefits expense	-80,242	0	-80,242
Amortisation and depreciation expense	-125,174	0	-125,174
Other operating expenses	-4,757	896	-3,861
Total operating expenses	-514,429	502	-513,927
Dobiček iz poslovanja	27,759	284	28,043
Finance income	3,360	0	3,360
Finance costs	-5,714	0	-5,714
Profit before tax	-1		-1
	25,404	284	25,688
Income tax expense			
Deferred tax	-436	-9	-445
	-1,424	62	-1,362
	23,544	337	23,881
Profit attributable to:			
Owners of the company	24,637	337	24,974
Non-controlling interest	-1,093		-1,093
Earnings per share - basic and diluted (in EUR)	3.62	0.05	3.67

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

EUR thousand	I - IX 2018 IFRS 15	I - IX 2018 adjustments	I - IX 2018 IAS 18
Net profit for the period	23,544	337	23,881
<i>Other comprehensive income that may be reclassified subsequently to profit or loss</i>			
Translation reserve	14		14
Change in revaluation of available-for-sale financial assets	-9		-9
Deferred tax	2		2
Change in revaluation surplus of available-for-sale financial assets (net)	-7	0	-7
Changes in fair value of hedging instruments	-109		-109
Deferred tax	21		21
Net gain on changes in fair value of hedging instruments	-88	0	-88
Other comprehensive income for the period after tax	-81	0	-81
Total comprehensive income for the period	23,463	337	23,800

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
Total value				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. 9. 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 - IX 2018

EUR thousand	Slovenia	Other countries	Eliminations and adjustments	Consolidated
External sales	484,889	53,229	0	538,118
Intersegment sales	49,949	15,194	-65,143	0
Total segment revenue	534,838	68,423	-65,143	538,118
Other revenue	3,551	957	-438	4,070
Total operating expenses	-514,723	-65,006	65,300	-514,429
Operating profit per segment	23,666	4,374	-281	27,759
Share of profit or loss in associates and joint ventures	-1			-1
Finance income				3,360
Finance costs				-5,714
Profit before tax				25,404
Income tax expense				-436
Deferred tax				-1,424
Profit for the period				23,544

Other data by segment Balance as at 30 September 2018	Slovenia	Other countries	Eliminations and adjustments	Consolidated
Segment assets	1,275,181	144,991	-215,504	1,204,668
Segment liabilities	625,339	112,491	-142,767	595,063

EUR thousand	Slovenia	Other countries	Eliminations and adjustments	Consolidated
Mobile services in end-customer market	167,101	25,078	-710	191,469
Fixed-line telephone services on end-customer market	165,960	27,537	-943	192,554
New sources of revenue	3,216	0	-2	3,214
Wholesale market	135,767	15,587	-22,443	128,911
Other revenues and merchandise	62,790	221	-41,041	21,970
Total revenue	534,834	68,423	-65,139	538,118

EUR thousand	Slovenia	Other countries	Eliminations and adjustments	Consolidated
Revenues from sale of services	466,999	67,267	-61,028	473,238
Revenues from sale of goods	67,835	1,156	-4,111	64,880
Total revenue	534,834	68,423	-65,139	538,118

Operating segments I - IX 2017

EUR thousand	Slovenia	Other countries	Eliminations and adjustments	Consolidated
External sales	490,037	52,528	-519	542,046
Intersegment sales	62,571	17,242	-79,813	0
Total segment revenue	552,608	69,770	-80,332	542,046
Other revenue	4,075	719	-175	4,619
Total operating expenses	-528,572	-66,191	79,846	-514,917
Operating profit per segment	28,111	4,298	-661	31,748
Share of profit or loss in associates and joint ventures	2			2
Finance income				3,149
Finance costs				-6,056
Profit before tax				28,843
Income tax expense				-1,087
Deferred tax				2,304
Profit for the period				30,060

Other segment information at 31. 12. 2017	Slovenia	Other countries	Eliminations and adjustments	Consolidated
Segment assets	1,420,726	154,336	-223,068	1,351,994
Segment liabilities	701,859	138,283	-169,013	671,129

EUR thousand	Slovenia	Other countries	Eliminations and adjustments	Consolidated
Mobile services in end-customer market	170,807	25,346	-795	195,358
Fixed-line telephone services on end-customer market	149,980	26,722	-833	175,869
New sources of revenue	1,986	0	0	1,986
Wholesale market	140,728	17,496	-23,175	135,049
Other revenues and merchandise	89,107	206	-55,529	33,784
Total revenue	552,608	69,770	-80,332	542,046

EUR thousand	Slovenia	Other countries	Eliminations and adjustments	Consolidated
Revenues from sale of services	499,696	68,405	-74,431	493,670
Revenues from sale of goods	52,912	1,365	-5,901	48,376
Total revenue	552,608	69,770	-80,332	542,046

Net sales revenue

EUR thousand	I - IX 2018	I - IX 2017
Revenues from sale of services	473,238	493,670
Revenues from sale of goods	64,880	48,376
Total revenue	538,118	542,046

EUR thousand	I - IX 2018	I - IX 2017
Mobile services in end-customer market	191,469	195,358
Fixed-line telephone services on end-customer market	192,554	175,869
New sources of revenue	3,214	1,986
Wholesale market	128,911	135,049
Other revenues and merchandise	21,970	33,784
Total revenue	538,118	542,046

Net sales revenue was down by EUR 3,928 thousand during the period January to September 2018 relative to the same period last year. Other revenues and revenues from other merchandise were down by EUR 11,814 thousand, primarily due to the establishment of an electronic toll collection system during the comparable period, while revenues on the wholesale market were down by EUR 6,138 thousand due to a decrease in international voice services. Revenues in the mobile segment of the end-user market were also down, by EUR 3,889 thousand, primarily due to the shift of subscribers to more affordable packages and on account of EU regulations. Revenues in the fixed segment of the end-user market were up by EUR 16,685 thousand on account of broadband and IT services, while new revenue sources were up by EUR 1,228 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 - IX 2018	I - IX 2017
Telecommunications services	103,530	108,328
- network interconnection	26,998	26,862
- roaming	9,322	8,341
- international services	66,571	72,625
- other telecommunications services	639	500
Cost of leased lines	6,687	8,261
Multimedia services costs	25,046	20,001
Sale incentives	0	13,694
Sale commissions	2,441	3,081
Maintenance of property, plant and equipment	16,248	17,341
Lease of property, plant and equipment	10,147	10,228
Costs of trade fairs, marketing, sponsorship and entertainment	7,768	7,707
Professional and personal services	7,413	8,668
Refond of work-related costs	731	551
Insurance premiums	2,547	2,993
Cost of postal services and transportation	2,522	2,610
Banking services	860	790
Other services	41,926	42,744
Total cost of services	227,866	246,996

Costs of services were down by 8% or EUR 19,130 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 September 2018 due to the transition to new IFRS 15, which governs the recognition of revenue. The costs of the following items were down: telecommunication services, leased lines, intellectual and personal services, the maintenance of property, plant and equipment, other services, attracting customers, insurance premiums, communication services and the lease of property, plant and equipment. The costs of the following items were up: multimedia

content, reimbursements of work-related costs, banking services, and trade fairs, advertising, sponsorship and representation.

Operating profit and net profit

Operating profit (EBIT) was down EUR 3,989 thousand or 13% on the same period last year, to stand at EUR 27,759 thousand. A net profit of EUR 23,544 thousand was achieved for the accounting period (a decrease of 22% on the same period last year), in the context of a net financial loss of EUR 2,355 thousand.

Intangible assets

Intangible assets were down by the total amount of EUR 17,065 thousand relative to the end of 2017. Commitments for intangible assets totalled EUR 9,036 thousand as at 30 September 2018.

Property, plant and equipment

Property, plant and equipment totalled EUR 653,498 thousand as at 30 September 2018, accounting for 54% of total assets. Assets were down by EUR 25,741 thousand primarily as a result of the higher amount of depreciation charged compared with new acquisitions. Commitments for property, plant and equipment totalled EUR 7,239 thousand as at 30 September 2018.

Trade and other receivables

Trade and other receivables were down EUR 366 thousand relative to the balance at the end of 2017.

Financial instruments

Current financial assets in the amount of EUR 588 thousand were down by EUR 77,379 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 115 thousand.

Financial liabilities

Financial liabilities totalled EUR 342,030 thousand as at 30 September 2018, a decrease of EUR 46,967 thousand on the end of 2017, broken down as follows:

- borrowings received in the amount of EUR 240,579 thousand were down by EUR 43,563 thousand;
- liabilities for bonds issued in the amount of EUR 100,492 thousand were down EUR 459 thousand on the balance at the end of the year; and
- other liabilities in the amount of EUR 959 thousand, of which EUR 691 thousand relates to a hedge against exposure to interest-rate risk. Other financial liabilities were down by EUR 2,945 thousand relative to the end of 2017.

Fair value hierarchy

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

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

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

Carrying amount and fair value of financial instruments as at 30 September 2018

EUR thousand	Carrying amount	Fair value	Level 1	Level 2	Level 3
Non-current financial assets					
Investments in listed shares	1,787	1,787	1,787		
Investments in other shares and participating interests	3,011	3,011			3,011
Loans given	262	262			262
Current financial assets					
Loans given	131	131			131
Non-current financial liabilities					
	227	227			227
Bonds					
Borrowings	99,930	101,000	101,000		
Liabilities for interest rate swap	161,305	161,305			161,305
Current financial liabilities					
	691	691		691	
Bonds					
Interest on bonds	-42	-42			-42
Borrowings	604	604			604
Other financial liabilities	79,274	79,274			79,274
Loans given	195	195			195

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 in the period January to September 2018. Telekom Slovenije and T-2, d. o. o. reached a court-brokered settlement, under which mutual relations arising from the commercial dispute between the plaintiff T-2, d. o. o. and the defendant Telekom Slovenije for the payment of damages in the amount of EUR 129,556,756.00 and appertaining amounts, as well as other unsettled mutual relations, were put in order. By reaching that court-brokered settlement, the two companies no longer have any liabilities vis-à-vis one another in connection with the aforementioned dispute and other mutual relations.

Contingent liabilities from guarantees issued

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

- performance guarantees and warranty bonds in the amount of EUR 6,386 thousand, and
- other guarantees in the amount of EUR 409 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 members of the Supervisory Board) held 553 shares in Telekom Slovenije as at 30 September 2018, representing a holding of 0.00846%.

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. 9. 2018	31. 12. 2017
Outstanding operating receivables	5,539	3,875
Short-term accrued revenue	0	20,558
Outstanding operating liabilities	2,405	1,561

Revenues and expenses

EUR thousand	I - IX 2018	I - IX 2017
Operating revenue	18,052	27,450
Purchase costs of material and services	8,871	7,310

All transactions between related parties are executed at market prices.

Events after the reporting date

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

7.2. 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 September 2018

EUR thousand	I - IX 2018	I - IX 2017
Revenue	481,863	489,915
Other operating income	1,909	3,223
Cost of goods sold	-68,654	-52,749
Cost of material and energy	-8,055	-7,501
Cost of services	-213,565	-232,119
Employee benefits expense	-65,043	-67,095
Amortisation and depreciation expense	-99,142	-100,509
Other operating expenses	-4,405	-2,920
Total operating expenses	-458,864	-462,893
Profit from operations	24,908	30,245
Finance income	4,624	6,856
Finance costs	-5,506	-5,995
Profit before tax	24,026	31,106
Income tax expense	0	0
Deferred tax	-1,339	2,122
Net profit for the period	22,687	33,228

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

EUR thousand	I - IX 2018	I - IX 2017
Net profit for the period	22,687	33,228
<i>Other comprehensive income that may be reclassified subsequent to profit or loss</i>		
Change in revaluation of available-for-sale financial assets	-9	256
Deferred tax	2	-48
Change in revaluation surplus of available-for-sale financial assets (net)	-7	208
Changes in fair value of cash flow hedges	-109	-842
Deferred tax	21	160
Net gain on changes in fair value of cash flow hedges	-88	-682
Other comprehensive income for the period	-95	-474
Total comprehensive income for the period	22,592	32,754

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

v tisoč EUR	30. 9. 2018	31. 12. 2017
ASSETS		
Intangible assets	155,515	174,413
Property, plant and equipment	563,193	582,178
Investments in subsidiaries	51,079	36,079
Investments in associates and joint ventures	63	63
Other investments	83,446	85,407
Long term contract assets	4,619	0
Other non current assets	25,635	33,097
Investment property	3,968	4,006
Deferred tax assets	43,107	44,136
Total non-current assets	930,625	959,379
Assets held for sale	601	754
Inventories	22,295	18,106
Trade and other receivables	151,278	151,302
Short term contract assets	11,490	0
Deferred expenses and accrued revenues	46,182	68,929
Income tax credits	116	0
Current financial assets	27,485	121,731
Cash and cash equivalents	1,362	17,358
Total current assets	260,809	378,180
Total assets	1,191,434	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	66,180	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>22,687</i>	<i>1,720</i>
Fair value reserve for financial instruments	388	483
Fair value reserve for actuarial deficit and surplus	-2,539	-2,539
Total capital and reserves	622,684	694,355
Long term contract liability	11,920	0
Long term deferred income	2,111	12,547
Provisions	50,191	53,229
Non current operating liabilities	7,944	16,358
Interest bearing borrowings	161,213	168,796
Other non current financial liabilities	100,621	100,481
Deferred tax liabilities	222	224
Total non-current liabilities	334,222	351,635
Trade and other payables	95,757	121,195
Income tax payable	0	0
Interest bearing borrowings	80,758	115,189
Other current financial liabilities	746	4,296
Short term contract liability	1,565	0
Short term deferred income	3,507	4,307
Accrued costs and expenses	52,195	46,582
Total current liabilities	234,528	291,569
Total liabilities	568,750	643,204
Total equity and liabilities	1,191,434	1,337,559

Statement of changes in equity of Telekom Slovenije for the period ending 30 September 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									22,687				22,687
Other comprehensive income for the period										-7	-88	0	-95
Total comprehensive income for the period	0	0	0	0	0	0	0	0	22,687	-7	-88	0	22,592
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 September 2018	272,721	180,956	50,434	3,671	-3,671	54,544	0	43,493	22,687	948	-560	-2,539	622,684

Statement of changes in equity of Telekom Slovenije for the period ending 30 September 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	33,228	0	0	0	33,228
Other comprehensive income for the period	0	0	0	0	0	0	0	0	0	208	-682	0	-474
Total comprehensive income for the period	0	0	0	0	0	0	0	0	33,228	208	-682	0	32,754
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 September 2017	272,721	180,956	50,434	3,671	-3,671	54,544	132,294	3,729	33,228	886	-682	-1,828	726,282

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

EUR thousand	I - IX 2018	I - IX 2017
Cash flows from operating activities		
Profit	22,687	33,228
Adjustments for:		
Depreciation and amortisation	99,142	100,509
Gain or loss on disposal of property, plant and equipment	-141	-123
Finance income	-4,624	-6,856
Finance costs	5,506	5,995
Income tax expense and deferred tax	1,339	-2,122
Operating cash flow prior to changes in net working capital and provisions	123,909	130,631
Change in trade and other receivables	24	602
Change in deferred costs and accrued income	10,223	-31,106
Change in other non-current assets	4,476	2,486
Change in inventories	-3,250	-3,202
Change in provisions	-3,038	-12,711
Change in long-term and short-term deferred income	2,013	1,385
Change in accrued costs and expenses	4,548	6,018
Change in trade and other payables	-34,117	-11,633
Income tax paid	0	115
Net cash from operating activities	104,788	82,585
Cash flows from investing activities		
Receipts from investing activities	111,472	20,067
Sale of property, plant and equipment	1,035	1,700
Dividends received	169	253
Interest received	2,438	3,508
Disposal of non-current investments	30,739	11,223
Disposal of current investments	77,091	3,383
Disbursements from investing activities	-92,568	-96,010
Acquisition of property, plant and equipment	-41,289	-46,918
Acquisition of intangible assets	-21,774	-32,496
Acquisition of investments	-288	-1,787
Investments in subsidiaries and associates	-17,980	-3,620
Interest-bearing loans	-11,237	-11,189
Cash used in investing activities	18,904	-75,943
Cash flows from financing activities		
Receipts from financing activities	65,500	11,500
Current borrowings	65,500	11,500
Disbursements from financing activities	-205,188	-50,239
Loan originating costs and bond issue costs	0	-5
Repayment of non-current borrowings	-107,692	-13,079
Interest paid	-4,468	-4,619
Dividends paid	-93,028	-32,536
Cash flow used in financing activities	-139,688	-38,739
Net increase/decrease in cash and cash equivalents	-15,996	-32,097
Opening balance of cash	17,358	34,448
Closing balance of cash	1,362	2,351

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

The Company has begun applying 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 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 September 2018 is presented in accordance with the valid IFRS 15 Revenue from Contracts with Customers, while the periods ending 30 September 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
Subscriber acquisition costs (SAC)	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 September 2018:

Statement of financial position as at 30 September 2018

EUR thousand	As at 30 Sept 2018 according to IFRS 15	Adjustments as at 30 Sept 2018	As at 30 Sept 2018 according to IAS 18
Other non-current assets			
Non-current contract assets	857,264	0	857,264
Other non-current assets	4,619	-4,619	0
Deferred tax assets	25,635	3,148	28,783
Total non-current assets	43,107	-228	42,879
	930,625	-1,699	928,926
Other current assets	203,137	0	203,137
Current contract assets	11,490	-11,490	0
Current deferred expenses and accrued income	46,182	14,504	60,686
Total current assets	260,809	3,014	263,823
Total assets	1,191,434	1,315	1,192,749

Total assets	As at 30 Sept 2018 according to IFRS 15	Adjustments as at 30 Sept 2018	As at 30 Sept 2018 according to IAS 18
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	66,180	1,476	67,656
<i>Retained earnings from previous years</i>	43,493	1,235	44,728
<i>Profit or loss for the current year</i>	22,687	241	22,928
Fair value reserve	-2,151		-2,151
Total equity	622,684	1,476	624,160
Non-current contract liabilities	11,920	-11,920	0
Non-current deferred income	2,111	11,759	13,870
Other non-current liabilities	320,191	0	320,191
Total non-current liabilities	334,222	-161	334,061
Current contract liabilities	1,565	-1,565	0
Current deferred income	3,507	1,565	5,072
Other current liabilities	229,456	0	229,456
Total current liabilities	234,528	0	234,528
Total liabilities	568,750	-161	568,589
Total equity and liabilities	1,191,434	1,315	1,192,749

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

EUR thousand	I - IX 2018 IFRS 15	I - IX 2018 adjustments	I - IX 2018 IAS 18
Revenue	481,863	-526	481,337
Other operating income	1,909		1,909
Cost of goods sold	-68,654	12,090	-56,564
Cost of material and energy	-8,055		-8,055
Cost of services	-213,565	-12,281	-225,846
Employee benefits expense	-65,043		-65,043
Amortisation and depreciation expense	-99,142		-99,142
Other operating expenses	-4,405	896	-3,509
Total operating expenses	-458,864	705	-458,159
Profit from operations	24,908	179	25,087
Finance income	4,624		4,624
Finance costs	-5,506		-5,506
Profit before tax	24,026	179	24,205
Income tax expense	0	0	0
Deferred tax	-1,339	62	-1,277
Net profit for the period	22,687	241	22,928
Earnings per share - basic and diluted (in EUR)	3.49	0.04	3.52

Statement of other comprehensive income of Telekom Slovenije, d. d. for the period ending 30 September 2018

EUR thousand	I - IX 2018 IFRS 15	I - IX 2018 adjustments	I - IX 2018 IAS 18
Net profit for the period	22,687	241	22,928
Other comprehensive income that may be reclassified subsequent to profit or loss			
Change in revaluation of available-for-sale financial assets	-9		-9
Deferred tax	2		2
Change in revaluation surplus of available-for-sale financial assets (net)	-7	0	-7
Changes in fair value of cash flow hedges	-109		-109
Deferred tax	21		21
Net gain on changes in fair value of cash flow hedges	-88	0	-88
Other comprehensive income for the period	-95	0	-95
Total comprehensive income for the period	22,592	241	22,833

IFRS 9 Financial Instruments

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

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

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

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

* FV = fair value

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

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

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

Net sales revenue

EUR thousand	I - IX 2018	I - IX 2017
Sale of services	414,715	437,736
Sale of goods and materials	67,148	52,179
Total revenue	481,863	489,915

EUR thousand	I - IX 2018	I - IX 2017
Mobile services on end-customer market	167,101	170,807
Fixed-line telephone services on end-customer market	165,960	149,980
New sources of revenue	3,216	1,986
Wholesale market	134,627	140,728
Other revenue and other merchandise	10,959	26,414
Total revenue	481,863	489,915

Net sales revenue was down by EUR 8,052 thousand during the period January to September 2018 relative to the same period last year. Other revenues and revenues from other merchandise were down by EUR 15,455 thousand, primarily due to the establishment of an electronic toll collection system during the comparable period, while revenues on the wholesale market were down by EUR 6,101 thousand due to a decrease in international voice services. Revenues in the mobile segment of the end-user market were also down, by EUR 3,706 thousand, primarily due to the shift of subscribers to more affordable packages and on account of EU regulations. Revenues in the fixed segment of the end-user market were up by EUR 15,980 thousand on account of broadband and IT services, while new revenue sources were up by EUR 1,230 thousand.

Costs of services

EUR thousand	I - IX 2018	I - IX 2017
Telecommunications services	110,389	115,263
- network interconnection	21,961	20,341
- roaming	10,890	9,232
- international services	77,538	85,690
Cost of leased lines	9,984	11,367
Multimedia services costs	14,390	7,368
Sale incentives	0	11,701
Sale commissions	634	1,049
Maintenance of property, plant and equipment	18,287	19,959
Lease of property, plant and equipment	6,899	6,935
Costs of trade fairs, marketing, sponsorship and entertainment	7,213	6,615
Professional and personal services	5,380	5,056
Refond of work-related costs	423	320
Insurance premiums	2,207	2,614
Cost of postal services and transportation	2,328	2,404
Banking services	503	491
Other services	34,928	40,977
Total cost of services	213,565	232,119

Total costs of services were down by EUR 18,554 thousand relative to the level recorded during the same period in 2017. There were no costs of sales incentives during the reporting period January to September 2018 due to the transition to new IFRS 15, which governs the recognition of revenue. The costs of the following items were down: other services, telecommunication services, the maintenance of

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

Operating profit

Operating profit (EBIT) was down by EUR 5,337 thousand on the same period last year to stand at EUR 24,908 thousand.

Finance income

Finance income was down by 33% or EUR 2.232 thousand on the same period in 2017.

Finance costs

Finance costs were down by 8% or EUR 489 thousand on the same period in 2017.

Net profit

Net profit in the amount of EUR 22,687 thousand was down 32% or EUR 10,541 thousand on the period January to September 2017.

Intangible assets

Intangible assets primarily comprise concessions, licences, broadcasting rights, the costs of attracting customers and computer programmes, and were down by the total amount of EUR 18,898 thousand. Commitments for intangible assets totalled EUR 9,602 thousand as at 30 September 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 18,985 thousand was primarily the result of depreciation charged during the accounting period in the amount of EUR 57,346 thousand, while new acquisitions totalled EUR 42,345 thousand. Commitments for property, plant and equipment totalled EUR 22,698 thousand as at 30 September 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. In January 2018 the subsidiary GVO purchased a 100% participating interest in INFRATEL, d. o. o.

Trade and other receivables

Trade and other receivables were down EUR 24 thousand relative to the balance at the end of 2017.

Financial instruments

Current financial assets were down by EUR 94,246 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 1,961 thousand.

Financial liabilities

Financial liabilities totalled EUR 343,338 thousand as at 30 September 2018, a decrease of EUR 45,424 thousand on the end of 2017, broken down as follows:

- borrowings received in the amount of EUR 241,971 thousand were down by EUR 42,014 thousand;
- liabilities for bonds issued in the amount of EUR 100,492 thousand were down by EUR 459 thousand; and
- other liabilities in the amount of EUR 875 thousand, of which EUR 691 thousand relates to a hedge against exposure to interest-rate risk. Other financial liabilities were down by EUR 2,951 thousand relative to the end of 2017.

Fair value hierarchy

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

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

The fair values of financial instruments are compared with their carrying amounts in the table below.

Carrying amount and fair value of financial instruments as at 30 September 2018

EUR thousand	Carrying amount	Fair value	Level 1	Level 2	Level 3
Non-current financial assets					
Investments in listed shares	1,787	1,787	1,787		
Investments in other shares and participating interests	3,009	3,009			3,009
Loans given	78,650	78,650			78,650
Current financial assets					
Loans given	27,255	27,255			27,255
Non-current financial liabilities					
Bonds	99,930	101,000	101,000		
Borrowings	161,213	161,213			161,213
Liabilities for interest rate swap	691	691		691	
Current financial liabilities					
Bonds	-42	-42			-42
Interest on bonds	604	604			604
Borrowings	80,758	80,758			80,758
Other financial liabilities	184	184			184

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 in the period January to September 2018. Telekom Slovenije and T-2, d. o. o. reached a court-brokered settlement, under which mutual relations arising from the commercial dispute between the plaintiff T-2, d. o. o. and the defendant Telekom Slovenije for the payment of damages in the amount of EUR 129,556,756.00 and appertaining amounts, as well as other unsettled mutual relations, were put in order. By reaching that court-brokered settlement, the two companies no longer have any liabilities vis-à-vis one another in connection with the aforementioned dispute and other mutual relations.

Contingent liabilities from guarantees issued

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

- performance guarantees and warranty bonds in the amount of EUR 5,353 thousand, and
- guarantees as security for contractual obligations in the amount of EUR 2,136 thousand, and
- other guarantees in the amount of EUR 291 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	30.09.2018	31.12.2017
Receivables from Group companies	6,784	8,953
Subsidiaries	6,784	8,953
Loans to Group companies	105,529	124,478
Subsidiaries	105,529	124,478
Liabilities to Group companies	17,463	23,500
Subsidiaries	17,457	23,498
Joint ventures	6	2

EUR thousand	I - IX 2018	I - IX 2017
Net revenues within the Group	14,969	14,866
Subsidiaries	14,969	14,866
Purchase of materials and services within the Group	28,413	42,065
Subsidiaries	28,407	42,059
Joint ventures	6	6

Transactions with individuals

Natural persons (the President and a member of the Management Board, and members of the Supervisory Board) held 553 shares in Telekom Slovenije as at 30 September 2018, representing a holding of 0.00846%.

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	30.09.2018	31.12.2017
Outstanding operating receivables	5,320	3,649
Short-term accrued revenue	0	20,558
Outstanding operating liabilities	2,290	1,416

Revenues and expenses

EUR thousand	I - IX 2018	I - IX 2017
Operating revenue	17,125	26,686
Purchase costs of material and services	8,168	6,583

All transactions between related parties are executed at market prices.

Events after the reporting date

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

7.3. Financial risk management

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

Credit risk

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

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

Exposure to credit risk

EUR thousand	30.9. 2018	31.12. 2017
Loans given	393	889
Other current investments	457	77,510
Trade and other receivables	159,452	159,818
- <i>whereof trade receivables</i>	151,996	151,839
Cash and cash equivalents	8,240	29,245
Total	168,542	267,462

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 151,996 thousand as at 30 September 2018, an increase of EUR 157 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. 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),

Ageing structure of receivables as at the reporting date

EUR thousand	30 September 2018			31 December 2017		
	Gross value	Value adjustment	Net value	Gross value	Value adjustment	Net value
Total trade receivables	185,499	-33,503	151,996	188,240	-36,401	151,839
Undue trade receivables	123,776	0	123,776	126,075	0	126,075
Past due						
up to 30 days	14,729	-7	14,722	14,076	-4	14,072
31 to 60 days	4,234	-5	4,229	4,689	-11	4,678
61 to 90 days	1,386	-6	1,380	1,766	-13	1,753
91 to 120 days	959	-502	457	1,212	-480	732
More than 121 days	40,415	-32,983	7,432	40,422	-35,893	4,529
Total past due trade receivables	61,723	-33,503	28,220	62,165	-36,401	25,764
Other operating receivables	7,464	-8	7,456	7,987	-8	7,979
Total receivables	192,963	-33,511	159,452	196,227	-36,409	159,818

Maturity profile of loans given

EUR thousand	30. 9. 2018	31. 12. 2017
Undue	10	137
Past due:	383	752
- less than 3 months	59	82
- 3 to 12 months	62	
- 1 to 2 years	72	189
- 2 to 5 years	138	171
- more than 5 years	52	72
Total	393	889

Ageing structure of loans given as at 30 September 2018

EUR thousand	Undue	Past due					Total
		Less than 3 months	3 to 12 months	1 to 2 years	2 to 5 years	More than 5 years	
Loans given	383	10	0	0	0	0	393

Ageing structure of loans given as at 31 December 2017

v tisoč EUR	Undue	Past due					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 September 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 106 million as at 30 September 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 September 2018 and 31 December 2017 based on contractual non-discounted payments

EUR thousand	Past due	On demand	Less than 3 months	3 to 12 months	1 to 2 years	2 to 5 years	More than 5 years	Total
30. 9. 2018								
Loans and borrowings	0	0	7,711	71,708	15,385	146,247	-1	241,050
Anticipated interest on loans	0	0	1,641	1,639	2,712	2,614	0	8,606
Other financial liabilities	186	0	1	613	10	100,754	0	101,564
Anticipated interest in bonds	0	0	0	1,950	1,950	1,950	0	5,850
Trade payables and other operating liabilities	14,701	2,100	78,964	14,823	7,339	608	1,788	120,323
Total	14,887	2,100	88,317	90,733	27,396	252,173	1,787	477,393
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 30 September 2018 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 66.28% of interest-bearing financial liabilities as at 30 September 2018. The remaining liabilities are accounted for by issued bonds and drawn short-term revolving credit lines 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 September 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 59.65% of interest-bearing financial liabilities at the Group level.

Exposure to interest-rate risk

EUR thousand	30.9.2018	31.12.2017
Financial instruments with variable interest rate		
Financial receivables	0	344
Financial liabilities	137,626	192,540
Net financial liabilities	137,626	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 in EUR thousand
30.9.2018		
EURO	+100 bps	-757
EURO	-100 bps	-883
Interest rate increase/decrease		Effect on profit in EUR thousand
31.12.2017		
EURO	+100 bps	-1,150
EURO	-100 bps	-926

Value of EURIBOR

EURIBOR	Value as at 30.9.2018	Value as at 31.12.2017	Change in percentage
3-month	-0.319	-0.329	3.04
6-month	-0.267	-0.271	1.48

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	30.9. 2018	31.12.2017
Interest-bearing borrowings and other financial liabilities	342,030	388,997
Less current investments and cash with short-term deposits	-8,828	-107,212
Net debt	333,202	281,785
Equity	609,605	680,865
Balance sheet total	1,204,668	1,351,994
Debt/equity ratio	54.7%	41.4%
Equity/balance sheet total ratio	50.6%	50.4%