MTEL A.D. BANJA LUKA

Consolidated Financial Statements
Year Ended December 31, 2015 and
Independent Auditors' Report

Translation of the Auditors' Report issued in the Serbian language

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Translation of the Auditors' Report issued in the Serbian language

INDEPENDENT AUDITORS' REPORT

To the Management Board and Shareholders of Mtel a.d., Banja Luka

We have audited the accompanying consolidated financial statements (pages 2 to 56) of Mtel a.d., Banja Luka and its subsidiaries (hereinafter jointly referred to as: the "Group"), which comprise the consolidated statement of financial position as at December 31, 2015, and the consolidated statement of profit and loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit so as to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Mtel a.d. Banja Luka and its subsidiaries as at December 31, 2015, and their financial performance and cash flows for the year then ended, in accordance with the International Financial Reporting Standards.

Deloitte d.o.o.
Banja Luka

March 21, 2016

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME
Year Ended December 31, 2015
(In BAM)

	Notes	Year Ended December 31, 2015	Year Ended December 31, 2014
Sales of goods and services	5	467,862,447	481,746,046
Share in the profit of the associate	15	137,357	466,668
Other operating income	6	5,869,459	6,131,185
Total operating income		473,869,263	488,343,899
Cost of materials, combined services and merchandise	7	(63,731,541)	(52,459,266)
Staff costs	8	(79,993,994)	(77,136,536)
Depreciation and amortization charge	13, 14	(95,924,927)	(99,253,182)
Cost of production services	9	(122,204,558)	(111,408,508)
Other operating expenses	10	(29,553,713)	(27,043,160)
Total operating expenses		(391,408,733)	(367,300,652)
Profit from operations		**82,460,530**	**121,043,247**
Expenses incurred in damage and destruction of assets due to natural catastrophes – flooding	11	**-**	**(6,475,845)**
Finance income	12	4,862,850	4,960,543
Finance expense	12	(1,959,908)	(1,338,459)
Finance income, net		2,902,942	3,622,084
Profit before taxes		**85,363,472**	**118,189,486**
Income tax expense	35 (a)	(9,037,141)	(11,803,631)
Profit for the year		**76,326,331**	**106,385,855**
Other comprehensive income, net of income tax:			
(a) Items that may be subsequently reclassified to profit or loss:			
Losses on financial assets available for sale	16	(826)	(771)
Total other comprehensive income, net of income tax		(826)	(771)
Total comprehensive income for the year		**76,325,505**	**106,385,084**
Earnings per share:			
- Basic and diluted earnings per share	37	0.1553	0.2165

Notes on the following pages form an
integral part of these consolidated financial statements.

The accompanying consolidated financial statements of the Group were established by the Management of Mtel a.d., Banja Luka on February 29, 2016.

Signed on behalf of the Company and the Group by:

Nikola Rudović,
Legal Representative of the Company,
Executive Director for Operations

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Jasmina Lopičić
Chief Financial Officer

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As of December 31, 2015
(In BAM)

	Notes	December 31, 2015	December 31, 2014
ASSETS			
Non-current assets			
Intangible assets and goodwill	13	99,580,217	80,989,481
Property and equipment	14	510,669,792	513,926,820
Investments in associates	15	76,738,387	59,976,475
Other investments	16	92,398	104,054
Long-term loans and receivables	17	18,739,800	33,733,570
Deferred tax assets	35 (c)	527,374	481,620
		706,347,968	689,212,020
Current assets			
Inventories	18	25,349,563	22,267,383
Assets held for sale	19	46,853	125,170
Trade receivables	20	49,770,033	48,542,387
Prepaid income taxes	35 (e)	2,011,546	-
Other receivables	21	2,261,386	2,370,379
Deposits and loan receivables	23	15,095,041	5,591,196
Prepayments	24	25,625,458	19,396,022
Cash and cash equivalents	25	47,140,928	88,655,557
		167,300,808	186,948,094
Total assets		**873,648,776**	**876,160,114**
EQUITY AND LIABILITIES			
Equity			
Share capital	26	491,383,755	491,383,755
Legal reserves	26	49,141,766	49,141,766
Unrealized losses on the available-for -sale securities		(1,652)	(826)
Other reserves – arising on commitment to invest	26	97,791,500	97,791,500
Retained earnings		34,765,836	60,582,666
		673,081,205	698,898,861
Non-current liabilities and provisions			
Interest bearing loans and borrowings	27	31,312,271	20,835,997
Other long-term financial liabilities	28	-	8,914,818
Deferred income	29	56,558	276,503
Deferred tax liabilities	35 (d)	1,151,988	1,342,206
Employee benefits	30	6,335,950	6,711,970
Provisions	31	204,981	281,225
		39,061,748	38,362,719
Current liabilities			
Interest bearing loans and borrowings	27	12,953,533	11,529,641
Other short-term financial liabilities	28	9,405,133	-
Trade payables	32	62,834,719	61,122,225
Accruals	33	44,980,310	39,822,980
Employee benefits	30	712,772	530,617
Deferred income	29	133,078	277,911
Dividend payable	37	28,057,418	22,027,695
Income taxes payable	35 (e)	-	1,526,504
Other current liabilities	34	2,428,860	2,060,961
		161,505,823	138,898,534
Total equity and liabilities		**873,648,776**	**876,160,114**

Notes on the following pages form an
integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Year Ended December 31, 2015
(In BAM)

	Share Capital	Legal Reserves	Unrealized Losses on the Available-for-Sale Securities	Other Reserves Arising on the Commitment to Invest	Retained Earnings	Total
Balance at January 1, 2014	**491,383,755**	**49,141,766**	**(55)**	**97,791,500**	**55,705,890**	**694,022,856**
Profit for the year	-	-	-	-	106,385,855	106,385,855
Total other comprehensive income	-	-	(771)	-	-	(771)
Total comprehensive income for the year	**-**	**-**	**(771)**	**-**	**106,385,855**	**106,385,084**
Profit distribution:						
- Dividends paid to shareholders	-	-	-	-	(54,212,611)	(54,212,611)
- Interim dividends paid to shareholders	-	-	-	-	(47,296,468)	(47,296,468)
Balance at December 31, 2014	**491,383,755**	**49,141,766**	**(826)**	**97,791,500**	**60,582,666**	**698,898,861**
Profit for the year	**-**	**-**	-	-	76,326,331	76,326,331
Total other comprehensive income	**-**	**-**	(826)	-		(826)
Total comprehensive income for the year	**-**	**-**	**(826)**	**-**	**76,326,331**	**76,325,505**
Profit distribution (*note 37*):						
- Dividends paid to shareholders	-	-	-	-	(59,106,979)	(59,106,979)
- Interim dividends paid to shareholders	-	-	-	-	(43,036,182)	(43,036,182)
Balance at December 31, 2015	**491,383,755**	**49,141,766**	**(1,652)**	**97,791,500**	**34,765,836**	**673,081,205**

Notes on the following pages form an
integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
Year Ended December 31, 2015
(In BAM)

	Year Ended December 31, 2015	Year Ended December 31, 2014
Cash flows from operating activities		
Cash receipts from customers	458,927,213	467,188,635
Other cash receipts from regular operations	2,448,873	1,878,718
Cash paid to suppliers	(198,446,778)	(162,608,439)
Cash paid to and on behalf of employees	(80,505,145)	(77,970,470)
Interest paid	(433,404)	(921,212)
Income taxes paid	(12,811,330)	(9,680,220)
Other taxes and duties paid	(6,292,546)	(4,541,937)
Net cash generated by operating activities	**162,886,883**	**213,345,075**
Cash flows from investing activities		
Purchases of property, equipment and intangible assets	(87,520,363)	(86,927,943)
Proceeds from sale of property, equipment and intangible assets	352,703	226,523
Interest received	3,667,057	3,781,511
Inflows/(outflows) from long-term financial investments	15,015,926	(6,066,127)
(Outflows)/inflows from short-term financial investments	(9,503,845)	8,000,000
Purchases of shares and equity investments	(16,624,555)	(17,936,250)
Net cash used in investing activities	**(94,613,077)**	**(98,922,286)**
Cash flows from financing activities		
Cash used for payment of long-term financial liabilities	(13,674,997)	(28,901,027)
Dividends and interim dividends paid to the shareholders	(96,113,438)	(94,356,180)
Net cash used in financing activities	**(109,788,435)**	**(123,257,207)**
Net decrease in cash and cash equivalents	**(41,514,629)**	**(8,834,418)**
Cash and cash equivalents at the beginning of the year	88,655,557	97,489,975
Cash and cash equivalents at the end of the year	**47,140,928**	**88,655,557**

Notes on the following pages form an
integral part of these consolidated financial statements.

1. FOUNDATION AND ACTIVITY

The Parent Company Mtel a.d. (hereinafter: the “Company”) is domiciled in Banja Luka, in the Republic of Srpska, Bosnia and Herzegovina, at the following street address: 93, Kralja Petra I Karađorđevića. The full registered name of the Company is Telekomunikacije Republike Srpske a.d. Banja Luka, while in its operations the Company uses two abbreviated names – Mtel a d. Banja Luka and Telekom Srpske a.d. Banja Luka.

As at December 31, 2015 the Company had two subsidiaries:
1. Mtel Austria, Vienna, the Republic of Austria (in the sole (100%) ownership of the Company) and
2. Logosoft d.o.o. Sarajevo, Bosnia and Herzegovina (in the 65% ownership of the Company) – hereinafter jointly referred to as the “Group”.

Up to January 31, 2014 the Company was the sole owner of the subsidiary TT Inženjering d.o.o. Banja Luka, when, under Decision of the District Commercial Court of Banja Luka, a status change of merger and acquisition of the subsidiary TT Inženjering d.o.o. Banja Luka by Mtel a.d. Banja Luka was registered. As of the status change registration date all the rights and obligations of the Acquiree TT Inženjering d.o.o. Banja Luka were transferred to the Acquirer Mtel a.d. Banja Luka.

In addition, as of December 31, 2015 the Company held a 49% equity interest in the associate MTEL d.o.o. Podgorica (Republic of Montenegro). The remaining 51% equity interest was held by the ultimate parent entity of the Group– Telekom Srbija a.d. Beograd.

As of December 31, 2015 the Group had 2,249 employees (December 31, 2014: 2,243 employees).

The Group’s principal business activity is the provision of telecommunication services the most significant of which are domestic and international telephony traffic. In addition, the Group offers a wide range of other telecommunication services, including other fixed line and mobile telephony services, data transfer, line leases, private conduits, services throughout the entire network area, additional services in the area of mobile telephony, as well as the Internet and multimedia services. The Group also provides services in the area of leasing, construction, management and security of the telecommunication infrastructure.

As of December 31, 2015, the Group provided telecommunication services of fixed line telephony to 266,847 users (December 31, 2014: 280,758 users), Internet services to 176,502 users (December 31, 2014: 168,260 users), mobile telephony services to 1,403,814 users (December 31, 2014: 1,382,338 users), including integrated services to 82,775 users (December 31, 2014: 70,755 users).

The governing bodies of the Company are: Shareholder Assembly, Management Board, Executive Board, General Manager, Audit Committee and the Internal Auditor.

As of December 31, 2015, the General Manager (CEO) of the Company was Mr. Goran Vlaović, MSc.

Members of the Company’s Management Board as of December 31, 2015:

Mr. Predrag Ćulibrk
Mr. Dragan Đurđević
Mr. Dejan Carević
Mr. Slavko Mitrović
Mr. Draško Marković
Mr. Nenad Tomović
Mr. Branko Malović

Members of the Company’s Executive Board as of December 31, 2015:

Mr. Goran Vlaović, MSc
Ms. Jasmina Lopičić
Mr. Miodrag Vojinović
Mr. Đorđe Mišić
Mr. Marko Lopičić
Mr. Nikola Rudović

2. BASIS OF PREPARATION AND PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS AND ACCOUNTING CONVENTION

2.1. Statement of Compliance

The accompanying financial statements represent consolidated financial statements of the Group and were prepared in accordance with the International Financial Reporting Standards (IFRS).

2.2. Basis of Measurement

The consolidated financial statements of the Group have been prepared on the historical cost basis, except for the revaluation of certain financial instruments, available-for-sale financial assets, which are measured at fair value, as further explained in accounting policies for financial instruments.

Historical cost is generally based on the fair value of consideration paid in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between the market participants at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Upon estimating the fair value of assets or liabilities, the Company takes into account characteristics of assets or liabilities that other market participants would also consider upon determining the price of assets or liabilities at the measurement date.

Assets acquired in the acquisition of a subsidiary that are individually identifiable as well as actual and contingent liabilities in the business combination are initially measured at fair value as at the acquisition date.

2.3. Functional and Presentation Currency

The figures in the accompanying consolidated financial statements have been stated in Convertible Marks (BAM), BAM being the official functional and reporting currency in Bosnia and Herzegovina.

2.4. Application and Impact of the New and Revised IFRS

Revised Standards and Interpretations Effective in the Current Period

The following amendments to the existing standards issued by the International Accounting Standards Board and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) have been effective over the current period

- Amendments to IAS 19 “Employee Benefits” – Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after July 1, 2014);
- Amendments resulting from Annual Improvements 2010-2012 which are the result of annual improvements in IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after July 1, 2014); and
- Amendments resulting from Annual Improvements 2011-2013 which are the result of annual improvements in IFRS (IFRS 1, IFRS 3, IFRS 13 and IAS 40) with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after July 1, 2014).

Adoption of these standards, revisions and interpretations has not resulted in significant changes to the accounting policies of the Group.

New and Revised Standards and Interpretations in Issue not yet in Effect

At the date of authorization of these financial statements the following standards, revisions and interpretations were in issue but not yet effective:

- IFRS 9 (revised in 2010)“Financial Instruments” (effective for annual periods beginning on or after January 1, 2018);

2. BASIS OF PREPARATION AND PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS AND ACCOUNTING CONVENTION (Continued)

2.4. Application and Impact of the New and Revised IFRS (Continued)

New and Revised Standards and Interpretations in Issue not yet in Effect (Continued)

- IFRS 14 "Regulatory Deferral Accounts" (effective for annual periods beginning on or after January 1, 2016);
- IFRS 15 "Revenue from Contracts with Customers" (effective for annual periods beginning on or after January 1, 2018);
- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture Amendments to IFRS 10 "Consolidated Financial Statements," IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures" – Investment Entities: Applying the Consolidation Exception (effective for annual periods beginning on or after January 1, 2016);
- Amendments to IFRS 11 "Joint Arrangements" – Accounting for Acquisition of an Interest in a Joint Operation (effective for annual periods beginning on or after January 1, 2016);
- Amendments to IAS 1 "Presentation of Financial Statements" – Disclosure Initiative (effective for annual periods beginning on or after January 1, 2016);
- Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets" – Clarification of Acceptable Methods of Depreciation and Amortization (effective for annual periods beginning on or after January 1, 2016);
- Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture" – Agriculture: Bearer Plants (effective for annual periods beginning on or after January 1, 2016);
- IAS 27 "Separate Financial Statements" – Equity Method in Separate Financial Statements (effective for annual periods beginning on or after January 1, 2016); and
- Amendments resulting from Annual Improvements 2012 – 2014 Cycle (IFRS 5, IFRS 7, IAS 19 and IAS 34), with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after January 1, 2016).

The Company's management has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The management anticipates that the adoption of these standards, revisions and interpretations will have no material impact on the financial statements of the Company and the Group in the period of initial application.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Basis of Consolidation

a) Investments in Subsidiaries

The accompanying consolidated financial statements for the year ended December 31, 2015 comprise the financial statements of the Company - (Mtel a.d. Banja Luka), and its two consolidated subsidiaries Mtel Austria, Vienna and Logosoft d.o.o., Sarajevo.

Under the newly adopted IFRS 10 *Consolidated Financial Statements* control over consolidated subsidiaries is achieved if the Company has:

(1) power over the investee,
(2) exposure, or rights, to variable returns from its involvement with the investee, and
(3) the ability to use its power over the investee to affect the amount of returns.

The Company reassesses whether it truly exercises control over its subsidiaries in instances of certain facts and circumstances indicating that any of the above listed three elements of control has changed.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.1. Basis of Consolidation (Continued)

a) Investments in Subsidiaries (Continued)

When the Company has less than half of the voting power, control is achieved if these voting rights are sufficient to practically allow the Company to unilaterally direct the business activities of the subsidiary.

Consolidation of the subsidiary commences from the date when the Company acquires control and ceases when control is lost. Income and expenses of the subsidiary are included in the consolidated statement of profit or loss and other comprehensive income from the effective date of control acquisition and up to the effective date of disposal, as appropriate.

All balances of assets, liabilities, equity, income and expenses and cash flows arising from intra-Group transaction are eliminated in full on consolidation.

TT Inženjering d.o.o., Banja Luka

As of January 31, 2014, under Decision of the District Commercial Court of Banja Luka, a status change of merger and acquisition of the subsidiary TT Inženjering d.o.o. Banja Luka by Mtel a.d. Banja Luka was registered (*Note 1*). As of the status change registration date all the rights and obligations of the Acquiree TT Inženjering d.o.o. Banja Luka were transferred to the Acquirer Mtel a.d. Banja Luka.

Mtel Austria, Vienna, Republic of Austria

On July 1, 2014, the newly founded entity Mtel Austria, domiciled in Vienna was registered within the relevant Registry of the Republic of Austria. Mtel Austria was founded for an undetermined period in order to provide telecommunication services, with the initial permanent investment of EUR 35,000 as founding capital (equivalent to BAM 68,454). Based on the Decision on Capital Increase of Mtel Austria, enacted by the Company's Management Board on June 23, 2014 the initial capital of Mtel Austria was increased by EUR 3,500,000 with the portion of EUR 1,400,000 (equivalent to BAM 2,738,162) registered as of October 9, 2014, and the portion of EUR 2,100,000 2,100,000 (equivalent to BAM 4,107,243) as of February 4, 2015. Under Decisions enacted by the Company' Management Board on July 28 and September 28, 2015, a monetary contribution of EUR 3,000,000 (equivalent to BAM 5,867,490) was made to the equity reserves of the subsidiary.

Mtel Austria operates as a MVNO (*mobile virtual network operator*). On August 14, 2015, the subsidiary registered the change of its legal name from Mtel Austria to Mtel Austria GmbH with the relevant Registry of the Republic of Austria.

Logosoft d.o.o., Sarajevo

On May 12, 2014 the Company executed the Agreement on the Purchase of Equity Interest in Logosoft d.o.o. Sarajevo. Pursuant to the Agreement, the company acquired a 65% equity interest in Logosoft and committed to purchase the remaining 35% equity interest from the former owner up to December 31, 2016 upon fulfillment of certain conditions. As of October 1, 2014, the Company took over control of the subsidiary Logosoft d.o.o. Sarajevo.

The subsidiary Logosoft was founded in 1995 as a company involved in informatics engineering. The subsidiary's first business activities included ICT system integration; two years after foundation, it became the first Internet service provider in Bosnia and Herzegovina. Nowadays the subsidiary provides services of internet access, telephony and television, computer equipment sales and service in system integration and IT training and consulting services.

b) Business Combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.1. Basis of Consolidation (Continued)

b) Business Combinations (Continued)

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value at the acquisition date except that:

- deferred tax assets or liabilities and liabilities and assets related to employee benefit arrangements are recognized and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits respectively*;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 *Share-Based Payment* at the acquisition date; and

- assets (or a disposal group) that are classified as held for sale in accordance with IFRS 5 *Non-Current Assets Held for Sale and Discounted Operations* are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree, and the fair value of the acquirer`s previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of non-controlling interests in the acquiree and the fair value of the acquirer`s previously held interest in the acquiree (if any), the excess is recognized immediately in the profit and loss as a bargain purchase gain.

c) Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group`s cash-generating units (of groups of cash-generating units) that is expected to benefit from the synergies of the combinations.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss in the consolidated (statement of comprehensive income/income statement). An impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit of loss on disposal.

d) Investments in Associates

An associate is an entity over which the Group has significant influence that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policies and decisions of the investee but is not control or joint control over those policies and decisions.
The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method. Under the equity method, an investment in an associate is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group’s share of the profit or loss and other comprehensive income of the associate. When the Group’s share of losses of an associate exceeds the Group’s interest in that associate (which includes any long-term interests that, in substance, form part of the Group’s net investment in the associate), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.1. Basis of Consolidation (Continued)

d) Investments in Associates (Continued)

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

The requirements of IAS 36 are applied to determine whether it is necessary to recognize any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a Group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognized in the Group' consolidated financial statements only to the extent of interests in the associates that are not related to the Group.

3.2. Revenues

Revenue Recognition

Sales income is presented at invoiced amount, less any effective discounts and value added tax. Income is recognized and recorded upon rendering the contracted services or sale of goods.

Interest income is recorded on an accrual basis, by reference to the principal outstanding and at the effective interest rate.

Revenue consists mainly from charges to customers for calls from the fixed line and mobile networks, monthly subscription fees charged for providing access services, sale of combined service, interconnections, Internet, intregrated services and other similar services.

3.2.1 Income from Telephone Traffic – Fixed-Line Telephony

The Group recognizes usage (fixed-line telephony) revenue based upon traffic processed. Revenue due from foreign carriers for international calls is included in revenues in the period in which the call occurs.

3.2.2 Telecommunication Subscription - Fixed-Line Telephony

The telecommunication subscription to fixed-line telephony is invoiced on a monthly basis, one month in arrears.

3.2.3 Income from New Subscribers - Fixed-Line Telephony

Income from the connection of new subscribers to the fixed-line telephony represents income earned on invoiced fees for the connection of new subscribers and installation costs. The revenue for new customer connections is recorded in the period in which the user is connected and installation completed.

3. 3.2.4 Income Interconnection with Local Operators

Income from interconnection with local operators relates to the access to the service network, establishing a physical and logical linking of telecommunication networks to allow the service users connected to different networks direct and indirect communication.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2. Revenues (Continued)

3.2.5 Income from Mobile Telephony

Mobile telephony income is associated with the income earned from mobile telephony users who use prepaid and postpaid services (i.e. traffic, text messages, income from subscriptions, combined services and packages sold, as well as other additional services etc.). Sales income is recognized at the fair value of service provided, less any applicable discounts and value added tax. Revenue is recorded when the services are rendered.

Revenue from the telephony traffic is recognized on the basis of traffic. Uninvoiced income earned on mobile telephony services provided in the period from the invoice date up to the end of the period of calculation is accrued, while unrealized revenue until the end of the accounting period is deferred. Income from prepaid usage services is recognized upon sale of the prepaid top-ups and deferred for the amount of unrealized income at the end of the period. These revenues are deferred over the period of the service provision. Inactive top-ups or top-ups with expired usage are recognized as revenue upon the expiry of the final usage date.

3.2.6. Income from the Sale of Combined Services

Income earned on the sale of hardware is presented within item income from the sale of combined services and is credited to income when the sale is realized, i.e. when the device/hardware is delivered to the package user and related costs recognized as expenses in profit or loss statement. For combined services sold, the Group applies the relative fair value method whereby the future revenues are recognized at fair value of the services and the remainder is allocated to delivered components. Other income from rendering services under customer contracts are deferred over the period that each such contract relates to.

3.2.7. Income and Expenses from International Settlements and Roaming

a) Income and Expenses from International Traffic

The Group has entered into various agreements on international traffic in fixed-line and mobile telephony. The respective income/(expenses) and receivables/(payables) arising from these agreements are presented in the accompanying financial statements and are associated with the income generated on all incoming and outgoing international calls realized with the countries maintaining direct international traffic calculations with the Group. A portion of the income earned or expenses incurred is recorded on the basis of an estimate made in accordance with the internal settlements for realized traffic.

The Group recognizes income (receivables) only when it can be measured with reasonable certainty. Where evidence exists that an expense (payables) may be incurred, a full provision is recognized, in instances where such an estimate is possible. When it is not possible to estimate the extent of a liability, an appropriate disclosure is made.

b) Income and Expenses from Roaming

Income and expenses arising from roaming with foreign operators are recorded at the amounts set by the clearing house. Income and expenses arising on roaming are recognized in the gross amount based on the traffic realized throughout the period.

3.2.8. Direct Access to the Internet

Income from direct access to the Internet is realized by providing a link for users to access the Internet at certain speeds, with a specific range of public IP addresses, DNS hosting domain names with or without registering Internet domain names and technical support.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2. Revenues (Continued)

3.2.9. Integrated services

Income from integrated services refers to the income from the distribution of program mix to users in the form of packages, which include open digital open IP television, ADSL Internet access, fixed-line and mobile telephony.

3.2.10. Other Income from Other Telecommunication Services

Other income primarily includes the lease of telephony capacities, telephone lines, call listings, voicemail and other services. Such income is recognized and recorded in the accounting period in which it occurs.

3.3. Financial and Operating Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as Lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

The Group as Lessee

Assets held under finance leases are initially recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Group's general policy on borrowing costs. Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

3.4. Foreign Currencies

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to BAM at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at fair value, are translated into BAM at foreign exchange rate ruling at the transaction date. Transactions in foreign currencies are translated into BAM by applying the exchange rate in effect on the date of each transaction. The foreign exchange gains or losses arising upon the translation of transactions and assets and liabilities components denominated in foreign currencies are included in the statement of comprehensive income.

3.5. Corporate Income Taxes

Income taxes comprise current and deferred taxes. Current and deferred taxes are recognized in the statement of profit and loss and comprehensive income except for those related to a business combination or items recognized directly in equity or in other comprehensive income. Current income tax relates to the amount payable in accordance with the Income Tax Law.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5. Corporate Income Taxes (Continued)

Current income tax is payable at the rate of 10% applied to the tax base reported in the annual corporate income tax return, being the profit before taxation as reduced by any effects of reconciliation of income and expenses.

The tax regulations in the Republic of Srpska allow for the reduction of the tax base for the amounts used in capital expenditures, for restoration of own manufacturing activity and for the amounts of the payroll taxes and contributions for over 30 newly employed staff members at the end of the financial year.

Deferred income tax is provided using the financial statement liability method, for the temporary differences arising between the tax bases of assets and liabilities and their carrying values in the financial statements. The currently enacted tax rates or the subsequently enacted rates at the statement of financial position date are used to determine the deferred income tax amount, based on the tax rates that are expected to be applied to temporary differences when they reverse. Deferred tax liabilities are recognized for all taxable, temporary differences. Deferred tax assets are recognized for all deductible temporary differences, and for the tax effects of income tax losses available for carryforwards, to the extent that it is probable that taxable profit will be available against which the deductible temporary difference and the tax loss carryforwards can be utilized.

On January 1, 2016 new Income Tax Law came into effect. Under the new Law the income tax rate remains unaltered, and the management believes that certain amendments, pertaining to determining the taxable base, will have no material impact on the Company’s financial statements.

3.6. Intangible Assets

Intangible assets include goodwill, customer relations, telecommunication licenses, acquired computer software and other licenses.

Telecommunication licenses, acquired computer software and other licenses are recorded at cost less accumulated amortization and accumulated impairment losses, if any. Cost of an item of intangible assets comprises its purchase price, including import duties and non-refundable purchase taxes and any costs directly attributable to bringing the asset to the location and condition necessary for its operating capability. Cost is reduced by all received discounts and/or rebates. Telecommunication licenses are amortized on a straight-line basis over their useful lives as delineated under IAS 38 *Intangible Assets*. Customer relations represent contractual arrangements with the users and are recognized at appraised value after business combination of the acquisition of a subsidiary.

3.7. Property and Equipment

Items of property and equipment are recorded at cost less accumulated depreciation and accumulated impairment losses, if any. Cost is comprised of the purchase price or expenses incurred in construction, including import duties and non-refundable taxes, and any directly attributable costs of bringing the asset to working condition for its intended use. Any trade discounts and/or rebates received are deducted in arriving at the purchase price. Cost of the constructed property and equipment represents cost thereof as of the date of construction or development completion.

Property and equipment represent assets with an expected useful economic life of over one year. Gains on the disposal of property and equipment are credited directly to the statement of comprehensive income within “other operating income,” whereas any losses arising upon their disposal are charged to “other operating expenses.”

Adaptations, renewals and repairs that extend the useful life of an asset are capitalized. Repairs and maintenance are expensed as incurred and are presented as operating expenses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Depreciation and Amortization

The depreciation/amortization rate is determined based on the estimated useful life of property, equipment and intangible assets. The depreciation/amortization rates applicable to the assets are reviewed at least annually, at the end of each financial year, and if there are significant changes in the expected dynamics in the consumption of future economic benefits embodied in an asset, the deprecation/amortization rate is changed to reflect the altered dynamics. Such a change is recorded as a change in the accounting estimates in accordance with IAS/IFRS. Management changes depreciation/amortization rates for asset groups of the Company. Changes are submitted by the Management of the Group to the Company's Management Board for approval.

The basis for calculation of the depreciation/amortization is the cost of property, equipment and intangible assets, less any estimated residual value. Depreciation and amortization are calculated on a straight-line basis.

The estimated useful lives of particular classes of property and equipment, as well as intangible assets used in the calculation of depreciation and amortization, and prescribed depreciation and amortization rates applied in 2015 are as follows:

	Estimated Useful Life (in Years)	Rate (%)
GSM and UMTS licenses	15	6.67
Licenses and application software	5	20
Buildings	8 - 55.5	1.80 - 12.5
Antenna masts	16.7 - 20	5 - 6
Distribution network and channeling	16.7	6
Switching systems and service platforms	3 - 11	9.09 - 33.33
Transmission network	4 - 12.5	8 - 25
Wireless access network	5 - 12.5	8 - 20
Equipment within the access network and terminal equipment	4 - 11	9 - 25
Computers and computer equipment	4 - 5	20 - 25
Office furniture and other equipment	5 - 8	12.5- 20

3.9. Non-Current Assets Available for Sale

Non-current assets are classified as assets held for sale if the carrying value thereof can be recovered primarily from a sales transaction rather than through further use. This condition is deemed fulfilled only if the sale of an asset (or a disposal group) is highly probable and if the asset (or the disposal group) is available for immediate sale in its present condition. Management must be committed to a plan to sell such assets, and the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets (or disposal groups) classified as held for sale are carried at the lower of their previous carrying amount and fair value less cost to sell.

3.10. Impairment of Non-Financial Assets

At each statement of financial position date, the Group's management reviews the carrying amounts of the Group's non-financial assets (other than inventory and deferred tax assets) in order to determine whether there are indications of an impairment loss. If there is any indication that such assets have been impaired, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. In cases where it is impossible to assess the recoverable amount of an individual asset, the Group assesses the recoverable amount of the cash generating unit to which the asset belongs.

The recoverable value of an asset (or its related cash generating unit) is the higher of its fair value less costs to sell and value in use. The estimate of the value in use comprises the assessment of future cash inflows and outflows discounted to their present value by applying the pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the estimate is recoverable amount of assets (or cash generating unit) is below their carrying value, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount and an impairment loss is recognized as an expense of the current period under operating expenses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10. Impairment of Non-Financial Assets (Continued)

Impairment losses recognized in prior years are assessed at each reporting date for any indications that loss has decreased or no longer exits. Impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable value. However, this is performed so that the increased carrying amount does not exceed the carrying value that would have been determined had no impairment loss been recognized for the asset (or cash generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately, unless the respective asset is carried at a revalued amount, in which instance, the reversal of the impairment loss is treated as a revaluation increase.

As of December 31, 2015, in the management's opinion, there were no indications that the value of the Group's intangible assets, property and equipment had suffered impairment.

3.11. Financial Assets

Financial assets are recognized and derecognized on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs. Non-derivative financial assets are classified into the following specified categories: 'held-to-maturity investments', 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective Interest Method

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period, to the carrying amount of the financial asset.

Income is recognized on an effective interest basis for loans and receivables and debt instruments other than the financial assets designated as at fair value through profit or loss.

Financial Assets Held to Maturity

Bills of exchange and debentures with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortized cost using the effective interest method less impairment, with revenue recognized on an effective yield basis.

Financial Assets Available for Sale

Unlisted shares and listed redeemable notes held by the Group that are traded in an active market are classified as being AFS and are stated at fair value. For such investments a reasonable estimate of fair value is determined by reference to the current market value of another instrument which is substantially the same or is based on the expected cash flows or the underlying net asset base of the investment. Investments whose fair value cannot be reliably measured are carried at cost.

Gains and losses arising from changes in fair value are recognized directly in equity in unrealized gains/losses on securities available for sale with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognized directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in the investments revaluation reserve is included in profit or loss for the period. Equity instruments classified as available for sale that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at historical cost less impairment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11. Financial Assets (Continued)

Financial Assets Available for Sale (Continued)

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the balance sheet date. The change in fair value attributable to translation differences that result from a change in amortized cost of the asset is recognized in the profit and loss, and other changes are recognized in other comprehensive income.

Loans and Receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as ‘loans and receivables’. Loans and receivables are measured at amortized cost using the effective interest method less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Trade receivables are stated at their nominal value less allowance for impairment of receivables deemed irrecoverable. The allowance are formed for receivables which are past their due date, which, according to the management’s estimates based on historical evidence about the potential losses due to irrecoverability thereof, receivables which over 60 days past-due. Direct write-off of receivables is carried out in cases when impossibility of collection of the receivables is certain and documented. Receivables that are subject to offsets are impaired on the basis of net exposure principle.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held with commercial banks and any other highly liquid investments that are readily convertible to known amounts of cash, which are subject to an insignificant risk of changes in value.

Impairment of Financial Assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each statement of financial position date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For unlisted shares classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, including redeemable notes classified as available for sale and finance lease receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;
- default or delinquency in interest or principal payments; or
- probability that the borrower will enter bankruptcy or financial re-organization.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group’s past experience of collecting payments, delays in collecting payments after maturity period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the financial asset’s original effective interest rate. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in the statement of profit and loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11. Financial Assets (Continued)

Impairment of Financial Assets (Continued)

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through the statement of comprehensive income to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been if the impairment had not been recognized. In respect of AFS equity securities, impairment losses previously recognized through profit or loss (the statement of comprehensive income) are not reversed through the statement of comprehensive income. Any increase in fair value subsequent to an impairment loss is recognized directly in equity.

Derecognition of Financial Assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity, If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognize financial assets.

3.12. Financial Liabilities

Financial liabilities comprise non-current liabilities (long-term borrowings and other long-term liabilities), current trade payables and other liabilities.

Financial liabilities are initially recognized at fair value less directly applicable transaction costs. Once recognized, financial liabilities are measured at the initially recognized amount less principal repaid net of any amount of write-off as approved by a creditor. Financial liabilities are stated at amortized cost by applying the effective interest rate. Interest accrued on financial liabilities is charged to expenses of the respective period and is presented within other current liabilities.

Financial liabilities cease to be recognized when the Group fulfills the respective obligations, or when the contractual repayment obligation has either been cancelled or has expired.

3.13. Derivative Financial Instruments

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss, except for derivatives designated as hedging instruments, in which the time of recognition within profit or loss depends on the substance of the hedge relationship.

Embedded Derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the contracts are not measured at fair value through other comprehensive income.

3.14. Inventories

Inventories are stated at the lower of cost or net realizable value.

The net realizable value is the estimated selling price in the normal course of business, after allowing for the costs of realization.

Cost includes the invoiced amount, transport and other attributable expenses. Small tools are fully written off when issued into use. The cost of inventories is determined using the weighted-average method.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.14. Inventories (Continued)

Materials for combined services mostly relate to the fixed and mobile telephone devices purchased for further sales to customers within special service packages.

Impairment allowances charged to other operating expenses are made where appropriate in order to reduce the carrying value of such inventories to the management's best estimate of their net realizable value. Inventories found to be damaged, or of a substandard quality are written off in full.

3.15. Provisions

Provisions are recognized and calculated when the Group has a pending present legal or contractual obligation as a result of a past event, and when it is probable that an outflow of resources will be required to settle the obligation, and when a reliable estimate of the amount can be made.

Provisions are comprised of provisions for litigations filed against the Group, determined by discounting the expected future cash flows at a pretax rate that reflects current market assessment of the true value of money and the risks specified to the liability.

3.16. Employee Benefits

a) Employee Taxes and Contributions for Social Security

In accordance with local regulations and its adopted accounting policies, the Group is obliged to pay contributions to various national social security funds. These obligations include contribution payable by employees and the employer in the amounts calculated by applying the specific statutory rates. The Group has a legal obligation to withhold contribution from gross salaries of employees, and on their behalf to transfer the withheld funds to appropriate government funds. Contributions paid by the employees and the employer are expensed in the period during which services are rendered by the employees.

b) Retirement Benefits and Jubilee Awards

Pursuant to the Side Bargaining Agreement, the Group has an obligation to pay to its employees retirement benefits upon retirement in the amount of three monthly salaries earned by the vesting employee, which is not to be less than three average monthly salaries paid by the Group, including all payments subject to payroll taxes and contributions. The basis for calculation comprises the monthly salary for the month proceeding the month in which the entitlement to retirement is exercised.

In addition, the Group is obligated to pay jubilee awards in the amount between a half and two times the average monthly salary paid by the Group.

IAS 19 *Employee Benefits* requires the calculation and inclusion of present value of accumulated rights to retirement benefits and jubilee awards.

c) Liabilities for Employee Bonuses (Variable Portion of Salary)

The relevant Decision enacted by the Company's General Manager defines the base for and manner of calculation of the employee bonuses as variable salary portion. Bonuses are paid according to the realized employee performance monitored on a quarterly or annual basis and recorded within staff costs as well as the provision in this respect when estimated that a vesting employee will become entitled to bonus payment.

3.17. Segment Reporting

The Group applies IFRS 8 *Operating Segments,* which requires the identification of operating segments based on internal reports about components of the Group that are regularly reviewed by managers responsible for making key decisions for the purpose of allocating adequate resources to these segments, as well as analyzing their results. Segment information is analyzed based on the type of services provided by the operating components of the Group.

4. SIGNIFICANT ACCOUNTING ESTIMATES

The presentation of the consolidated financial statements requires the Group's management to make best estimates and reasonable assumptions that influence the assets and liabilities amounts, the disclosure of contingent liabilities and receivables as of the date of preparation of the consolidated financial statements, as well as the income and expenses arising during the accounting period. These estimations and assumptions are based on historical experience and other information available as of the date of preparation of the consolidated financial statements. However, actual results may vary from these estimates.

Basic assumptions relating to the future events and other significant sources of uncertainties in rendering an estimate as of the consolidated statement of financial position date, which bears the risk that may lead to significant restatement of the carrying value of assets and liabilities in the ensuing financial year, were as follows:

Estimated Useful Life of Property, Equipment and Intangible Assets

The estimate of useful life of property, equipment and intangible assets is founded on the historical experience with similar assets, as well as foreseen technical advancement and changes in economic and industrial factors. The depreciation/amortization rates applicable to the assets are reviewed at least annually, at the end of each financial year, and if there are significant changes in the expected dynamics in the consumption of future economic benefits embodied in an asset, the deprecation/amortization rate is changed to reflect the altered dynamics. Such a change is recorded as a change in the accounting estimates in accordance with IAS/IFRS. Management changes depreciation/amortization rates for asset groups. Changes are submitted by the Management to Board for approval.

Due to the significance of non-current assets in the Group's total assets, any change in the aforesaid assumptions may lead to material effects on the Group's financial position, as well as on its financial performance. For example, if the Group were to shorten the average useful life of assets by 10%, this would have resulted in additional depreciation and amortization charge of BAM 9,592,493 for the year ended December 31, 2015 (2014: BAM 9,925,318).

Impairment of Trade Receivables

Impairment for bad and doubtful receivables is calculated based on estimated losses resulting from the inability of customers to settle the liabilities to the Group when due. The management estimates are based on the aging of trade receivables balance and historical write-off experience, customer credit-worthiness and changes in customer payment terms when evaluating the adequacy of the impairment allowance of doubtful receivables. This involves assumptions about future customer behavior and the resulting future collections. Management believes that no additional impairment allowance is required in excess of the allowance already recognized in these financial statements *(Notes 20, 21 and 22).*

Provisions

Provisions in general are highly judgmental. The Group assesses the probability of an adverse event as a result of a past event and if the probability is evaluated to higher than 50%, the Group fully provides for the total amount of the liability. The Group is rather prudent in these assessments but due to the high level of uncertainty in certain cases the estimates may not prove to be in line with the actual outcomes.

Income and Expenses from International Traffic

Income (expenses) and receivables (payables) that have originated under agreements executed with international operators are presented in the accompanying consolidated financial statements and are associated with the income generated on all incoming and outgoing international calls realized with the countries maintaining direct international traffic calculation. A portion of the income earned or expenses incurred is recorded on the basis of an estimate made in accordance with the internal settlements for realized traffic. Management believes that the internal calculations/accounts of international traffic are adequate and that they reflect the actually realized international traffic in the corresponding period.

Fair Value

It is the policy of the Group to disclose the fair values of those assets and liabilities for which published market information is readily available, and for which their fair value is materially different from the recorded amounts.

4. SIGNIFICANT ACCOUNTING ESTIMATES (Continued)

Fair Value (Continued)

However, in the Republic of Srpska sufficient market experience, stability and liquidity do not presently exist for the purchase and sale of financial assets or liabilities for which quoted prices on an active market are not readily available. Hence, the fair value cannot be reliably determined in the absence of an active market. The Group's management assesses its overall risk exposure, and in instances in which it estimates that the value of assets stated in its books may not have been realized, it recognizes a provision. In the opinion of management, the reported carrying amounts are the most valid and useful reporting values under the present market conditions.

5. SALES OF GOODS AND SERVICES

	In BAM Year Ended December 31, 2015	 2014
(a) Domestic Sales:		
Fixed-Line Telephony:		
- traffic revenue	31,512,189	36,856,634
- subscription fees	29,165,578	33,089,508
- income from interconnections with domestic operators in BH	29,150,124	33,945,343
- connection fees from the new subscribers	708,437	173,289
- leased transmission lines	5,703,696	5,954,163
- other income	507,564	2,224,457
	96,747,588	112,243,394
Mobile Telephony:		
- traffic revenue	156,639,611	182,473,649
- subscription fees	56,930,543	49,651,692
- connection fees from the new subscribers	596,080	561,215
- fiscal cash registers	2,685,368	3,103,897
- other income	862,177	743,161
	217,713,779	236,533,614
Integrated services:		
- traffic revenue on integrated services – fixed line	5,287,758	6,051,521
- traffic revenue on integrated services – mobile	632,613	448,764
- subscription fees	39,457,447	32,102,101
- other income	654,759	525,578
	46,032,577	39,127,964
Internet services:		
- ADSL subscription fees	19,649,205	20,418,454
- direct access	4,584,358	2,797,291
- other income	109,396	46,405
	24,342,959	23,262,150
Income from combined services:		
Combined services – fixed-line	4,037,170	2,537,081
Combined services – mobile	23,977,849	20,016,962
	28,015,019	22,554,043
Sales of goods	3,707,067	2,122,621
Sales of project design services, software, goods and training services	4,141,435	140,892
Total domestic sales (a)	**420,700,424**	**435,984,678**
(b) International market sales:		
- International settlements (fixed-line telephony)	24,636,146	29,567,018
- Roaming	11,819,677	13,344,995
- International transit telephony traffic	10,152,648	2,753,455
- Other income from international telephony traffic	553,552	95,900
Total international market sales (b)	**47,162,023**	**45,761,368**
Total sales of goods and services (a+b)	**467,862,447**	**481,746,046**

6. OTHER OPERATING INCOME

	In BAM Year Ended December 31, 2015	2014
Rental income	2,009,943	2,012,112
Commission for RTV fee collection	436,206	506,748
Marketing support income as per relevant contracts	1,083,558	856,391
Collection of receivables previously written off	19,123	24,878
Gains on the sale of retired property, equipment and inventories	352,703	226,523
Reversal of deferred income (grants)	364,779	940,262
Collected penalties and damage claims	292,528	273,806
Proceeds from the legal suits won	354,890	325,768
Write-off of liabilities	137,774	538,926
Surpluses	10,693	406
Other income	807,262	425,365
	5,869,459	**6,131,185**

7. COST OF MATERIALS, COMBINED SERVICES AND GOODS

	In BAM Year Ended December 31, 2015	2014
Materials for combined services	47,828,005	40,188,189
Cost of commercial goods sold	3,270,328	2,242,226
Electricity	4,620,700	4,380,047
Production materials	2,950,966	-
Materials for maintenance of property and equipment	1,689,874	1,654,588
Fuel and lubricants	1,532,113	1,780,842
Office supplies	783,826	970,615
Other materials	645,767	765,868
Cost of SIM cards and top-up cards (vouchers)	409,962	476,891
	63,731,541	**52,459,266**

Cost of materials and consumables for combined services for the most part refers to cost of the devices/hardware sold within special service packages.

8. STAFF COSTS

	In BAM Year Ended December 31, 2015	2014
Net salaries	32,417,040	32,253,969
Employee meal allowance	4,663,814	4,405,490
Overtime work and other payments to employees	4,984,023	5,192,748
Employee commuting allowance	825,609	741,147
Payroll taxes	5,066,572	4,234,525
Payroll contributions	24,891,648	24,291,469
Remunerations to Management Board and Audit Committee	269,163	281,752
Termination benefits	1,766,826	1,213,374
Aid to employees	399,617	401,010
Business travel costs and per diems	1,151,899	843,589
Other staff costs	3,557,783	3,277,463
	79,993,994	**77,136,536**

9. COST OF PRODUCTION SERVICES

	In BAM Year Ended December 31, 2015	2014
International settlements, except roaming	15,752,594	15,825,863
Interconnection costs	15,708,148	12,495,874
Roaming	6,669,416	7,026,679
Lease of transmission lines	4,620,241	3,501,579
Other production related services	1,560	-
Preparation and delivery of telephone bills	4,602,528	4,618,541
Other postage and transportation services	817,524	672,020
Maintenance	19,508,043	18,145,970
Lease of premises and equipment	13,913,393	12,646,621
Marketing and advertising	16,796,206	15,377,334
Dealers' fees and commissions	11,328,586	12,359,314
Services of the clearing house	381,387	381,387
Public utilities	298,702	282,624
Broadcasting fees	8,870,885	6,015,118
Other production services	2,935,345	2,059,584
	122,204,558	**111,408,508**

10. OTHER OPERATING EXPENSES

	In BAM Year Ended December 31, 2015	2014
Indirect taxes and contributions	4,953,357	3,749,673
Costs of temporary relocation of employees by the Parent Company	73,834	83,280
Employee professional trainings	1,022,739	638,459
Intellectual services	1,705,993	1,757,462
Other non-production services	1,875,553	1,621,994
Entertainment	287,102	236,862
Insurance premiums	720,460	634,209
Bank charges	362,983	319,226
Communications Regulatory Agency fee	7,186,608	7,060,328
Membership fees	199,001	162,204
Administrative fees	1,652,643	1,420,475
Fees charged by the youth and student employment agencies	1,648,747	1,583,713
Other non-material expenses	222,923	103,075
Losses on disposal of property, equipment and intangible assets	724,884	1,647,342
Shortages	5,642	6,069
Provisioning charge	240,102	611,622
Allowance for impairment of short-term receivables (*Note 22*)	5,466,175	3,555,038
Write-off of short-term receivables, inventories of materials and advances paid to suppliers	176,199	379,036
Litigation costs	205,845	138,080
Support to the Trade Union	200,000	307,200
Other expenses	622,923	1,027,813
	29,553,713	**27,043,160**

11. EXPENSES INCURRED IN DAMAGE AND DESTRUCTION OF ASSETS DUE TO NATURAL CATASTROPHES – FLOODING

	In BAM	
	Year Ended December 31,	
	2015	2014
Losses on disposal and retirement of property and equipment damaged and demolished by flooding	-	6,118,223
Losses on disposal and retirement inventories of materials damaged and demolished by flooding	-	357,622
	-	**6,475,845**

In mid-May 2014, due to vast flooding in the territory of the Republic of Srpska, significant portion of the Company's infrastructure was hit by the flooding wave, particularly the areas of Banja Luka, Doboj, Modriča, Šamac and Bijeljina. Direct consequences of disastrous flooding include destruction of the Company's assets (telecommunications infrastructure and equipment, inventories of materials and spare parts). In the previous year the Company performed inventory count of the damaged and demolished equipment and inventories and recorded the total of BAM 6,475,845 as expenses. Damaged and demolished equipment and inventories were not insured against the risk of flooding.

12. FINANCE INCOME AND EXPENSES

	In BAM	
	Year Ended December 31,	
	2015	2014
Interest income:		
- interest on deposits	2,290,708	3,003,840
- other interest income	1,091,736	955,844
	3,382,444	3,959,684
Other finance income	1,005,783	915,461
Foreign exchange gains	474,623	85,398
Total finance income	4,862,850	4,960,543
Interest expenses:		
- arising from loan agreements	(447,313)	(759,510)
- other interest expenses	(490,394)	(41,485)
	(937,707)	(800,995)
Foreign exchange losses	(1,022,201)	(537,464)
Total finance expenses	(1,959,908)	(1,338,459)
Finance income, net	**2,902,942**	**3,622,084**

13. INTANGIBLE ASSETS AND GOODWILL

In BAM
December 31, 2015 and December 31, 2014

	Goodwill	Customer Relations	GSM License	UMTS License	Other Licenses	Other Intangible Assets	Investments in Progress	Total Intangible Assets
Cost								
Balance, January 1, 2014	-	-	117,182,447	23,296,086	6,358,639	37,046,174	-	183,883,346
Additions	-	-	-	-	19,045	-	-	19,045
Assets acquired through business combinations	10,339,849	390,723	-	-	38,773	5,746,990	-	16,516,335
Transfer from property and equipment	-	-	-	-	134,676	8,876,525	-	9,011,201
Retirement and disposal	-	-	-	-	-	(10,271)	-	(10,271)
Balance, December 31, 2014	**10,339,849**	**390,723**	**117,182,447**	**23,296,086**	**6,551,133**	**51,659,418**	**-**	**209,419,656**
Balance, January 1, 2015	10,339,849	390,723	117,182,447	23,296,086	6,551,133	51,659,418	-	209,419,656
Additions	-	-	-	-	1,320	181,727	9,897,574	10,080,621
Activations	-	-	-	-	962,459	6,565,576	(7,528,035)	-
Transfer from property and equipment	-	-	-	-	36,895	1,976,505	22,621,800	24,635,200
Retirement and disposal	-	-	-	-	(196,617)	(84,721)	-	(281,338)
Transfer to other classes	-	-	-	-	-	(6,225)	-	(6,225)
Balance, December 31, 2015	**10,339,849**	**390,723**	**117,182,447**	**23,296,086**	**7,355,190**	**60,292,280**	**24,991,339**	**243,847,914**
Accumulated Amortization								
Balance, January 1, 2014	-	-	71,937,006	7,251,295	4,838,764	29,030,959	-	113,058,024
Charge for the year	-	6,137	7,812,164	1,553,849	672,555	4,931,567	-	14,976,272
Transfer from property and equipment	-	-	-	-	-	406,150	-	406,150
Retirement and disposal	-	-	-	-	-	(10,271)	-	(10,271)
Balance, December 31, 2014	**-**	**6,137**	**79,749,170**	**8,805,144**	**5,511,319**	**34,358,405**	**-**	**128,430,175**
Balance, January 1, 2015	-	6,137	79,749,170	8,805,144	5,511,319	34,358,405	-	128,430,175
Charge for the year	-	24,548	7,816,069	1,553,849	727,442	5,995,035	-	16,116,943
Retirement and disposal	-	-	-	-	(190,930)	(83,511)	-	(274,441)
Transfer to other classes	-	-	-	-	-	(4,980)	-	(4,980)
Balance, December 31, 2015	**-**	**30,685**	**87,565,239**	**10,358,993**	**6,047,831**	**40,264,949**	**-**	**144,267,697**
Net Book Value								
- December 31, 2015	**10,339,849**	**360,038**	**29,617,208**	**12,937,093**	**1,307,359**	**20,027,331**	**24,991,339**	**99,580,217**
- December 31, 2014	**10,339,849**	**384,586**	**37,433,277**	**14,490,942**	**1,039,814**	**17,301,013**	**-**	**80,989,481**

Goodwill amounting to BAM 10,339,849 represents surplus assets upon acquisition through a business combination in excess of Mtel a.d. Banja Luka's share in the net fair value of the identifiable assets, recognized liabilities and contingent liabilities of the acquired subsidiary Logosoft d.o.o. Sarajevo (*Note 39*).

As at December 31, 2015, the Company assessed goodwill for potential impairment in accordance with IAS 36 *Impairment of Assets*, based on the analyses of the discounted cash flows, the sales volume realized through the current activities and the new activities, savings and investments as well as other operating activities of the subsidiary planned for the forthcoming periods. Upon impairment assessment of the said investment, the Company used business projections over a period of 10 years and a discount rate of 14.5%. According to these projections, the expected growth of operating income should be about 9% annually and the projected growth of operating costs equals 5% annually. Given that the subsidiary's performance for the first two months of 2016 (January – February) exceeded the initially projected performance for 2016 by 25%, the management believes that the business plan is feasible, upon fulfillment of cewrtain prerequisites that affect the subsidiary's future results. The management will perform adequate assessments of the said investments for potential impairment in each ensuing period and, if the investment's recoverable amount should be below its carrying amount, the respective impairment losses will be adequately recognized and charged to the profit and loss of the period(s) when identified.

13. INTANGIBLE ASSETS AND GOODWILL (Continued)

Customer relations represent contractual relations with the users of the services of the consolidated subsidiary Logosoft d.o.o., Sarajevo, which are amortized over a period of 16 years.

The GSM license represents a special permit to provide GSM services in the territory of Bosnia and Herzegovina issued by the Communications Regulatory Agency of Bosnia and Herzegovina (“RAK”), for a period of 15 years from the date of the license issuance, as from October 12, 2004.

Another significant telecommunication license relates to the license for the Universal Mobile Telecommunication Systems (UMTS license). Namely, on March 26, 2009, RAK issued to the Company a license to provide mobile services within universal mobile telecommunication systems (UMTS license), valid from April 1, 2009 to April 1, 2024 (15 years).

Other intangible assets mainly consist of software. Other intangible assets acquired through a business combination in 2014 amounting to BAM 5,746,990 mostly relate to the assessed fair value of the software internally generated by the consolidated subsidiary Logosoft d.o.o., Sarajevo.

Investments in progress mostly refer to the software in progress.

During FY 2015, the Company transferred from property and equipment – investments in progress to intangible assets – investments in progress assets totaling BAM 22,621,800 due to the fact that additions to the intangible assets in progress had initially been recorded on the account of property and equipment in progress.

14. PROPERTY AND EQUIPMENT

In BAM
December 31, 2015 and December 31, 2014

	Land	Infrastructure	Leasehold Improvements	Equipment	Investments in Progress	Total Property and Equipment
Cost						
Balance, January 1, 2014	1,368,738	610,580,495	2,602,622	686,338,464	103,465,234	1,404,355,553
Additions	-	89,412	-	3,238,133	93,999,326	97,326,871
Assets acquired through business combinations	-	8,110,738	-	5,168,776	357,880	13,637,394
Activations and transfers	12,119	8,777,915	63,853	31,137,555	(39,991,442)	-
Transfer to intangible assets	-	-	-	(685,880)	(8,325,321)	(9,011,201)
Retirement of property and equipment damaged and demolished by flooding	-	(37,590)	-	(55,178,132)	(1,511,249)	(56,726,971)
Disposal and retirement	-	(144,665)	(34,990)	(9,606,100)	(508,134)	(10,293,889)
Shortages	-	-	-	(59,768)	-	(59,768)
Surpluses	-	-	-	693	-	693
Dismantlement of equipment	-	-	-	(880,682)	270,105	(610,577)
Transfer to assets held for sale	-	-	-	(1,385,745)	(357,296)	(1,743,041)
Other	-	(2,571)	-	(156,644)	(1,093,909)	(1,253,124)
Balance, December 31, 2014	**1,380,857**	**627,373,734**	**2,631,485**	**657,930,670**	**146,305,194**	**1,435,621,940**
Balance, January 1, 2015	1,380,857	627,373,734	2,631,485	657,930,670	146,305,194	1,435,621,940
Additions	-	431,428	57,365	2,363,836	99,091,132	101,943,761
Activations and transfers	80,490	20,504,590	677,948	101,984,192	(123,247,220)	-
Transfer to intangible assets	-	-	-	-	(24,635,200)	(24,635,200)
Disposal and retirement	-	(1,094,209)	-	(72,676,705)	(98,772)	(73,869,686)
Shortages	-	-	-	(15,935)	(372)	(16,307)
Surpluses	-	12,130	-	-	-	12,130
Dismantlement of equipment	-	-	-	(146,280)	(44)	(146,324)
Sales of property and equipment	-	(50,398)	-	-	-	(50,398)
Transfers to other classes of assets	-	-	-	(17,488)	-	(17,488)
Transfers among categories	-	(507,586)	-	507,586	-	-
Balance, December 31, 2015	**1,461,347**	**646,669,689**	**3,366,798**	**689,929,876**	**97,414,718**	**1,438,842,428**
Accumulated depreciation						
Balance, January 1, 2014	-	397,342,878	2,081,622	499,526,639	-	898,951,139
Charge for the year	-	24,480,283	328,981	59,467,646	-	84,276,910
Transfer to intangible assets	-	-	-	(406,150)	-	(406,150)
Retirement of property and equipment damaged and demolished by flooding	-	(37,590)	-	(50,571,158)	-	(50,608,748)
Disposal and retirement	-	(80,109)	(20,747)	(8,545,691)	-	(8,646,547)
Shortages	-	-	-	(56,091)	-	(56,091)
Surpluses	-	-	-	312	-	312
Dismantlement of equipment	-	-	-	(610,577)	-	(610,577)
Transfer to assets held for sale	-	-	-	(1,205,128)	-	(1,205,128)
Other	-	35,124	-	(35,124)	-	-
Balance, December 31, 2014	**-**	**421,740,586**	**2,389,856**	**497,564,678**	**-**	**921,695,120**
Balance, January 1, 2015	-	421,740,586	2,389,856	497,564,678	-	921,695,120
Charge for the year	-	25,267,037	348,103	54,192,844	-	79,807,984
Disposal and retirement	-	(1,034,693)	-	(72,117,006)	-	(73,151,699)
Shortages	-	-	-	(11,056)	-	(11,056)
Surpluses	-	1,437	-	-	-	1,437
Dismantlement of equipment	-	-	-	(146,324)	-	(146,324)
Sales of property and equipment	-	(12,836)	-	-	-	(12,836)
Transfers to other classes of assets	-	-	-	(9,990)	-	(9,990)
Transfers among categories	-	(270,228)	-	270,228	-	-
Balance, December 31, 2015	**-**	**445,691,303**	**2,737,959**	**479,743,374**	**-**	**928,172,636**
Net Book Value						
- December 31, 2015	**1,461,347**	**200,978,386**	**628,839**	**210,186,502**	**97,414,718**	**510,669,792**
- December 31, 2014	**1,380,857**	**205,633,148**	**241,629**	**160,365,992**	**146,305,194**	**513,926,820**

As at December 31, 2015, investments in progress mainly related to the purchased telecommunication equipment not yet placed into use.

As at December 31, 2015, there were no encumbrances on and restrictions to the Group's titles and ownership rights over property and equipment. Contractually agreed but not yet realized liabilities of the Group for capital expenditures totaled BAM 32,946,019 as of December 31, 2015.

15. INVESTMENTS IN THE ASSOCIATES

In BAM

	Equity Interest	December 31, 2015	December 31, 2014
Investment in **Mtel d.o.o. Podgorica (Montenegro):**	49%		
- Cost of the investment		74,563,739	57,939,184
- Adjustment of the cost of investment based on recognition of portion of profit/(loss) using the equity method		2,174,648	2,037,291
Investment in Mtel d.o.o. Podgorica, net		**76,738,387**	**59,976,475**

As of December 31, 2015, the Group held a 49% equity interest in Mtel d.o.o. Podgorica, Republic of Montenegro, which is also involved in provision of telecommunication services in the territory of Montenegro. On February 1, 2010, the Group executed an agreement with Ogalar B.V. Netherlands on the purchase of a 49% equity interest in Mtel d.o.o. Podgorica for the total amount of BAM 19,558,300 (EUR 10,000,000). During February 2010, the Group paid the full contracted amount. Following the purchase of the equity interest, based on Decision of the Company's Management Board number 1-02-5691/10 dated March 26, 2010, further investment in Mtel d.o.o. Podgorica was made in the total amount of EUR 19,600,000.

On January 29, 2015, based on the Decision of the Management Board, Mtel a.d. Banja Luka executed the Agreement on Transfer of the 100% Equity Interest in the Company for Production, Trade and Services Cabling d.o.o., Budva (hereinafter: "Cabling"). The agreed price amounted to EUR 8,500,000. Pursuant to the Agreement on Transfer, the Company became the sole founder and owner (100%) of Cabling, which was duly registered with the Central Register of Commercial Entities of the Montenegro Ministry of Finance on March 10, 2015.

On May 29, 2015 the Management Board of Mtel a.d. Banja Luka enacted Decision approving the non-monetary capital contribution to the Telecommunications Company Mtel d.o.o. Podgorica through the transfer of entitlement to the 100% equity investment in Cabling d.o.o. Budva (purchased in March 2015, *Note 39*), thus increasing the value of the equity interest held by Mtel a.d. Banja Luka in Mtel d.o.o. Podgorica by EUR 8,500,000 (*Note 39*).

On September 30, 2015 a status change of merger and acquisition of Cabling was performed by Mtel d.o.o. Podgorica. The M&A was performed trough the simplified procedure in accordance with the company Law of Montenegro, after which the entity Cabling was deleted from the Central Register of Commercial Entities of the Montenegro Ministry of Finance.

The ownership structure of the associate Mtel d.o.o. Podgorica remained unaltered as of these consolidated financial statements' preparation date since the ultimate parent of the Group, (Telekom Srbija a.d. Beograd), made a capital increase commensurately to its equity interest held in the associate.

The value of the total equity investment in Mtel d.o.o. Podgorica, after the originally agreed amount for the purchase of the initial 49% equity interest, capital increase and other costs directly related to this transaction, and finally, non-monetary contribution made, amounted to BAM 74,563,739.

Investment in the associate Mtel d.o.o. Podgorica is accounted for using the equity method. The Group's share in the profit of the associate for the year 2015 amounted to BAM 137,357.

Mtel d.o.o. Podgorica has prepared its consolidated financial statements for the year ended December 31, 2015.

15. INVESTMENTS IN THE ASSOCIATES (Continued)

Movements on investments in the associate Mtel d.o.o. Podgorica were as follows:

	Year Ended December 31, 2015	In BAM Year Ended December 31, 2014
Balance, January 1	59,976,475	59,509,807
Non-monetary capital contribution	16,624,555	-
The share in the profit of the associate accounted for using the equity method (*Note 3.1d*)	137,357	466,668
Balance, end of year	**76,738,387**	**59,976,475**

Summarized financial information of the associate Mtel d.o.o. Podgorica presented in accordance with IFRS was as follows:

	December 31, 2015	In BAM December 31, 2014
Non-current assets	127,410,271	99,904,323
Current assets	62,273,512	26,007,426
Current liabilities	75,759,951	49,642,550
Non-current liabilities	41,316,580	25,603,669

	December 31, 2015	In BAM December 31, 2014
Income	86,112,907	80,245,909
Profit from continuing operations	2,621,282	2,402,303
Net profit for the year	280,321	952,384
Other comprehensive income for the year	-	-
Total comprehensive income of the associate	**280,321**	**952,384**
Dividends received from the associate	-	-

16. OTHER INVESTMENTS

	Equity Interest	December 31, 2015	In BAM December 31, 2014
Securities available for sale:			
- Nova banka a.d. Banja Luka	0.02%	5,348	6,174
- Center for International Law and International Business Cooperation Banja Luka	22.97%	400	400
		5,748	6,574
Securities held to maturity:			
- Long-term bonds of the Republic of Srpska		86,650	97,480
		92,398	**104,054**

Shares of Nova banka a.d., Banja Luka (comprising 0.02% of the Bank's capital) are listed in an active but insufficiently developed financial market of the Republic of Srpska and measured at fair value as of the statement of financial position date, where the changes in fair values were stated as gains/(losses) on securities available for sale within the statement of other comprehensive income.

16. OTHER INVESTMENTS (Continued)

Securities held to maturity relate to the bonds of the Republic of Srpska issued by the RS Ministry of Finance in order to pay for the debt of budget beneficiaries towards to the Group. The bonds were issued with maturities of up to 15 years, starting from December 31, 2007, with the grace period of 5 years and an interest rate of 1.5% annually. The bonds are measured at amortized cost applying the effective interest rate.

17. LONG-TERM RECEIVABLES AND LOANS

		In BAM
	December 31, 2015	**December 31, 2014**
Long-term loans to employees	177,698	208,278
Less: Current portion of long-term loans matured within one year (*Note 23*)	(79,736)	(75,891)
Total long-term loans to employees	97,962	132,387
Other long-term investments:		
- Komercijalna banka a.d., Banja Luka	-	3,000,000
- Sberbank a.d., Banja Luka	4,500,000	16,500,000
- UniCredit a.d., Banja Luka	5,000,000	5,000,000
- Nova banka a.d., Banja Luka	9,000,000	9,000,000
- Telekom Slovenia	176,025	176,025
- other long-term investments	29,330	-
Total other long-term investments	18,705,355	33,676,025
Total long-term receivables and loans	**18,803,317**	**33,808,412**
Less: Accumulated impairment losses:		
- other long-term investments	(45,046)	(48,861)
Less: Accumulated impairment losses:		
- long-term loans	(18,471)	(25,981)
	18,739,800	**33,733,570**

The Company placed long-term deposits with commercial banks in Bosnia and Herzegovina at the interest rates ranging from 4% to 4.88% annually.

18. INVENTORIES

		In BAM
	December 31, 2015	**December 31, 2014**
Materials	4,170,300	4,414,904
Tools and fixtures	74,916	93,193
Goods	399,787	423,218
Materials for combined services	19,458,465	16,357,948
Advances paid to suppliers	1,246,095	978,120
	25,349,563	**22,267,383**

19. ASSETS HELD FOR SALE

		In BAM
	December 31,	**December 31,**
Assets held for sale	46,853	224,227
Less: Fair value adjustment	-	(99,057)
	46,853	**125,170**

20. TRADE RECEIVABLES

	December 31, 2015	In BAM December 31, 2014
Trade receivables:		
- related parties	2,035,649	2,145,104
- domestic	90,485,116	87,386,240
- foreign	7,084,572	4,730,903
	99,605,337	94,262,247
Less: Allowance for impairment of trade receivables	(49,835,304)	(45,719,860)
	49,770,033	**48,542,387**

The aging structure of trade receivables as of December 31, 2015 and 2014 was as follows:

	December 31, 2015	In BAM December 31, 2014
From 0 to 30 days	46,009,078	46,354,089
From 31 to 60 days	3,760,955	2,188,298
From 61 to 120 days	1,853,995	1,616,305
From 121 to 180 days	1,342,688	1,139,275
From 181 to 270 days	1,910,808	1,514,080
From 271 to 360 days	1,652,286	1,104,993
Over 361 days	43,075,527	40,345,207
	99,605,337	**94,262,247**

The total gross trade receivables amounted to BAM 99,605,337 as of December 31, 2015. The Group made full impairment allowance for the trade receivables over 60 days past due.

The total amount of allowance for impairment of trade receivables amounted to BAM 49,835,304 as of December 31, 2015, representing 50.03% of the total gross value of trade receivables. Movements on the allowance for impairment of receivables are shown in *Note 22* to these consolidated financial statements.

As of December 31, 2015 matured trade receivables up to 60 days past due, which were not provided for, amounted to BAM 49,770,033. The average days sales outstanding in the course of 2015 counted 70 days (2014: 65 days).

21. OTHER RECEIVABLES

	December 31, 2015	In BAM December 31, 2014
Prepaid taxes	1,729,873	1,115,480
Receivables for sick leave allowances	663,245	585,131
Receivables for RTV fees	111,164	295,615
Interest receivable from banks	55,004	352,405
Other receivables	664,685	978,384
	3,223,971	3,327,015
Less: Allowance for impairment of other receivables	(962,585)	(956,636)
	2,261,386	**2,370,379**

22. ALLOWANCES FOR IMPAIRMENT OF RECEIVABLES

	Trade Receivables (*Note 20*)	Other Receivables (*Note 21*)	In BAM 2015 and 2014 Total
Balance, January 1, 2014	43,266,127	869,374	44,135,501
Charge for the year*(Note 10)*	3,467,776	87,262	3,555,038
Write-off	(1,191,216)	-	(1,191,216)
Increase through business combination	177,173	-	177,173
Balance, December 31, 2014	**45,719,860**	**956,636**	**46,676,496**
Balance, January 1, 2015	45,719,860	956,636	46,676,496
Charge for the year*(Note 10)*	5,421,135	45,040	5,466,175
Write-off	(1,295,991)	(39,091)	(1,335,082)
Other	(9,700)	-	(9,700)
Balance, December 31, 2015	**49,835,304**	**962,585**	**50,797,889**

23. DEPOSITS AND LOAN RECEIVABLES

	December 31, 2015	In BAM December 31, 2014
Short-term deposits	15,015,305	5,515,305
Loans to employees that mature in one year *(Note 17)*	79,736	75,891
	15,095,041	**5,591,196**

The breakdown of short-term deposits is provided below:

	Maturity	December 31, 2015	In BAM December 31, 2014
Short-term deposits:			
- Komercijalna banka a.d., Banja Luka	Sep. 27, 2016	3,000,000	-
- NLB Razvojna banka a.d., Banja Luka	Sep 25, 2015	-	5,500,000
- Sberbank a.d., Banja Luka	Sep. 27, 2016	12,000,000	-
- Others	2016	15,305	15,305
		15,015,305	**5,515,305**

In 2015 the Group's short-term deposits held with commercial banks were placed for the period of up to one year under arm's length terms at an average interest rate of 4.2%.

24. PREPAYMENTS

	December 31, 2015	In BAM December 31, 2014
Accrued receivables	6,893,820	7,217,100
Accrued receivables for combined services	16,498,816	9,903,066
Prepaid expenses	1,189,038	886,839
Deferred input and output advance invoices for the purpose of VAT accrual	1,043,784	1,389,017
	25,625,458	**19,396,022**

Accrued receivables relate to accrued but not invoiced income based on international traffic in relation to services performed in the current period, which will be invoiced in the future period.

Accrued receivables for combined services relate to the combined services sold, to which the Group applies the relative fair value method in order to determine separate qualifying elements within combined services with accrued income recognized at fair value of services charged, while the remaining portion is allocated onto the components delivered.

25. CASH AND CASH EQUIVALENTS

	December 31, 2015	In BAM December 31, 2014
Gyro accounts	25,113,746	69,510,450
Foreign currency accounts	21,904,939	19,021,377
Cash on hand	22,243	23,730
Cash equivalents	100,000	100,000
	47,140,928	**88,655,557**

26. EQUITY

Share Capital

The Company's share capital structure (as per the Book of Shareholders maintained by the Republic of Srpska Central Registry of Securities, Banja Luka) as of December 31, 2015 and 2014 was as follows:

	December 31, 2015	%	December 31, 2014	%
Telekom Srbija a.d. Beograd, Serbia	319,428,193	65.01	319,428,193	65.01
RS Pension and Disability Insurance Fund, Banja Luka	43,840,270	8.92	46,375,719	9.44
RS Restitution Fund, Banja Luka	24,715,439	5.03	24,715,439	5.03
ZIF Zepter fond a.d. Banja Luka	21,645,158	4.40	23,590,312	4.80
Other shareholders	81,754,695	16.64	77,274,092	15.72
	491,383,755	**100.00**	**491,383,755**	**100.00**

The Company's share capital in the amount of BAM 491,383,755 is fully paid in and divided into 491,383,755 ordinary shares, each with the par value of BAM 1. All shares are of the same class with equal rights comprising common stock (ordinary shares) and are registered in the name of the holder. Each share gives the right to one vote.

26. EQUITY (Continued)

Share Capital (Continued)

The Company's shares are listed on Banja Luka Stock Exchange (active but insufficiently developed financial market). The market value of one share as of December 31, 2015 was BAM 1.61 (December 31, 2014: BAM 1.59). Earnings and dividend per share are disclosed in *Note 37* to the consolidated financial statements.

Legal Reserves

Legal reserves amounting to BAM 49,141,766 as of December 31, 2015 represent allocations from profit made pursuant to Article 231 of the Company Law in the amount of no less than 5% of the net profit for the year less prior year losses until such reserves, together with equity reserves, attain a level equivalent to 10% of the Company's total core capital or the legally defined greater portion of the core capital.

Legal reserves are used for loss absorption and if they exceed 10% of the core capital or the legally defined greater portion thereof they may be utilized to increase the registered capital.

Other Reserves - Reserves Arising on the Investment Commitment

As of December 31, 2015 other reserves amounting to BAM 97,791,500 entirely pertained to the reserves formed during 2008 based on the execution of the commitment to invest undertaken by the majority owner ("Telekom Srbija" a.d., Beograd), as the purchaser of the majority block of the Company's shares. Pursuant to the Sales and Purchase Agreement for the Company's shares dated January 19, 2007, the purchaser ("Telekom Srbija") committed to invest into the Company within a year from the transaction date (June 18, 2007), in cash or in kind, an amount equaling or exceeding EUR 50,000,000 (the final date for fulfillment of the investing commitment was extended for the additional 6 months, i.e. until December 18, 2008). The majority owner paid in the entire amount within the time stipulated, and the Company recorded these payments amounting to BAM 97,791,500 as other reserves.

27. INTEREST BEARING LOANS AND BORROWINGS

In BAM

	December 31, 2015	December 31, 2014
a) Long-term borrowings:		
- borrowings for purchases of equipment	44,265,804	26,727,959
b) Other long-term liabilities	-	5,637,679
Total non-current portion of liabilities	**44,265,804**	**32,365,638**
Less: current portion of:		
- long-term borrowings	(12,953,533)	(5,891,962)
- other long-term liabilities	-	(5,637,679)
Total current portion of liabilities	**(12,953,533)**	**(11,529,641)**
	31,312,271	**20,835,997**

27. INTEREST BEARING LOANS AND BORROWINGS (Continued)

a) Long-term borrowings **In BAM**

	Current Portion		Non-Current Portion	
	December 31, 2015	**December 31, 2014**	**December 31, 2015**	**December 31, 2014**
Loans for purchase of equipment - at amortized cost:				
Telegroup d.o.o. Banja Luka	-	-	1,707,139	-
Mtel d.o.o. Podgorica	-	-	82,145	-
Nokia Siemens Networks Finance B.V. Netherlands	1,060,925	-	3,660,952	-
Huawei International PTE Ltd. Singapore	8,067,727	3,339,810	15,234,323	12,317,945
Huawei International CO Ltd. Hong Kong	748,031	-	1,179,291	-
Intracom Telecom d.o.o. Beograd, Serbia	-	-	774,509	-
Alcatel - Lucent International, Paris, France	2,885,528	2,380,245	3,367,128	5,146,866
Alcatel Lucent- Beograd	-	-	1,746,172	-
Kingdom of Spain Government	191,322	171,907	3,560,612	3,371,186
	12,953,533	**5,891,962**	**31,312,271**	**20,835,997**

The average interest rate accrued on long-term borrowings (cash and loans for purchase of equipment) equals six-month EURIBOR as increased by the margin ranging from 0.8% to 1% annually (2014: six-month EURIBOR as increased by the margin ranging from 0.8% to 1% annually).

During 2015 by obtaining new short-term and long-term borrowings, the Group purchased equipment in the aggregate amount of BAM 25,473,006.

The outstanding interest payables related to the aforesaid loans as of December 31, 2015 are presented in *Note 34*. All borrowings, except for those obtained from the Government of the Kingdom of Spain and Telegroup d.o.o. Banja Luka, are denominated in EUR.

The Company settles it liabilities arising from borrowings according to the contractually defined repayment schedules. The Company complies with all other loan agreement provisions. There has been no non-compliance that could give rise to any creditor demanding early loan repayment.

b) Other Long-Term Liabilities **In BAM**

	Current Portion		Non-Current Portion	
	December 31, 2015	**December 31, 2014**	**December 31, 2015**	**December 31, 2014**
At amortized cost::				
Communication Regulatory Agency of Bosnia and Herzegovina (UMTS license)	-	5,637,679	-	-
	-	**5,637,679**	**-**	**-**

Other long-term liabilities relate to the liabilities towards the Communications Regulatory Agency of Bosnia and Herzegovina (“RAK”) based on the issued telecommunication license (UMTS license).

The liability towards the Communications Regulatory Agency of Bosnia and Herzegovina, based on the assigned telecommunications licenses are stated at amortized cost using the effective interest rate.

27. INTEREST BEARING LOANS AND BORROWINGS (Continued)

Maturities of long-term borrowings and other liabilities are presented in the following table:

	December 31, 2015	In BAM December 31, 2014
Current portions	12,953,533	11,529,641
From 1 to 2 years	12,074,147	8,702,602
From 2 to 3 years	10,147,039	6,029,794
From 3 to 4 years	4,549,931	3,248,137
From 4 to 5 years	1,745,831	171,907
After 5 years	2,795,323	2,683,557
Total non-current portion of borrowings and other long-term liabilities	31,312,271	20,835,997
	44,265,804	**32,365,638**

28. OTHER LONG-TERM FINANCIAL LIABILITIES

	December 31, 2015	In BAM December 31, 2014
Commitment in respect of the purchase of the remaining equity interest in the subsidiary Logosoft d.o.o. Sarajevo	9,922,415	9,922,415
Less: Adjustment to the present value of the commitment	(517,282)	(1,007,597)
Transfer to the current portion	(9,405,133)	-
Present value of the commitment, non-current portion	**-**	**8,914,818**

Other long-term financial liabilities of BAM 9,405,133, net represent the present value of the commitment in respect of the acquisition of the remaining equity interest (35%) in the subsidiary Logosoft d.o.o. Sarajevo. The present value of the commitment was determined under the assumption that the payment in this respect will be made up to December 31, 2016, as in accordance with the Logosoft equity interest purchase agreement.

29. DEFERRED INCOME

	December 31, 2015	In BAM December 31, 2014
Grants received	189,636	554,414
Less: Current portion of deferred income	(133,078)	(277,911)
	56,558	**276,503**

Deferred income arising from the grants received relates to the equipment donated to the Group (mainly by the Government).

Movements on deferred income for FY 2015 and FY 2014 were as follows:

	In BAM Year Ended December 31, 2015	2014
Balance, January 1	554,414	1,494,676
Reversal credited to other income	(364,778)	(940,262)
Balance, end of year	**189,636**	**554,414**

30. EMPLOYEE BENEFITS

In BAM

	December 31, 2015	December 31, 2014
Employee benefits		
- current portion	6,335,950	6,711,970
- non-current portion	712,772	530,617
	7,048,722	**7,242,587**

Long-term provisions for employee benefits as of December 31, 2015 in the amount of BAM 7,048,722 relate to the non-current and current provisions formed based on the calculation of present value of accumulated employee entitlements to retirement benefits and jubilee awards in accordance with IAS 19 *Employee Benefits*.

The cost associated with the retirement benefits and jubilee awards are determined using the projected unit credit method, with actuarial calculation performed as of the date of the financial position statement. Accordingly, the Group has hired a certified actuary to perform the calculation of the present value of accumulated rights to retirement benefits and jubilee awards as at December 31, 2015 on behalf of the Group. When calculating the present value of these accumulated rights to retirement benefits and jubilee awards, the authorized actuary used the following assumptions: a discount rate ranging from 4.5% to 5% annually, projected salary growth rate ranging from 2% to 3% annually, projected years of service for retirement - 40 years for men and 35 to 40 years for women, the projected staff turnover on the basis of historical data on the movement of employees in the past, officially published mortality rates and other conditions necessary for exercising the right to retirement benefits and jubilee awards.

Numbers of monthly salaries for the jubilee awards are shown in the table below:

Number of years of service with the Company	Number of salaries as per the Collective Bargaining Agreement
10	½
20	1
30	2

Movements on long-term provisions for employee benefits in 2015 and 2014 were as follows:

In BAM

	Current portion		Non-current portion	
	December 31, 2015	December 31, 2014	December 31, 2015	December 31, 2014
Balance, January 1	530,617	503,405	6,711,970	6,579,093
Increase through a business combination	-	-	-	19,403
Adjustment to the present value, end of year	25,568	(100,692)	210,033	652,892
Transfer to current portion of provision	586,052	539,418	(586,053)	(539,418)
Reversal of provision during the year	(429,465)	(411,514)	-	-
Balance, end of year	**712,772**	**530,617**	**6,335,950**	**6,711,970**

31. PROVISIONS

	In BAM Year Ended December 31, 2015	2014
Balance, January 1	281,225	271,803
Provisions for litigations	4,500	59,422
Reversal of provisions for litigations	(80,744)	(50,000)
Balance, end of year	**204,981**	**281,225**

32. TRADE PAYABLES

	December 31, 2015	In BAM December 31, 2014
Trade payables:		
- related parties	2,857,474	5,835,710
- domestic	50,403,526	42,432,647
- foreign	8,054,256	6,513,180
- uninvoiced investments and services	1,519,463	6,340,688
	62,834,719	**61,122,225**

Trade payables are non-interest bearing. The Group regularly settles its liabilities to suppliers and has financial risk management policies in place which ensure that the liabilities are settled within the agreed time lines. The average days payable outstanding in the course of 2015 counted 65 days (2014: 61 days).

The ageing structure of trade payables as December 31, 2015 and 2014 was as follows:

	December 31, 2015	In BAM December 31, 2014
From 0 to 30 days	46,680,521	42,238,096
From 31 to 60 days	7,146,227	6,446,120
From 61 to 120 days	5,115,726	5,283,570
From 121 to 180 days	1,004,696	3,479,746
From 181 to 270 days	1,325,684	1,016,388
From 271 to 360 days	1,561,865	2,658,305
	62,834,719	**61,122,225**

33. ACCRUALS

	December 31, 2015	In BAM December 31, 2014
Deferred income – sales of prepaid top-ups	4,683,931	4,101,527
Deferred income - sale of rights to top-up	1,264,749	1,285,261
Accrued liabilities – international traffic	24,348,275	18,741,251
Accrued liabilities – media content distribution/broadcasting	1,311,377	911,692
Accrued liabilities per other expenses	12,179,148	13,271,364
Accrued VAT liabilities on advance invoices	921,063	1,236,951
Other accruals	271,767	274,934
	44,980,310	**39,822,980**

33. ACCRUALS (Continued)

Accrued liabilities for international traffic totaling BAM 24,348,275 as of December 31, 2015 mostly, in the amount of BAM 21,355,904, relate to the estimates of roaming discounts that the Company needed to approve based on the international traffic realized with other operators, for which final invoices had not yet been issued or calculation received from the clearing house (*Note 3.2.7 b*).

Accrued liabilities per other expenses amounting to BAM 12,179,148 as of December 31, 2015 represent current year's expenses for which there were sufficient information on their existence and inception yet the Group had not received the final invoices for services or goods received until these consolidated financial statements' preparation date.

34. OTHER LIABILITIES

In BAM

	December 31, 2015	December 31, 2014
Advances and prepayments received	1,594,758	1,319,140
Liabilities for incorrect customer payments	52,184	56,225
Liabilities for RTV fees	54,391	39,520
Taxes and customs duties charged to expenses	276,636	283,912
Interest payables	82,710	68,721
Sponsorships and financial aid allocated from profit	56,497	56,497
Value added tax payable	26,253	-
Liabilities to employees	248,041	215,099
Other liabilities	37,390	21,847
	2,428,860	**2,060,961**

35. INCOME TAXES

(a) Components of Income Taxes

In BAM

	Year Ended December 31, 2015	Year Ended December 31, 2014
Current income tax expenses	9,273,113	12,002,125
Deferred tax benefits – increase in deferred tax assets	(45,754)	(148,362)
Deferred tax liabilities – decrease	(190,218)	(50,132)
	9,037,141	**11,803,631**

(b) Numerical Reconciliation between Tax Expense and the Product of the Accounting Results Multiplied by the Statutory Tax Rate

In BAM

	Year Ended December 31, 2015	Year Ended December 31, 2014
Profit before taxes	85,363,472	118,189,486
Income taxes calculated at the rate of 10%	8,536,347	11,818,949
Adjustments for:		
- Non-taxable income effects	(246,323)	(354,825)
- Non-deductible costs effects	983,089	538,001
Income tax expense	9,273,113	12,002,125
Effective tax rate for the year	10.86%	10.15%

35. INCOME TAXES (Continued)

(c) Deferred Tax Assets

	In BAM Year Ended December 31, 2015	2014
Temporary differences on property and equipment:		
Balance, January 1	481,620	333,258
Deferred tax assets in respect of property and equipment measurement for tax purposes	45,754	148,362
Balance, end of year	**527,374**	**481,620**

(d) Deferred Tax Liabilities

	In BAM December 31, 2015	December 31, 2014
Temporary differences as per business combination		
Balance, January 1	(1,342,206)	-
Initial recognition of deferred taxes per business combination	-	(1,392,338)
Decrease in deferred tax liabilities during the year	190,218	50,132
Balance, end of year	**(1,151,988)**	**(1,342,206)**

Deferred tax liabilities per business combination relate to the difference between the carrying values of intangible assets and equipment and the tax bases thereof arising from the business combination, i.e., purchase of the subsidiary Logosoft d.o.o. Sarajevo.

(e) Current Tax Liabilities/Prepaid

	In BAM December 31, 2015	December 31, 2014
Prepaid income taxes	2,011,546	-
Current income tax liabilities	-	1,526,504
	2,011,546	**1,526,504**

36. RELATED PARTY TRANSACTIONS

The majority owner of the Group is Telekom Srbija a.d., Belgrade, whose majority shareholder is the Republic of Serbia.

The following table presents the receivables and payables arising from the related party transactions:

STATEMENT OF FINANCIAL POSITION		In BAM
	December 31, 2015	**December 31, 2014**
ASSETS		
a) Trade receivables:		
- Telekom Srbija a.d. Beograd	1,994,708	2,108,781
- MTEL d.o.o. Podgorica	35,816	36,323
- HD - WIN d.o.o. Beograd	5,125	-
	2,035,649	2,145,104
b) Calculated but uninvoiced income from international traffic:		
- Telekom Srbija a.d. Beograd	1,021,627	1,023,763
- MTEL d.o.o. Podgorica	7,094	17,344
	1,028,721	1,041,107
Total receivables	**3,064,370**	**3,186,211**
LIABILITIES		
a) Long-term liabilities:		
- MTEL d.o.o. Podgorica	(82,145)	-
b) Trade payables:		
- Telekom Srbija a.d. Beograd	(2,854,485)	(2,850,231)
- MTEL d.o.o. Podgorica	(2,989)	(130)
	(2,857,474)	(2,850,361)
c) Estimated costs:		
- Telekom Srbija a.d. Beograd	(460,798)	(430,491)
- MTEL d.o.o. Podgorica	(20,338)	(23,693)
- HD - WIN d.o.o. Beograd	(91,044)	(60,240)
	(572,180)	(514,424)
Total liabilities	**(3,511,799)**	**(3,364,785)**
Liabilities, net	**(447,429)**	**(178,574)**

36. RELATED PARTY TRANSACTIONS (Continued)

Related party transactions were performed under terms and conditions that are the same as or similar to those applying to the arm's length transactions.

STATEMENT OF COMPREHENSIVE INCOME	In BAM Year Ended December 31, 2015	2014
INCOME		
a) Sales of services:		
- Telekom Srbija a.d. Beograd	13,150,567	15,166,755
- MTEL d.o.o. Podgorica	145,692	220,456
- HD - WIN d.o.o. Beograd	61,491	-
	13,357,750	15,387,211
b) Other income:		
- Telekom Srbija a.d. Beograd	10,757	-
Total income	**13,368,507**	**15,387,211**
EXPENSES		
a) Costs of inter-operator settlement exclusive of roaming:		
- Telekom Srbija a.d. Beograd	(11,795,181)	(12,984,014)
b) Roaming costs:		
- Telekom Srbija a.d. Beograd	(1,141,334)	(1,464,545)
- MTEL d.o.o. Podgorica	(448,041)	(559,119)
	(1,589,375)	(2,023,664)
c) Lease of transmission lines:		
- Telekom Srbija a.d. Beograd	(280,693)	(300,695)
d) Costs of employee secondment:		
- Telekom Srbija a.d. Beograd	(73,834)	(83,280)
e) Cost of internet access:		
- Telekom Srbija a.d. Beograd	(1,024,757)	(1,024,333)
f) Cost of vlann connect:		
- Telekom Srbija a.d. Beograd	(41,527)	(37,949)
g) Cost of signal transmission/IPTV:		
- Telekom Srbija a.d. Beograd	(445,863)	(416,419)
- HD - WIN d.o.o. Beograd	(1,088,091)	(722,930)
	(1,533,954)	(1,139,349)
h) Maintenance costs:		
- Telekom Srbija a.d. Beograd	(355,315)	(348,381)
- MTEL d.o.o. Podgorica	(37,042)	(26,932)
	(392,357)	(375,313)
i) Other non-production services:		
- MTEL d.o.o. Podgorica	(1,647)	(2,306)
Total expenses	**(16,733,325)**	**(17,970,903)**
Expenses, net	**(3,364,818)**	**(2,583,692)**
Short-term remunerations to the key management personnel:		
- Executive Board	(1,125,117)	(739,711)
- Management Board	(261,180)	(276,167)
- Audit Committee	(83,020)	(81,205)
	(1,469,317)	**(1,097,083)**

37. EARNINGS PER SHARE

	In BAM Year Ended December 31, 2015	2014
Profit for the year	76,326,331	106,385,855
Weighted average number of shares outstanding	491,383,755	491,383,755
Earnings per share (basic and diluted)	0.1553	0.2165

On June 5, 2015, the Company's Assembly enacted Decision on the Distribution of Profit Earned in 2014, whereby the profit was distributed to the shareholders in accordance with the Company's Statute, in the amount of BAM 59,106,979.51 (BAM 0.12 per share).

In addition, on December 7, 2015, the Company's Assembly enacted Decision on Interim Dividend Payment in accordance with the Company's Statute, in the amount of BAM 43,036,181.86 (BAM 0.08758 per share).

Liabilities for the remaining unpaid dividends to the shareholders as of December 31, 2015 amounted to BAM 28,057,418 (December 31, 2014: BAM 22,027,695).

38. COMMITMENTS AND CONTINGENT LIABILITIES

Litigation

The Group appears at times as a defendant in legal suits filed against it by legal entities and private individuals claiming damages. The estimated contingent liabilities arising from lawsuits filed against the Group as at December 31, 2015 totaled BAM 89,138,275, excluding effects of penalty interest and court expenses.

The most significant court proceedings are those involving the following plaintiffs: Blicnet d.o.o. Banja Luka claiming BAM 41.4 million and Crumbgroup d.o.o. Bijeljina claiming BAM 42 million. Management uses legal advisory services in these cases, based on which it believes that the probability of negative outcomes for the Group is very remote, given that these lawsuits are lacking in merit.

Such belief is based on the fact that in all these suits, within legally prescribed proceedings, the competent courts have already established that there had been no illegality on the part of the Group. Management further expects that the final outcome of these disputes will not significantly or materially hinder the financial operations of the Group. Based on the aforesaid facts, the Group has not recorded provisions for the said legal suits nor does it consider any further disclosures in respect thereof necessary.

39. BUSINESS COMBINATIONS

a) Logosoft d.o.o. Sarajevo

As disclosed in *Notes 1* and *3* to the consolidated financial statements, on May 12, 2014, the Company executed the Agreement on the Purchase of Equity Interest in Logosoft d.o.o. Sarajevo. Under the aforesaid Agreement, the Company acquired a 65% equity interest in the subsidiary Logosoft. The contractually defined consideration amounted to BAM 18,427,341 and was fully paid up.

On October 1, 2014 the Company took over control over the subsidiary. The total cash and cash equivalents of Logosoft amounted to BAM 491,091 as of the control takeover date.

The subsidiary Logosoft was founded in 1995 as a company involved in informatics engineering. The subsidiary's first business activities included ICT system integration; two years after foundation, it became the first Internet service provider in Bosnia and Herzegovina. Nowadays the subsidiary provides services of internet access, telephony and television, computer equipment sales and service in system integration and IT training and consulting services.

Consideration for the acquisition of the 65% equity interest was fully paid in cash by the Company.

In addition, the aforesaid Agreement stipulates the Company's obligation to purchase the remaining equity interest in Logosoft (35%). In accordance with the Agreement, the Group estimated the amount of consideration payable for the remaining equity interest portion (where the Group has no option to withdraw) and recognized the aforesaid commitment at the present value as at the control takeover date.

Details of the acquired net assets and goodwill are provided below:

Acquired Assets

	In BAM
Paid in cash (65% of equity interest)	18,427,341
Present value of the commitment (35% of equity interest)	8,914,818
Fair value of net assets acquired	(17,002,310)
Goodwill (*Note 13*)	**10,339,849**

Goodwill arose upon acquisition of the subsidiary Logosoft because the price paid for the combination included the control premium. Goodwill is attributable to the synergy effects through the increased market share and provision of new services. In addition, the recognized goodwill includes all intangible assets the recognition of which is not permitted, such as acquired human resources.

Any goodwill arising on the aforedecsribed acquisition is not expected to be used as a deductible item for tax purposes.

The acquired assets and liabilities of the subsidiary Logosoft as at the acquisition date, October 1, 2014 are presented below:

	Fair Value	In BAM Carrying Value
Intangible assets	6,176,486	36,708
Property, plant and equipment	13,637,394	5,853,793
Long-term financial investments	123,460	123,460
Net current assets	(569,925)	(569,925)
Net debt	(972,767)	(972,767)
Net value of assets	18,394,648	4,471,269
Deferred tax liabilities	(1,392,338)	-
Acquired assets, net	**17,002,310**	**4,471,269**

39. BUSINESS COMBINATIONS (Continued)

a) Logosoft d.o.o. Sarajevo (Continued)

Had the acquisition of Logosoft taken place as of January 1, 2014, the Group's income for the year ended December 31, 2014 would have totaled BAM 503,540,194, while the Group's profit for the year would have amounted to BAM 104,803,609.

b) Cabling d.o.o. Budva

On January 29, 2015, pursuant to the relevant Management Board's Decision, Mtel a.d. Banja Luka executed the Agreement on the Transfer of 100% Equity Interest in the Company for Production, Trade and Services Cabling d.o.o., Budva (hereinafter: "Cabling"). The contractually defined price amounted to EUR 8,500,000. Under the aforesaid Agreement on Equity Interest Transfer, the Company became the sole (100%) owner and founder of Cabling, which was recorded with the Central Register of Commercial Entities maintained by the Ministry of Finance of Montenegro on March 10, 2015.

On May 29, 2015 the Company's Management Board enacted Decision to approve a non-monetary capital contribution to MTEL d.o.o. Podgorica through the transfer of the 100% equity interest held in Cabling d.o.o. Budva in the amount of EUR 8,500,000, which was equal to the amount of consideration paid by the Company for acquisition of the said equity interest in Cabling. Pursuant to the aforesaid Decision, on June 22, 2015 the Agreement on the Transfer of Equity Interest in Cabling was executed by and between Mtel a.d. Banja Luka and Mtel d.o.o. Podgorica. The Agreement legally defined the transfer of the 100% equity interest in Cabling by Mtel a.d. Banja Luka as the Transferor and Mtel d.o.o. Podgorica as the Acquirer of ownership of the aforesaid equity interest.

On September 30, 2015 a status change of merger and acquisition of Cabling was performed by Mtel d.o.o. Podgorica. The M&A was performed trough the simplified procedure in accordance with the company Law of Montenegro, after which the entity Cabling was deleted from the Central Register of Commercial Entities of the Montenegro Ministry of Finance.

The ownership structure of the associate Mtel d.o.o. Podgorica remained unaltered as of these consolidated financial statements' preparation date since the ultimate parent of the Group, (Telekom Srbija a.d. Beograd), made a capital increase commensurately to its equity interest held in the associate.

40. SEGMENT REPORTING

40.1. Segment Information

As of December 31, 2015, under IFRS 8, the Group's reporting segments were as follows:

1. Fixed-line telephony and Internet, and
2. Mobile telephony.

40.2. Segment Revenues and Results

The segment results for the year ended December 31, 2015 are presented in the following table:

In BAM

December 31, 2015	Fixed-Line Telephony and Internet	Mobile Telephony	Total
Sales of goods and services	213,308,358	254,554,089	467,862,447
Share in the profit of the associate	-	137,357	137,357
Other operating income	1,404,612	4,464,847	5,869,459
Inter-segment settlement	33,749,118	40,238,520	73,987,638
Total operating income	248,462,088	299,394,813	547,856,901
Cost of materials, goods and combined services	(17,059,190)	(46,672,351)	(63,731,541)
Staff costs	(36,672,852)	(43,321,142)	(79,993,994)
Depreciation and amortization charge	(53,120,897)	(42,804,030)	(95,924,927)
Share in the loss of an associate	-	-	-
Cost of production services	(58,586,817)	(63,617,741)	(122,204,558)
Other operating expenses	(9,753,764)	(19,799,949)	(29,553,713)
Inter-segment settlement	(40,238,520)	(33,749,118)	(73,987,638)
Total operating expenses	(215,432,040)	(249,964,331)	(465,396,371)
Profit from operations	**33,030,048**	**49,430,482**	**82,460,530**
Finance income	1,815,603	3,047,247	4,862,850
Finance expenses	(1,084,118)	(875,790)	(1,959,908)
Finance income, net	731,485	2,171,457	2,902,942
Profit before taxes	**33,761,533**	**51,601,939**	**85,363,472**
Income taxes	(3,904,214)	(5,132,927)	(9,037,141)
Net profit for the year	**29,857,319**	**46,469,012**	**76,326,331**

40. SEGMENT REPORTING (Continued)

40.2. Segment Revenues and Results (Continued)

The segment results for the year ended December 31, 2014 are presented in the following table:

In BAM

December 31, 2014	Fixed-Line Telephony and Internet	Mobile Telephony	Other	Total
Sales of goods and services	211,990,343	269,755,703	-	481,746,046
Share in the profit of the associate	-	466,668	-	466,668
Other operating income	1,878,703	4,252,273	209	6,131,185
Inter-segment settlement	27,670,382	52,742,362	9,775	80,422,519
Total operating income	241,539,428	327,217,006	9,984	568,766,418
Cost of materials, goods and combined services	(12,450,741)	(40,008,015)	(510)	(52,459,266)
Staff costs	(33,549,212)	(43,567,107)	(20,217)	(77,136,536)
Depreciation and amortization charge	(50,122,418)	(49,130,764)	-	(99,253,182)
Cost of production services	(56,095,946)	(55,309,618)	(2,944)	(111,408,508)
Other operating expenses	(8,579,314)	(18,462,570)	(1,276)	(27,043,160)
Inter-segment settlement	(53,363,445)	(27,058,652)	(422)	(80,422,519)
Total operating expenses	(214,161,076)	(233,536,726)	(25,369)	(447,723,171)
Profit from operations	**27,378,352**	**93,680,280**	**(15,385)**	**121,043,247**
Expenses incurred in property and equipment damaged and demolished by flooding	(1,458,038)	(5,017,807)	-	(6,475,845)
Finance income	1,872,350	3,088,188	5	4,960,543
Finance expenses	(368,050)	(970,409)	-	(1,338,459)
Finance income, net	1,504,300	2,117,779	5	3,622,084
Profit before taxes	**27,424,614**	**90,780,252**	**(15,380)**	**118,189,486**
Income taxes	(2,736,928)	(9,066,703)	-	(11,803,631)
Net profit for the year	**24,687,686**	**81,713,549**	**(15,380)**	**106,385,855**

Segment revenues and results reported above (for FY 2015 and FY 2014) represent revenue generated from external customers. Inter-segment sales during the year have been eliminated.

The accounting policies of the reporting segments are the same as the Group's accounting policies described in *Note 3*. Segment profit represents the profit earned by each segment with allocation of all costs, on the basis of the revenues earned by each individual reporting segment. This is the measure reported to the chief operating decision makers for the purposes of adequate resource allocation and assessment of segment performance.

The Group's revenue from its major services is presented in detail in *Note 5* to the consolidated financial statements.

40. SEGMENT REPORTING (Continued)

40.3 Segment Assets and Liabilities

Segment assets and liabilities as of December 31, 2015 are provided in the table below:

In BAM

December 31, 2015	Fixed-Line Telephony and Internet	Mobile Telephony	Inter-Segment Settlement	Total
ASSETS				
Non-current assets				
Intangible assets and goodwill	45,502,022	54,078,195	-	99,580,217
Property and equipment	320,772,476	189,897,316	-	510,669,792
Investments in an associate	-	76,738,387	-	76,738,387
Other investments	40,523	51,875	-	92,398
Long-term loans and receivables	8,309,741	10,430,059	-	18,739,800
Deferred tax assets	119,849	407,525	-	527,374
	374,744,611	331,603,357	-	706,347,968
Current assets				
Inventories	5,588,324	19,761,239	-	25,349,563
Assets held for sale	46,853	-	-	46,853
Trade receivables	23,958,619	24,659,739	1,151,675	49,770,033
Prepaid income taxes	988,629	1,022,917	-	2,011,546
Other receivables	894,629	1,366,757	-	2,261,386
Deposits and loan receivables	5,621,742	8,828,299	645,000	15,095,041
Prepayments	2,729,575	22,887,980	7,903	25,625,458
Cash and cash equivalents	18,308,437	28,832,491	-	47,140,928
	58,136,808	107,359,422	1,804,578	167,300,808
Total assets	**432,881,419**	**438,962,779**	**1,804,578**	**873,648,776**
LIABILITIES				
Non-current liabilities and provisions				
Interest bearing loans and borrowings	2,878,187	28,434,084	-	31,312,271
Deferred income	56,558	-	-	56,558
Deferred tax liabilities	1,151,988	-	-	1,151,988
Employee benefits	2,821,458	3,514,492	-	6,335,950
Provisions	90,192	114,789	-	204,981
	6,998,383	32,063,365	-	39,061,748
Current liabilities				
Interest bearing loans and borrowings	3,706,516	8,602,017	645,000	12,953,533
Other short-term financial liabilities	9,405,133	-	-	9,405,133
Trade payables	25,319,367	36,363,677	1,151,675	62,834,719
Accruals	6,627,113	38,345,294	7,903	44,980,310
Employee benefits	316,092	396,680	-	712,772
Deferred income	58,554	74,524	-	133,078
Dividend payables	13,156,664	14,900,754	-	28,057,418
Other current liabilities	781,115	1,647,745	-	2,428,860
	59,370,554	100,330,691	1,804,578	161,505,823
Total liabilities	**66,368,937**	**132,394,056**	**1,804,578**	**200,567,571**

40. SEGMENT REPORTING (Continued)

40.3 Segment Assets and Liabilities (Continued)

Segment assets and liabilities as of December 31, 2014 are provided in the table below:

In BAM

December 31, 2014	Fixed-Line Telephony and Internet	Mobile Telephony	Inter-Segment Settlement	Total
ASSETS				
Non-current assets				
Intangible assets and goodwill	21,798,166	59,191,315	-	80,989,481
Property and equipment	332,440,422	181,486,398	-	513,926,820
Investments in an associate	26,008,371	33,968,104	-	59,976,475
Other investments	45,136	58,918	-	104,054
Long-term loans and receivables	14,704,647	19,028,923	-	33,733,570
Deferred tax assets	119,281	362,339	-	481,620
	395,116,023	294,095,997	-	689,212,020
Current assets				
Inventories	5,498,192	16,769,191	-	22,267,383
Assets held for sale	114,362	10,808		125,170
Trade receivables	31,224,346	19,276,858	(1,958,817)	48,542,387
Prepaid income taxes	1,005,849	1,364,530	-	2,370,379
Other receivables	2,433,965	3,157,231	-	5,591,196
Deposits and loan receivables	1,977,637	17,413,738	4,647	19,396,022
Prepayments	36,499,313	52,156,244	-	88,655,557
	78,753,664	110,148,600	(1,954,170)	186,948,094
Total assets	**473,869,687**	**404,244,597**	**(1,954,170)**	**876,160,114**
LIABILITIES				
Non-current liabilities and provisions				
Interest bearing loans and borrowings	4,580,117	16,255,880	-	20,835,997
Other long-term financial liabilities	8,914,818	-	-	8,914,818
Deferred income	276,503	-	-	276,503
Deferred tax liabilities	500,487	841,719	-	1,342,206
Employee benefits	2,919,864	3,792,106	-	6,711,970
Provisions	120,927	160,298	-	281,225
	17,312,716	21,050,003	-	38,362,719
Current liabilities				
Interest bearing loans and borrowings	2,533,544	8,996,097	-	11,529,641
Trade payables	27,856,600	35,019,428	(1,753,803)	61,122,225
Accruals	5,270,333	34,753,014	(200,367)	39,822,980
Employee benefits	230,682	299,935	-	530,617
Deferred income	54,875	223,036	-	277,911
Dividend payables	10,297,787	11,729,908	-	22,027,695
Income taxes payable	569,209	957,295	-	1,526,504
Other current liabilities	1,270,790	790,171	-	2,060,961
	48,083,820	92,768,884	(1,954,170)	138,898,534
Total liabilities	**65,396,536**	**113,818,887**	**(1,954,170)**	**177,261,253**

For the purposes of monitoring segment performance and allocating adequate resources among the segments, all assets and liabilities are allocated to the reporting segments. Assets used jointly by the segments, as well as liabilities for which reporting segments are jointly liable, are allocated on the basis of the revenues earned by each individual reporting segment.

40. SEGMENT REPORTING (Continued)

40.4 Capital Expenditures of the Segments

Capital expenditures of the segments were as follows:

In BAM

	Fixed-Line Telephony and Internet	Mobile Telephony	Total
December 31, 2015			
Capital expenditures *(Notes 13 and 14)*	82,443,407	29,580,975	**112,024,382**
December 31, 2015			
Capital expenditures *(Notes 13 and 14)*	73,695,522	23,650,394	**97,345,916**

Capital expenditures include purchases of intangible assets, property and equipment during the reporting period.

40.5 Information about Major Customers

Due to the nature of telecommunication services, the Group does not have material concentration of large customers as it has a great number of unrelated customers with individually small turnover.

40.6 Geographical Information

The Company's country of origin and, at the same time, the center of business operations is Bosnia and Herzegovina. The Group generates most of its income in the territory of Bosnia and Herzegovina (89% of the total operating income).

41. FINANCIAL INSTRUMENTS

41.1 Capital Risk Management

There is no formal capital risk management framework implemented by the Group. The Management Board of the Company considers capital risk with a view to alleviating risks and ensuring that the Group will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt to equity ratio.

The capital structure of the Group consists of debt, which includes the borrowings (disclosed in Note 27), cash and cash equivalents and equity, comprising issued capital, reserves and retained earnings. The Management Board of the Company reviews the capital structure on an as-needed basis. Based on this review, the Company will balance its overall capital structure through new long-term investments as well as obtaining new borrowings or redemption of the existing debt. The Group's overall capital management strategy remains unchanged.

41.1.1. Debt to Equity Ratio

The Group's gearing ratios as of the year were as follows:

In BAM

	December 31, 2015	December 31, 2014
Debt (a)	44,265,804	32,365,638
Cash and cash equivalents	(47,140,928)	(88,655,557)
Net debt	**(2,875,124)**	**(56,289,919)**
Equity (b)	673,081,205	698,898,861
Debt to equity ratio	*Not applicable*	*Not applicable*

(a) Debt relates to long-term borrowings and current portion of long-term liabilities.
(b) Equity includes share capital, reserves and retained earnings.

41. FINANCIAL INSTRUMENTS (Continued)

41.1 Capital Risk Management (Continued)

41.1.2. Significant Accounting Policies Regarding Financial Instruments

The review of significant accounting policies and adopted principles, including the recognition criteria, basis of measurement and recognition of income and expenses for each category of financial assets and financial liabilities, is set out in *Note 3* to the consolidated financial statements.

41.1.3. Categories of Financial Instruments

Categories of financial instruments are presented as follows:

In BAM

	December 31, 2015	December 31, 2014
Financial assets		
Loans and receivables (including cash and cash equivalents)	131,194,970	178,542,394
Financial assets held to maturity	86,650	97,480
Securities available for sale	5,748	6,574
	131,287,368	178,646,448
Financial liabilities - at amortized cost	**116,649,622**	**102,493,207**

41.2. Financial Risk Management

In its regular course of business, the Group is exposed to certain financial risks, which are: market risk (comprised of currency risk, interest rate risk and price risk), liquidity risk and credit risk.

The risk management in the Group is focused on minimizing the potential adverse effects on the Group's financial position and business operations, contingent on the volatility of the market. The accounting policies adopted by the Group regulate the risk management.

The Group does not enter into transactions with derivative instruments, such as interest rate swaps or forwards. In addition, in 2015, the Group undertook no transactions with financial instruments.

(1) Market Risk

(a) Currency Risk

Although the Group performs a number of its transactions in foreign currencies, the Group's management holds that the Group is not significantly exposed to currency risk in transactions in the country and abroad, as it mostly performs its business operations in the local currency (Convertible Mark), as well as in EUR, to which the Convertible Mark is indexed-linked (EUR 1 = BAM 1.95583). Accordingly, the Group did not perform analysis of the sensitivity to the changes of the foreign exchange rates, except for the USD currency as it has certain liabilities denominated in USD.

The carrying values of financial assets and liabilities of the Group expressed in foreign currencies as of the reporting date were as follows:

In BAM

	Assets		Liabilities	
	December 31, 2015	December 31, 2014	December 31, 2015	December 31, 2014
EUR	30,608,936	25,576,719	49,048,895	32,428,025
USD	199,893	156,526	3,852,653	3,639,094
CHF	1,169	248	26,939	23,554
GBP	1,863	2,079	1,243	-
RSD	33	371	981	826
	30,811,894	25,735,943	52,930,711	36,091,499

41. FINANCIAL INSTRUMENTS (Continued)

41.2. Financial Risk Management (Continued)

(1) Market Risk (Continued)

(a) Currency Risk (Continued)

Sensitivity Analysis

Sensitivity analysis to changes in foreign currency was made only for USD, and determined based on the exposure to foreign currency exchange rate at the end of the reporting period. If the USD exchange rate were 10% higher / lower on an annual basis, the Group's net profit for FY 2015 would have decreased / increased by the amount of BAM 54,758 (FY 2014: BAM 45,207).

(b) Interest Rate Risk

The Group is exposed to various risks which through the effects of the fluctuations in the market interest rates influence its financial position and cash flows.

Given that the Group has no significant interest-bearing assets, the Group's income is to a great extent independent of interest rate risk. The Group's risk from the changes in the interest rates arises primarily on the long-term borrowings from banks and suppliers. The loans obtained at variable interest rates make the Group' susceptible to cash flow interest rate risk, while the loans obtained at fixed interest rates expose the Group to the fair value interest rate risk.

During the year ended December 31, 2015, the largest portion of the liabilities arising from borrowings had a variable interest rate which was linked to EURIBOR. Borrowings with variable interest rates were mostly denominated in foreign currency (EUR).

The Group analyzes its exposure to interest rate risk on a dynamic basis taking into consideration the alternative sources for financing and refinancing, of long-term liabilities in the first place, as these represent the most important interest-bearing item. The Group still does not swap variable for fixed interest rates, and vice versa, but takes steps to securitize loans from banks at more favorable terms.

Sensitivity Analysis

Sensitivity analysis to changes in interest rates is determined on the basis of exposure to interest rate of non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis has been prepared assuming that the outstanding liabilities at the end of the reporting period remained outstanding throughout the reporting period.

Had interest rates applied to cash loans and loans in kind during the reporting period been higher /lower by 10% annually where other variables remained unaltered, the Group's net profit for FY 2015 would have decreased / increased by BAM 44,731 (FY 2014: BAM 75,951) as a result of higher/lower interest expenses

(c) Equity Price Risk

During the reporting period of 2015, the Group was exposed to a risk of price changes of equity securities. The aforesaid investments are held for strategic purposes rather than everyday trading, and they are not actively traded.

In addition, the Group is exposed to a risk of price changes due to intensive competition in the telecommunications industry.

41. FINANCIAL INSTRUMENTS (Continued)

41.2. Financial Risk Management (Continued)

(2) Liquidity Risk

On the Group level, liquidity management is centralized. Ultimate responsibility for the liquidity risk management rests with the Group's management, which has established certain procedures for the management of the Group's short, medium and long-term liquidity. The Group handles its assets and liabilities in a manner that ensures that the Group is able to settle its liabilities at any moment.

The Group has a sufficient amount of highly liquid assets (cash and cash equivalents), and continuous cash flows from the provision of services which enables it to discharge its liabilities when due.

The Group does not make use of financial derivatives.

In order to manage liquidity risk, the Group has adopted financial policies which define dispersion on decision-making levels in the course of the acquisition of certain goods/services. This dispersion is ensured by limiting the authority of certain persons or bodies within the Group to make decisions on certain acquisitions.

Maturities of the Group's financial assets and liabilities as of December 31, 2015 and 2014 were as follows:

Financial assets — In BAM

December 31, 2015	**Up to 3 Months**	**3 - 12 Months**	**1 - 2 Years**	**2 - 5 Years**	**Over 5 Years**	**Total**
Non-interest bearing						
Loans and receivables (including cash and cash equivalents)	97,338,877	-	-	-	-	97,338,877
	97,338,877	-	-	-	-	97,338,877
Fixed interest rate						
Loans and receivables (including cash and cash equivalents)	402,884	16,055,957	14,012,593	5,115,113	166,890	35,753,437
Financial assets held to maturity	9,186	1,645	10,831	32,493	32,495	86,650
	412,070	16,057,602	14,023,424	5,147,606	199,385	35,840,087
Total	97,750,947	16,057,602	14,023,424	5,147,606	199,385	133,178,964
December 31, 2014						
Non-interest bearing						
Loans and receivables (including cash and cash equivalents)	138,873,502	-	-	-	-	138,873,502
	138,873,502	-	-	-	-	138,873,502
Fixed interest rate						
Loans and receivables (including cash and cash equivalents)	442,930	6,812,672	16,561,951	19,075,688	17,193	42,910,434
Financial assets held to maturity	9,186	1,645	10,831	32,493	43,325	97,480
	452,116	6,814,317	16,572,782	19,108,181	60,518	43,007,914
Total	139,325,618	6,814,317	16,572,782	19,108,181	60,518	181,881,416

Financial liabilities — In BAM

December 31, 2015	**Up to 3 Months**	**3 - 12 Months**	**1 - 2 Years**	**2 - 5 Years**	**Over 5 Years**	**Total**
Other liabilities at amortized cost						
-Non-interest bearing	57,291,637	5,687,048	-	-	-	62,978,685
- Instruments at variable interest rate	3,237,312	9,790,583	12,184,989	16,593,746	2,820,982	44,627,612
- Instruments at fixed interest rate	-	9,922,415	-	-	-	9,922,415
Total	60,528,949	25,400,046	12,184,989	16,593,746	2,820,982	117,528,712
December 31, 2014						
Other liabilities at amortized cost						
-Non-interest bearing	49,702,838	11,509,913	-	-	-	61,212,751
- Instruments at variable interest rate	1,236,708	4,699,819	8,804,596	9,560,590	2,715,010	27,016,723
- Instruments at fixed interest rate	-	5,867,490	9,922,415	-	-	15,789,905
Total	50,939,546	22,077,222	18,727,011	9,560,590	2,715,010	104,019,379

41. FINANCIAL INSTRUMENTS (Continued)

41.2. Financial Risk Management (Continued)

(2) Liquidity Risk (Continued)

The review of maturities of financial instruments (assets and liabilities) is made based on the undiscounted cash flows of financial assets and financial liabilities, including interest charged to those assets which will be earned (except from the assets based on which the Group expects cash flow in another period), i.e., based on the earliest date on which the Group can be expected to settle the liability incurred.

The amounts included in the table above for financial instruments (assets and liabilities) at variable interest rates may be subject to change if the changes in variable interest rates are different from the estimated interest rate established at the end of the reporting period.

(3) Credit Risk

Credit risk is the risk that counterparty will default on its contractual obligations to the Group, which will result in financial loss to the Group, The Group has adopted policies regarding the monitoring of customer creditworthiness as well as requiring certain security (collateral), where possible, with a view to reducing the risk of potential financial losses resulting from failure to meet certain contractual obligations.

Credit risk is inherent in receivables from corporate and retail customers, in cash and cash equivalents, deposits held with banks and financial institutions, and commitments.

The Group is exposed to credit risk to a limited extent. The largest portion of trade receivables provided for are more than four years old. As hedges against credit risk, certain measures and activities have been taken on the Group level. In case any service user falls behind in settlement of liabilities to the Group, further services to such a user are suspended.

In addition, the Group does not have material credit risk concentration in receivables as it has a large number of unrelated customers with individually small amounts of debt. Apart from disabling further use of services, the following procedures of collection are also in place: debt rescheduling, offsets with legal entities, legal suits, out-of-court settlements and other.

The collection of loans extended to the Group employees is ensured through salary garnishment, i.e., by decreasing salaries for the adequate amount of repayment installments, whereas the employees leaving the Group enter agreements to regulate the manner of repayment of the outstanding loan portion upon leaving the Group.

(4) Fair Value

Fair Value of Financial Assets Other than Measured at Fair Value

Except as described below, management believes that the carrying values of financial assets and financial liabilities recognized in the consolidated financial statements approximate their fair values.

In BAM

	December 31, 2015		**December 31, 2014**	
	Carrying Value	**Fair Value**	**Carrying Value**	**Fair Value**
Financial assets:				
Financial assets held to maturity	86,650	66,490	97,480	75,029
Total	**86,650**	**66,490**	**97,480**	**75,029**

The assumptions used to estimate current fair values of financial assets/liabilities are summarized below:

- For short-term investments, loans and liabilities, the carrying value approximates their fair value due to their short maturity;
- For long-term investments and liabilities fair value is calculated using the method of discounting future cash flows at a current market interest rate, which is available to the Group for similar financial instruments.
- For securities available for sale that are traded in an active market, fair value calculation is based on the current market value of listed securities.

41. FINANCIAL INSTRUMENTS (Continued)

41.2. Financial Risk Management (Continued)

(4) Fair Value (Continued)

Fair Value of Financial Assets Other than Measured at Fair Value (Continued)

The following table provides an analysis of financial instruments that were measured subsequent to initial recognition at fair value, grouped into levels 1 to 3, based on the degree to which the fair value is observable.

- Level 1 of determination the fair value is derived from the quoted market value (non-adjusted) in active markets for identical assets and liabilities.
- Level 2 determination the fair value is derived from the input parameters, different from the quoted market value included in Level 1, which are observable from the assets or liabilities, directly (e.g. prices) or indirectly (e.g. derived from prices).
- Level 3 of determining the fair value is derived from the assessment techniques that include the input parameters for financial assets and financial liabilities, which represent data that cannot be found on the market (unobservable input parameters).

In BAM

			December 31, 2015	
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Available for sale:				
- Listed securities (*Note 16*)	5,348	-	400	5,748
Total	**5,348**	**-**	**400**	**5,748**

Total losses presented in the other comprehensive income relate to the financial assets available for sale (Nova banka a.d., Banja Luka, *Note 16*), and are stated as a change in “unrealized losses from securities.”

42. OPERATING LEASE ARRANGEMENTS

The minimum amount of rent recognized as expenses during FY 2015 amounted to BAM 13,913,393 (2014: BAM 12,646,621).

The Group's outstanding commitments under operating lease contracts relating to business premises and land are as follows:

In BAM

	December 31, 2015	**December 31, 2014**
Within 1 year	8,166,044	5,775,848
From 1 to 5 years	20,774,626	40,816,644
Over 5 years	11,122,023	29,570,119
	40,062,693	**76,162,611**

43. TAXATION RISKS

The Republic of Srpska and Bosnia and Herzegovina currently have several tax laws in effect, as imposed by various governmental agencies. The applicable taxes include: a value added tax, corporate tax, and payroll (social) taxes, among others. Following their introduction, the regulations governing these taxes were not enforced for substantial periods of time; in contrast to similar legislation in more developed market economies. Moreover, the regulations defining the implementation of these laws are often unclear or non-existent. Hence, few precedents with regard to tax issues have been established in the Republic of Srpska. Often, contrary opinions pertaining to legal interpretations exist both among, and within, governmental ministries and organizations, thusly creating uncertainties and areas of legal contention. Tax declarations, together with other legal compliance matters (e.g., customs and currency control matters) are subject to the review and investigation by a number of authorities that are legally enabled to impose extremely severe fines, penalties and interest charges.

The interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Group may not coincide with that of the management. As a result, transactions may be challenged by tax authorities and the Group may be assessed additional taxes, penalties and interest, which can be significant. In accordance with the Law on Tax Authority of the Republic of Srpska, expiration period of the tax liability is five years. This practically means that tax authorities could determine payment of outstanding liabilities in the period of five years from the origination of the liability. The afore-described situation creates tax risks in the Republic of Srpska and Bosnia and Herzegovina that are substantially more significant than those typically existing in countries with more developed tax systems.

In addition, the Group performs a significant number of business transactions with its related parties. Although the Group’s management is of the opinion that the documentation on transfer prices is sufficient and adequate, it is uncertain whether the requirements and interpretations of the tax authorities differ from those of the management. The Group’s management believes that no varying interpretations could have material impact on the Group’s financial statements on the whole.

44. EVENTS AFTER THE REPORTING PERIOD

There have been no events after the reporting period that would require adjustments to or additional disclosures in the accompanying financial statements in accordance with IAS 10 – *Events after the Reporting Period*, or any developments that could have adverse effects on the financial position and performance of the Group.

45. CURRENT ECONOMIC SITUATION AND ITS IMPACT ON THE GROUP

As expected, throughout the reporting period, like most other business entities in the Republic of Srpska, the Group’s operations were also under a certain influence of the recent financial crisis and deteriorating economic conditions in the market of the Republic of Srpska and Bosnia and Herzegovina. Due to the weakening of domestic economic activities in the local market in the Republic of Srpska and Bosnia and Herzegovina, the Group will probably operate in a more difficult and uncertain economic environment in the forthcoming period as well. So far, the ongoing financial crisis has had a limited and indirect impact on the financial position and performance of the Group.

46. EXCHANGE RATES

The official exchange rates for major currencies, as determined in the Interbank Foreign Exchange Market and used in the translation of the statement of financial position components denominated in foreign currencies into BAM were as follows:

		In BAM
	December 31, 2015	**December 31, 2014**
Euro (EUR)	1.95583	1.95583
Serbian Dinar (RSD)	0.01611	0.01616
American Dollar (USD)	1.79007	1.60841
Swiss Franc (CHF)	1.80861	1.62606