

## CORPORATE GOVERNANCE STATEMENT

Telekom Slovenije, d. d. [hereinafter: Telekom Slovenije] hereby issues its corporate governance statement in accordance with the fifth paragraph of Article 70 of the Companies Act, and the recommendations of the Corporate Governance Code and the Corporate Governance Code for Companies with Capital Assets of the State.

The corporate governance statement is an integral part of the audited annual report of the Telekom Slovenije Group and Telekom Slovenije, d. d. for 2018. It relates to the period 1 January 2018 to 31 December 2018. The corporate governance statement is accessible in electronic form, for a minimum of five years from the date of its publication, on the Company's website at <https://www.telekom.si/en> and in the Ljubljana Stock Exchange's electronic information system at [http://seonet.ljse.si/default\\_en.aspx?language=en](http://seonet.ljse.si/default_en.aspx?language=en).

During the 2018 financial year, the governance of Telekom Slovenije was based on valid legislation, the rules and recommendations of the Ljubljana Stock Exchange, the recommendations of Slovenski državni holding, d. d., best practices, the publicly accessible Corporate Governance Policy of Telekom Slovenije, d. d. and the Company's internal acts.

## CORPORATE GOVERNANCE POLICY

Corporate governance at Telekom Slovenije and within the Telekom Slovenije Group is based on the following principles and guidelines:

- the Corporate Governance Policy of Telekom Slovenije, d. d., adopted in December 2011 and updated on 22 February 2017, and
- the Corporate Governance Rulebook of the Telekom Slovenije Group of 22 August 2017, which replaced the Corporate Governance Rulebook of the Telekom Slovenije Group from 2014.

The Corporate Governance Policy defines a system for segregating responsibilities and competences between members of management and supervisory bodies, the role of Supervisory Board's committees and the protection of employees' interests. It also defines groups of stakeholders, a strategy for communication and cooperation with those groups, a policy governing links between the Company and its subsidiaries, and a commitment to identify conflicts of interest and to ensure the independence of members of the Supervisory Board and Management Board.

The Supervisory Board and Management Board adopted updates to the Corporate Governance Policy, taking into account current guidelines in the area of corporate governance, as well as binding regulations and best practices.

The Corporate Governance Rulebook of the Telekom Slovenije Group defines the rules, criteria and mechanisms for managing and supervising companies in the Telekom Slovenije Group [i.e. Group Corporate Governance].

Subsidiaries of Telekom Slovenije comply with the Corporate Governance Code for Companies with Capital Assets of the State and the Recommendations and Expectations of Slovenski državni holding via the Corporate Governance Rulebook of the Telekom Slovenije Group, which is binding for all Telekom Slovenije Group companies. The same high standards of corporate governance that apply to Telekom Slovenije are applied in the management and governance of subsidiaries.

The Management Board and Supervisory Board function in accordance with the law and other regulations, the Articles of Association of Telekom Slovenije, d. d. [hereinafter: the Articles of Association], and the rules of procedure of the Management Board and Supervisory Board.

The Corporate Governance Policy of Telekom Slovenije, d. d., the rules of procedure of the Management Board and the other documents linked to corporate governance are publicly accessible at the website <https://www.telekom.si/en>. under: <https://www.telekom.si/aboutcompany/Corporate-Governance-Policy-of-Telekom-Slovenije-feb-2017.pdf>.

## STATEMENT OF COMPLIANCE WITH CODES AND RECOMMENDATIONS

Telekom Slovenije, as a public interest entity whose securities are traded on the regulated securities market, and as a company with capital assets of the State, took into account the corporate governance recommendations set out in the following documents to the greatest extent possible during the 2018 financial year:

- the **Corporate Governance Code** adopted by the Ljubljana Stock Exchange and the Slovenian Directors' Association on 27 October 2016. The code entered into effect on 1 January 2017 and is published on the website [www.ljse.si](http://www.ljse.si);
- the **Corporate Governance Code for Companies with Capital Assets of the State**, which was adopted by Slovenski državni holding, d. d. in May 2017, and the **Recommendations and Expectations of Slovenski državni holding** from March 2018 (both documents are published on the website [www.sdh.si](http://www.sdh.si) and
- the **Recommendations to Public Companies Regarding Notification** adopted by the Ljubljana Stock Exchange on 8 May 2017. Those recommendations are published on the website [www.ljse.si](http://www.ljse.si).

In its work and operations, Telekom Slovenije also complies with the guidelines set out in the Code of Ethics of the Telekom Slovenije Group of 1 February 2017 (published on the Company's website at <https://www.telekom.si/en>).

### STATEMENT OF COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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

#### External assessment of the adequacy of the corporate governance statement

##### Recommendation 5.7:

Telekom Slovenije deviates in part from this recommendation. Telekom Slovenije has not yet commissioned an external assessment of the adequacy of its corporate governance statement.

#### Chairman of the Supervisory Board

##### Recommendation 15.3:

Telekom Slovenije deviates in part from this recommendation, as the President of its

Supervisory Board also chairs the Strategy Committee.

#### Publication of rules of procedure of bodies

##### Recommendation 29.9:

Telekom Slovenije deviates in part from this recommendation, as it has not published the rules of procedure of certain bodies on its website.

### STATEMENT OF COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE FOR COMPANIES WITH CAPITAL ASSETS OF THE STATE

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

#### Supervisory board

##### Recommendation 6.13.2:

Telekom Slovenije deviates in part from this recommendation. Given the current relevance and complexity of individual matters, the Supervisory Board's Audit Committee met at an average of one session a month, which exceeds the recommended number.

#### Transparency of operations and reporting

##### Recommendation 8.3:

Telekom Slovenije deviates in part from this recommendation. The Company does not disclose the employment earnings of employee representatives of the Supervisory Board in its annual report because it does not have their consent. Telekom Slovenije and Telekom Slovenije Group companies disclose the earnings of management and supervisory bodies in their annual reports in accordance with the provisions of the Access to Public Information Act.

## STATEMENT OF COMPLIANCE WITH THE RECOMMENDATIONS AND EXPECTATIONS OF SLOVENSKI DRŽAVNI HOLDING

Telekom Slovenije explains below deviations from individual recommendations and expectations:

### **Three-year business planning of a company/group/ subsidiaries in a group – point 1**

Telekom Slovenije deviates in part from this recommendation, as it treats its annual and strategic business plans as trade secrets. Their disclosure would have an adverse impact on the competitive position of both Telekom Slovenije and the Telekom Slovenije Group. A summary of the strategy and plan of the Telekom Slovenije Group for 2019 with projections for the period 2020 to 2023 is published by Telekom Slovenije in the Ljubljana Stock Exchange's SEOnet system and on the Company's website.

### **Quarterly reporting on the performance of a company/group/ subsidiaries in a group – point 2**

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

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

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

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

### **Optimisation of costs – point 4**

Telekom Slovenije deviates in part from this recommendation, as data regarding labour costs are disclosed in annual reports. Binding collective agreements and agreements concluded with employee representatives that relate to remuneration for work are not published because Telekom Slovenije does not have the consent of employee representatives for such publication.

### **Achieving quality and excellence in the operations of companies/groups – point 5**

The Company deviates in part from this recommendation, as the only self-assessment of business excellence according to the EFQM model carried out in 2016 was performed for Telekom Slovenije. Comparison with previous years will be possible following the next self-assessment.

## MANAGEMENT AND SUPERVISORY BODIES

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

## GENERAL MEETING OF SHAREHOLDERS AND SHAREHOLDERS' RIGHTS

Telekom Slovenije ensures the equal treatment of shareholders and the consistent exercising of the rights of all Telekom Slovenije shareholders, regardless of whether shareholders are legal entities or natural persons, institutional investors, local or foreign shareholders, the State and/or the manager of the State's capital investments. This is ensured through the corporate governance system and the communication strategy for shareholders and other stakeholders.

The General Meeting of Shareholders is convened when it benefits the Company or whenever required in accordance with the law and Articles of Association, at a minimum once a year. The date that the convening of the General Meeting of Shareholders is published on the website of the Agency of the Republic of Slovenia for Public Legal Records and Related Services is deemed the official date of that convocation and the date from which the deadlines set out in the ZGD-1 apply. Shareholders exercise their rights at the General Meeting of Shareholders in person or through authorised representatives.

The convening, competences and functioning of the General Meeting of Shareholders are set out in the ZGD-1, the Company's Articles of Association and the rules of procedure of the General Meeting of Shareholders.

Shareholders have the right to participate in the management of the Company, the right to dividends and the right to an appropriate share of residual assets after the Company's liquidation or bankruptcy.

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

Shareholders who are entered in the central register of securities at KDD (Central Securities Clearing Corporation) at the close of business four days prior to the General Meeting of Shareholders (cut-off day) are entitled to participate and vote at the General Meeting of Shareholders, if they have registered in writing at the Company's registered office at least three days prior to the General Meeting of Shareholders.

## WORK OF THE GENERAL MEETING OF SHAREHOLDERS

The convening of the 29th General Meeting of Shareholders was published on the website of the Agency of the Republic of Slovenia for Public Legal Records and Related Services, together with comprehensive materials on the Company's website at <https://www.telekom.si/Documents/Convocation%20of%20the%2029th%20General%20Meeting%20of%20Telekom%20Slovenije.pdf> and in the stock exchange's electronic information system at <http://seonet.ljse.si>. Shareholders were afforded the opportunity to view the full materials for the General Meeting of Shareholders in the information office at the Company's registered office, from the day of publication of the convening of the General Meeting of Shareholders until the day thereof. The timely publication of materials for

the General Meeting of Shareholders and proper procedures for the convening of the General Meeting of Shareholders enabled shareholders to actively exercise their rights.

Shareholders may submit requests to [skupscina@telekom.si](mailto:skupscina@telekom.si) for additional items on the agenda, proposed resolutions and voting proposals, as well as written registration forms for participation at the General Meeting of Shareholders.

The shareholders of Telekom Slovenije met at the 29th General Meeting of Shareholders held on 11 May 2018, where they:

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

No challenges were announced.

The resolutions of the General Meeting of Shareholders and documentation from previous meetings are published on the Company's website. According to the Company's <https://www.telekom.si/en/investor-relations/financial-calendar>, the 30th General Meeting of Shareholders for 2019 is planned for 30 August 2019.

## MANAGEMENT BOARD

### COMPOSITION OF THE MANAGEMENT BOARD

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

by the Supervisory Board may be appointed as a member of the Management Board. These conditions do not apply to the Worker's Director as member of the Management Board. Those conditions and criteria are defined jointly by the Supervisory Board and Works Council.

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

### Composition of the Management Board in 2018–2019:

Name	Office	Area of work on the Management Board	First appointment to function	Completion of function / term of office	Gender	Nationality	Year of birth	Education / professional profile	Membership in supervisory bodies of unaffiliated companies
<b>Rudolf Skobe, MSc</b>	President	Management Board Office, Human Resource Management, Internal Audit, Public Relations, Legal Affairs, Strategy and Regulation, Security, Product House and the subsidiary IPKO. Also the following areas following the expiration of the term of office of member of the Management Board Aleš Aberšek: Finance and Accounting, Controlling, Wholesale, Procurement, Real Estate, Logistics and General Affairs, and the subsidiaries TSmedia, Soline, Antenna TV SL and TSinpo.	1 September 2012	1 September 2020	Male	Slovenian	1973	Holds a master's degree in management and organisation, and a bachelor's degree in electrical engineering.	Member of the board of directors of the Olimpija Ljubljana basketball club.
<b>Tomaž Seljak, MSc</b>	Vice-President	Application Solutions, Core Network, Access Networks, and the subsidiaries GVO, SIOL Zagreb, SIOL Podgorica, SIOL Sarajevo, SIOL Skopje and SIOL DOO Belgrade.	1 May 2014	1 May 2022	Male	Slovenian	1972	Holds a master's degree and bachelor's degree in electrical engineering.	
<b>Ranko Jelača</b>	Member	B2C, B2B, Central Marketing, and the subsidiaries Avtenta and Blicnet.	15 March 2016	15 March 2020	Male	Slovenian/Croatian	1977	Holds a bachelor's degree in economics.	Member of the Supervisory Board of IEDC – Bled Business School and member of the strategic council of ABCITI, družba za investiranje.
<b>Dean Žigon</b>	Member and Workers' Director	Responsibilities derive directly from the law.	24 April 2018	24 April 2023	Male	Slovenian	1971	General secondary education in the field of retail management.	
<b>Dr Vida Žurga</b>	Member	Finance and Accounting, Controlling and Regulation, Wholesale, Procurement, Real Estate and General Affairs, and the subsidiaries TSmedia and Antenna TV SL.	1 February 2019	1 February 2023	Female	Slovenian	1984	Holds a doctorate degree in science and a bachelor's degree in economics, and is an experienced internal auditor.	
<b>Aleš Aberšek</b>	Member	Finance and Accounting, Controlling, Wholesale, Procurement, Real Estate, Logistics and General Affairs, and the subsidiaries TSmedia, Soline, Antenna TV SL and TSinpo.	15 March 2016	20 April 2018	Male	Slovenian	1977	Holds a bachelor's degree in economics.	Member of the supervisory boards of Gorenjska banka and Skupna pokojninska družba until 30 August 2018; and Member of the Ljubljana Stock Exchange's board of issuers until 8 July 2018.
<b>Vesna Lednik</b>	Member of the Management Board and Workers' Director	Responsibilities derive directly from the law.	23 April 2014	23 April 2018	Female	Slovenian	1973	High school graduate / student of entrepreneurship and international business.	

## WORK OF THE MANAGEMENT BOARD

The Management Board manages transactions and represents the Company independently, and is liable for its own actions in that regard. It makes decisions that are in line with the Company's strategic objectives and in the interest of shareholders, taking into account the principles of sustainable development and the interests of other stakeholders.

The Management Board met at 63 regular and 23 correspondence sessions in 2018. It drew up the Strategic Business Plan of the Telekom Slovenije Group for the period 2019 to 2023, and carried out activities to achieve the objectives set out in the current strategic plan. It also adopted a decision to purchase a 6.89% participating interest in IPKO Telecommunications LLC, whereby Telekom Slovenije became 100% owner of the aforementioned company, and a decision to recapitalise IPKO, as well as a decision to sell the 100% participating interest in Blicnet, d. o. o., Banja Luka. It also adopted numerous business decisions and carried out activities that included the following:

- ensuring development and the achievement of established objectives;
- the expansion of activities and the portfolio to new areas, in particular information security, eHealth and financial services;
- the introduction of new and upgraded services;
- improvement of the user experience;
- the upgrading of the comprehensive portfolio of ICT services;
- the expansion and upgrading of technologies and networks;
- accelerated digitalisation;
- optimisation of the staffing structure; and
- optimisation of processes and operations.

## REMUNERATION OF THE MANAGEMENT BOARD

The remuneration, composition and amount of earnings of the Management Board are set out in members' employment contracts and are in line with the Act Governing the Earnings of Management Staff at Companies Under the Majority Ownership of the Republic of Slovenia and Self-Governing Local Communities [ZPPOGD].

The Supervisory Board sets objectives for the Management Board for every financial year.

The bases for setting those objectives are the approved annual business plan and certain key indicators. The Management Board's objectives comprise quantitative and qualitative objectives, as well as financial and non-financial objectives that are defined for the purpose of monitoring the work of Management Board members. That work focuses on the long-term success of the Company and the Group.

The conditions for profit sharing by the Management Board are governed by the Articles of Association. The earnings of the Management Board in 2018 are presented in point [42 of the financial report](#).

## SUPERVISORY BOARD

### COMPOSITION OF THE SUPERVISORY BOARD

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

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

In 2018 the Supervisory Board was briefed on the letter of resignation of member of the Supervisory Board and employee representative Dean Žigon, who resigned from his office, effective 22 January 2018. On 14 February 2018 Telekom Slovenije's Works Council appointed Urban Škrjanc to serve as employee representative on the Supervisory Board. In September 2018 the Works Council recalled Samo Podgornik, Primož Per and Urban Škrjanc from their positions on the Supervisory Board as employee representatives, and appointed Drago Kijevčanin, Dušan Pišek and Jana Žižek Kuhar as new employee representatives. Their term of office began on 19 September 2018. They were appointed for the remainder of the previous term of office, which expires on 14 November 2021.



**The Supervisory Board comprised the following members in 2018**

Name	Office	First appointment to function	Completion of function / term of office	Gender	Nationality	Year of birth	Education / professional profile	Independence according to Article 23 of the Code	Existence of conflicts of interest during the financial year	Membership in supervisory bodies of other companies	Employment
<b>Shareholder representatives</b>											
<b>Lidija Glavina</b>	President	27 April 2017	27 April 2021	Female	Slovenian/Italian	1969	Dottore Magistrale, Italy [comparable with second-cycle higher education in the Republic of Slovenia]	YES	NO		President of the Management Board of Slovenski državni holding, d. d.
<b>Bernarda Babič, MSc</b>	Vice-President	27 April 2013	27 April 2021	Female	Slovenian	1966	Holds a master's degree in business policy and organisation, with a major in banking.	YES	NO	Terme Olimia, d. d., Abanka d.d. from 1.1. till 5. 7. 2018	Assistant to the Managing Director of Slovenske železnice, d. o. o.
<b>Barbara Gorjup, MSc</b>	Member	27 April 2017	27 April 2021	Female	Slovenian	1973	Holds a master's degree in international economics.	YES	NO	HSE, d. o. o.	Managing Director of Baklus, d. o. o.
<b>Barbara Kürner Čad</b>	Member	27 April 2017	27 April 2021	Female	Slovenian	1964	Holds a bachelor's degree in law.	YES	NO		Attorney at the Čad Law Firm
<b>Dimitrij Marjanović</b>	Member	13 May 2016	13 May 2020	Male	Slovenian	1970	Holds a bachelor's degree in economics.	YES	NO	Iskra ESV, d. d.	Director of the Financial Management Department at Slovenski državni holding, d. d.
<b>Ljubomir Rajšič</b>	Member	27 April 2017	27 April 2021	Male	Serbian	1949	Holds a bachelor's degree in electrical engineering.	YES	NO	NO	Retired
<b>Employee representatives</b>											
<b>Drago Kijevčanin</b>	Vice-President	19 September 2018	14 November 2021	Male	Slovenian	1964	Telecommunications engineer	YES	NO	NO	Telekom Slovenije, Core Network, ICT Infrastructure, President of the SELEKS trade union, member of the Works' Council.
<b>Dušan Pišek</b>	Member	19 September 2018	14 November 2021	Male	Slovenian	1964	Telecommunications engineer	YES	NO	NO	Telekom Slovenije, Core Network, Head of the ICT Services Team, President of the Works' Council.
<b>Jana Žižek Kuhar</b>	Member	19 September 2018	14 November 2021	Female	Slovenian	1974	Holds a degree in economics.	YES	NO	NO	Telekom Slovenije, Procurement, Real Estate, Logistics and General Affairs, member of the Works Council.
<b>Dean Žigon</b>	Vice-President	14 November 2013	22 January 2018	Male	Slovenian	1971	General secondary education in the field of retail management.	YES	NO		Telekom Slovenije, B2B, President of the NEKS trade union and member of the Works Council.
<b>Samo Podgornik</b>	Member	15 May 2014	18 September 2018	Male	Slovenian	1965	General secondary education in the field of electrical and electronic engineering.	YES	NO	NO	Telekom Slovenije, Access Networks, President of the Nova Gorica chapter of Telekom Slovenije's trade union, and member of the Works Council.
<b>Primož Per</b>	Member	15 May 2014	18 September 2018	Male	Slovenian	1974	Holds a master's degree in technical security engineering.	YES	NO	NO	Telekom Slovenije, Human Resource Management and member of the Works Council.
<b>Urban Škrjanc</b>	Member	14 February 2018	18 September 2018	Male	Slovenian	1978	High school graduate.	YES	NO	NO	Telekom Slovenije, B2C, Field Sales

## WORK OF THE SUPERVISORY BOARD

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

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

The Supervisory Board performed its work in accordance with the powers and competences prescribed by the law, the Company's Articles of Association and its own rules of procedure. Members are fully liable for the performance of their supervisory function and make their decisions independently. All members of the Supervisory Board submitted statements of compliance with the criteria of independence in accordance with the Corporate Governance Code [the statements are published on the Company's website at: <http://www.telekom.si/Documents/izjave-neodvisnost-clana-NS-Kodeks-javnih-dd-maj2017-vidnejse.pdf>].

## COMPOSITION AND FUNCTIONING OF SUPERVISORY BOARD COMMITTEES

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

The **Audit Committee** assists the Supervisory Board in its supervision of financial reporting, internal controls and risk management, and in cooperation with external and internal auditors. The Audit Committee's key tasks with respect to corporate governance are to function for the good of the Company and to protect the interests of its stakeholders. Information regarding the members of the Audit Committee who are also members of

the Supervisory Board is presented in the table detailing the members of the Supervisory Board on page 7, while information regarding external members is presented in tables detailing the members of committees.

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

It performed the following tasks at sessions:

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



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

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

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

self-assessment and adopted an action plan of improvements.

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

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

Information regarding the members of the Audit Committee who are also members of the Supervisory Board is presented in the table detailing the members of the Supervisory Board on page 7, while information regarding the external member is presented in the table below:

Name	Nationality	Level of education	Year of birth	Professional profile	Membership in supervisory bodies of other companies
<b>Barbara Nose</b>	Slovenian	Holds a bachelor's degree in economics and specialises in the auditing of accounting.	1964	Auditing and accounting.	Member of the Supervisory Board of Luka Koper, d. d.

The **Technical Committee** met at two sessions in 2018. It discussed the investment plan and strategic policies in the area of technology for the coming period.

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

- Ljubomir Rajšič (chairman),
- Barbara Gorjup, MSc,
- Dušan Pišek, and
- Slavko Ovčina (external member).

Information regarding the members of the Technical Committee who are also members of the Supervisory Board is presented in the table detailing the members of the Supervisory Board on page 7, while information regarding the external member is presented in the table below:

Name	Nationality	Level of education	Year of birth	Professional profile	Membership in supervisory bodies of other companies
<b>Slavko Ovčina</b>	Slovenian	Holds a bachelor's degree as an IT organiser-manager.	1978	IT	/

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

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

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

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

- Barbara Kürner Čad (chairperson),
- Lidija Glavina,
- Dimitrij Marjanović, and
- Drago Kijevčanin.

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

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

- Lidija Glavina (chairperson),
- Barbara Kürner Čad,
- Ljubomir Rajšić, and
- Jana Žižek Kuhar.

Information regarding the members of the Strategy Committee is presented in the table detailing the members of the Supervisory Board on page 7.

## REMUNERATION OF SUPERVISORY BOARD MEMBERS

Supervisory Board members are entitled to attendance fees, basic payment for performing their functions and additional payments for participation in Supervisory Board committees. The remuneration of members of the Supervisory Board is defined by a resolution of the General Meeting of Shareholders. Also defined are the maximum annual amounts of and eligibility criteria for the reimbursement of transportation expenses, daily allowances and costs of overnight stays. The amounts of payments made to members of the Supervisory Board are disclosed in the financial report.

At the beginning of 2017 (or when they assumed their function), every member of the Supervisory Board submitted a statement of compliance with the criteria of independence according to point C.3 of the appendix to the Corporate Governance Code. Those statements are accessible at <https://www.telekom.si/en/about-us/company/corporate-governance>.

## DIVERSITY POLICY

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

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

Pursuant to the fifth paragraph of Article 70 of the Companies Act [hereinafter: the ZGD-1], Telekom Slovenije hereby issues the following explanations:

### MAIN FEATURES OF THE COMPANY'S INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS IN RELATION TO THE FINANCIAL REPORTING PROCESS

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

In connection with the financial reporting process, the system of internal controls ensures the appropriate management of risks, and reliable, timely and transparent external and internal financial reporting that is in accordance with the law, the International Financial Reporting Standards and regulations, and the guidelines

and policies adopted by the Management Board. Information support is provided for the accounting process. Internal controls are therefore linked with controls built into the IT infrastructure, which comprises controls over restrictions on access to data and applications, and controls over the accuracy and completeness of data capture and processing.

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

## DATA AND EXPLANATIONS RELATED TO THE MERGERS AND ACQUISITIONS ACT

### **Structure of Telekom Slovenije's share capital**

There were no changes to the structure of share capital in 2018. The value of Telekom Slovenije's share capital is EUR 272,720,664.33 and is divided into 6,535,478 ordinary registered no-par-value shares. All shares constitute one class and are issued in dematerialised form. Each share represents the same stake and corresponding amount in share capital, while all shares have been paid up in full. Each share gives its holder the right to one vote at the General Meeting of Shareholders, a proportionate share of profits (payment of dividends) and a proportionate share of residual assets after the liquidation or bankruptcy of the Company. Shares are

listed on the prime securities market of the Ljubljana Stock Exchange. Detailed information regarding shares and the ownership structure is presented in section 1.13 [[Share trading and ownership structure](#)] of the 2018 annual report of the Telekom Slovenije Group and Telekom Slovenije, d. d.

### **Restrictions on the transfer of shares**

All shares are freely transferable.

### **Qualifying holdings according to the Takeovers Act**

There were two holders of a qualifying holding as set out in the Takeovers Act as at 31 December 2018: the Republic of Slovenia with 4,087,569 shares or 62.54% of the issuer's share capital and Kapitalska družba, d. d. with 365,175 shares or 5.59% of the issuer's share capital.

### **Holders of securities that provide special controlling rights**

Telekom Slovenije has not issued securities that would provide special controlling rights.

### **Share scheme for shareholders**

Telekom Slovenije does not have a share scheme for shareholders.

### **Agreements between shareholders that might place any limit on the transfer of securities or voting rights**

Telekom Slovenije is not aware of any such agreements.

### **Rules on the Appointment and Replacement of Members of Management and Supervisory Bodies**

The Supervisory Board appoints members of the Management Board in accordance with its legal powers and statutory provisions. To that end, it prudently and responsibly assesses the fulfilment of the required qualifications. In accordance with the above, the Supervisory Board also defined the candidate selection process, additional conditions that candidates must meet and procedures for determining the appropriateness of candidates in the Criteria and Procedures for Determining the Appropriateness of Candidates for Members of the Management Board.

The Supervisory Board formulated criteria and professional profiles for members of the Company's Supervisory Board (competence profile) in June 2016, taking into account the specific nature of the Company.

### Rules on Amendments to the Articles of Association

Telekom Slovenije does not have any special rules governing changes to its Articles of Association. Changes to the Company's Articles of Association are made in accordance with the law and the Articles of Association themselves.

### Special agreements that come into effect, are amended or terminated on the basis of a change in control at the Company as the result of a bid as defined by the act governing mergers and acquisitions

Telekom Slovenije is not aware of any such agreements.

### Agreements concluded between the Company and the members of its management or supervisory body or employees that envisage compensation if they resign or are laid off without justification in the event of a bid as set out in the act governing mergers and acquisitions or if their employment is terminated

Telekom Slovenije has no such agreements in accordance with the Takeovers Act.

Telekom Slovenije constantly strives to improve corporate governance practices in its operations, including proactive corporate communication with various stakeholders. The Company communicates in the manner set out in Telekom Slovenije, d. d.'s Corporate Governance Policy and the Communications Strategy of Telekom Slovenije, d. d.

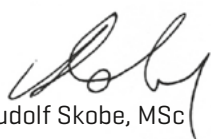
With the listing of its shares on the prime market of the Ljubljana Stock Exchange, Telekom Slovenije undertook to comply with the relevant reporting standards. Telekom Slovenije once again provided investors with high-quality, timely, relevant and reliable information in 2018.

Telekom Slovenije systematically implements activities in the area of corporate governance with the aim of ensuring the compliance of its operations with the law, regulations and internal acts. Telekom Slovenije implements compliance-related activities primarily in the following areas:

- the prevention of corruption and conflicts of interest,
- competition law,
- data protection, and
- the prevention of money laundering.

The compliance management system includes the establishment of bodies for the implementation of the compliance assurance function, the adoption, implementation and maintenance of documents related to compliance and integrity, and the definition of activities to implement the compliance assurance function.

Telekom Slovenije will continue to strive in the future to comply with and introduce the highest standards and best practices in the area of corporate governance, both at Telekom Slovenije and the other companies of the Telekom Slovenije Group.



Rudolf Skobe, MSc  
President of the  
Management Board



Lidija Glavina,  
President of the  
Supervisory Board