MTEL A.D. BANJA LUKA

Unconsolidated 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 unconsolidated financial statements (pages 2 to 52) of Mtel a.d., Banja Luka (hereinafter: the "Company"), which comprise the unconsolidated statement of financial position as at December 31, 2015, and the unconsolidated statement of profit and loss and other comprehensive income, unconsolidated statement of changes in equity and unconsolidated statement of cash flows for the year ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Unconsolidated Financial Statements

Management is responsible for the preparation and fair presentation of these unconsolidated 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 unconsolidated 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 unconsolidated 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 unconsolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the unconsolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the unconsolidated 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 unconsolidated 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 unconsolidated 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 unconsolidated financial statements present fairly, in all material respects, the financial position of Mtel a.d., Banja Luka and its subsidiary as at December 31, 2015 and their and their financial performance and cash flows for the six-month period then ended, in accordance with International Financial Reporting Standards.

Emphasis of Matter

We draw attention to Note 2.2 to the unconsolidated financial statements, disclosing that the Company is a parent entity of a group, and that its consolidated financial statements prepared in accordance with the International Financial Reporting Standards have been issued separately. The Company's consolidated financial statements as of and for the year ended December 31, 2015 were audited by us and our audit report dated March 21, 2016 expressed an unqualified opinion. Our opinion is not modified in respect of this matter.

Deloitte d.o.o.
Banja Luka

March 21, 2016

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

	Note	Year Ended December 31, 2015	Year Ended December 31, 2014
Sales of goods and services	5	453,455,443	477,053,860
Other operating income	6	5,857,696	6,090,029
Total operating income		459,313,139	483,143,889
Cost of materials, combined services and merchandise	7	(58,344,461)	(50,671,684)
Staff costs	8	(77,214,996)	(76,500,908)
Depreciation and amortization charge	13, 14	(92,685,501)	(98,552,727)
Cost of production services	9	(115,413,837)	(109,513,430)
Other operating expenses	10	(28,320,469)	(26,727,649)
Total operating expenses		(371,979,264)	(361,966,398)
Profit from operations		**87,333,875**	**121,177,491**
Expenses incurred in damage and destruction of assets due to natural catastrophes – flooding	11	**-**	**(6,475,845)**
Finance income	12	4,785,568	4,955,664
Finance expenses	12	(1,402,801)	(1,331,569)
Finance income, net		3,382,767	3,624,095
Profit before taxes		**90,716,642**	**118,325,741**
Income tax expense	35 (a)	(9,227,767)	(11,829,570)
Profit for the year		**81,488,875**	**106,496,171**
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	17	(826)	(771)
Total other comprehensive income, net of income tax		(826)	(771)
Total comprehensive income for the year		**81,488,049**	**106,495,400**
Earnings per share:			
- Basic and diluted earnings per share	37	0.1658	0.2167

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

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

Signed on behalf of the Company by:

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

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Jasmina Lopičić,
Chief Financial Officer

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

	Note	December 31, 2015	December 31, 2014
ASSETS			
Non-current assets			
Intangible assets	13	84,559,419	64,834,509
Property and equipment	14	491,384,801	498,640,405
Investments in subsidiaries	15	31,208,690	25,341,200
Investments in associates	16	74,563,739	57,939,184
Other investments	17	92,398	104,054
Long-term loans and receivables	18	18,579,491	33,606,406
Deferred tax assets	35 (c)	527,374	481,620
		700,915,912	680,947,378
Current assets			
Inventories	19	25,058,486	21,977,838
Assets held for sale	20	-	80,000
Trade receivables	21	49,378,096	46,377,899
Prepaid income taxes	35 (d)	1,826,637	-
Other receivables	22	2,171,909	2,254,794
Deposits and loan receivables	24	15,724,736	5,575,891
Prepayments	25	25,060,421	19,308,548
Cash and cash equivalents	26	40,035,869	82,990,148
		159,256,154	178,565,118
Total assets		**860,172,066**	**859,512,496**
EQUITY AND LIABILITIES			
Equity			
Share capital	27	491,383,755	491,383,755
Legal reserves	27	49,141,766	49,141,766
Unrealized losses on the available-for -sale securities		(1,652)	(826)
Other reserves – arising on commitment to invest	27	97,791,500	97,791,500
Retained earnings		38,452,694	59,106,980
		676,768,063	697,423,175
Non-current liabilities and provisions			
Interest bearing loans and borrowings	28	31,050,231	20,835,997
Deferred income	29	56,558	276,503
Employee benefits	30	6,312,005	6,688,944
Provisions	31	204,981	281,225
		37,623,775	28,082,669
Current liabilities			
Interest bearing loans and borrowings	28	12,593,744	11,529,641
Trade payables	32	59,125,806	57,584,643
Accruals	33	44,867,359	40,023,348
Employee benefits	30	712,772	530,617
Deferred income	29	133,078	277,911
Dividend payables	37	26,608,490	20,578,767
Income taxes payable	35 (d)	-	1,679,037
Other current liabilities	34	1,738,979	1,802,688
		145,780,228	134,006,652
Total equity and liabilities		**860,172,066**	**859,512,496**

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

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

	Share Capital	Legal Reserves	Unrealized Losses on the Available-for-Sale Securities	Reserves Arising on Commitment to Invest	Retained Earnings	Total
Balance at January 1, 2014	**491,383,755**	**49,138,376**	**(55)**	**97,791,500**	**54,212,611**	**692,526,187**
Acquisition of the subsidiary TT Inženjering, Banja Luka	-	3,390	-	-	(92,723)	(89,333)
Profit for the year	-	-	-	-	106,496,171	106,496,171
Total other comprehensive income	-	-	(771)	-	-	(771)
Total comprehensive income for the year	**-**	**-**	**(771)**	**-**	**106,496,171**	**106,495,400**
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**	**59,106,980**	**697,423,175**
Profit for the year	-	-	-	-	81,488,875	81,488,875
Total other comprehensive income	-	-	(826)	-	-	(826)
Total comprehensive income for the year	**-**	**-**	**(826)**	**-**	**81,488,875**	**81,488,049**
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**	**38,452,694**	**676,768,063**

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

UNCONSOLIDATED 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	442,619,162	462,369,615
Other cash receipts from regular operations	2,537,632	1,921,494
Cash paid to suppliers – purchases of materials, fuel, energy and other expenses	(185,599,226)	(158,912,163)
Cash paid to and on behalf of employees	(77,756,076)	(77,373,020)
Interest paid	(429,662)	(912,678)
Income taxes paid	(12,779,195)	(9,638,286)
Other taxes and duties paid	(6,147,029)	(4,524,409)
Net cash generated by operating activities	**162,445,606**	**212,930,553**
Cash flows from investing activities		
Purchases of property, equipment and intangible assets	(82,038,363)	(84,771,137)
Proceeds from sale of property, equipment and intangible assets	352,703	226,523
Interest received	3,669,844	3,781,511
Inflows/(outflows) per long-term financial investments	15,045,256	(6,066,127)
(Outflows)/inflows from short-term financial investments	(10,148,845)	8,000,000
Outflows for purchases of shares and equity interests	(22,492,045)	(25,341,200)
Net cash used in investing activities	**(95,611,450)**	**(104,170,430)**
Cash flows from financing activities		
Long-term financial liabilities, net outflows	(13,674,997)	(28,901,028)
Dividend and interim dividend payments to the shareholders	(96,113,438)	(94,356,179)
Net cash used in financing activities	**(109,788,435)**	**(123,257,207)**
Net decrease in cash and cash equivalents	**(42,954,279)**	**(14,497,084)**
Cash and cash equivalents at the beginning of the year	82,990,148	97,487,232
Cash and cash equivalents at the end of the year	**40,035,869**	**82,990,148**

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

1. BACKGROUND

The Company Mtel a.d. (hereinafter: the "Company") is domiciled in Banja Luka, in the Republic of Srpska 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).

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 at December 31, 2015 the Company had 2,149 employees (December 31, 2014: 2,155 employees).

The Company's principal business activity is the provision of telecommunication services the most significant of which is domestic and international telephony traffic. In addition, the Company 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 Company also provides services in the area of leasing, construction, management and security of the telecommunication infrastructure.

As at December 31, 2015 the Company provided telecommunication services of fixed line telephony to 263,574 users (December 31, 2014: 280,725 users) and Internet services to 169,335 users (December 31, 2014: 166,299 users), mobile telephony services to 1,402,702 users (December 31, 2014: 1.382,338 users), including integrated services to 78,049 users (December 31, 2014: 67,335 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. Slavko Mitrović
Mr. Dejan Carević
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 UNCONSOLIDATED FINANCIAL STATEMENTS AND ACCOUNTING CONVENTION

2.1. Statement of Compliance

The accompanying financial statements represent unconsolidated financial statements of the Company and are prepared in accordance with the International Financial Reporting Standards (IFRS).

2.1. Basis of Measurement

The unconsolidated financial statements of the Company 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.

As disclosed in Notes 1 and 16 to the unconsolidated financial statements, up to January 31, 2014 as the merger and acquisition effective date, the Company was the sole owner of the subsidiary TT Inženjering d.o.o. Banja Luka. In addition, the Company holds a 49% equity interest in the associate MTEL d.o.o. Podgorica (Republic of Montenegro) over which the Company has significant influence and the power to participate in the financial and operating policies and decisions of the associate but this power is not control or joint control over those policies and decisions.

In these unconsolidated financial statements investments in the associate are stated at cost less impairment, if any. In accordance with International Financial Reporting Standard (IFRS) 10, “Consolidated Financial Statements”, the Company has prepared and issued its consolidated financial statements for the year ended December 31, 2015, prepared in accordance with the International Financial Reporting Standards, where the investment in the associate was accounted for using the equity method.

2.2. Functional and Presentation Currency

The figures in the accompanying financial statements have been stated in Convertible Marks (BAM), BAM being the official functional and reporting currency in the Republic of Srpska and 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 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 Company.

2. BASIS OF PREPARATION AND PRESENTATION OF THE UNCONSOLIDATED 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

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);
- 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 (effective for annual periods beginning on or after January 1, 2016);
- 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 in the period of initial application.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. 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 services, interconnections, Internet, integrated services and other similar services.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.1. Revenues (Continued)

Revenue Recognition (Continued)

3.1.1. Income from Telephone Traffic – Fixed-Line Telephony

The Company 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.

3.1.2. Telecommunication Subscription - Fixed-Line Telephony

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

3.1.3. 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.

3.1.4. 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.

3.1.5 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.

3.1.6. 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 is delivered to the package user and related costs recognized as expenses in profit or loss statement. For combined services sold, the Company 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 each such contract relates to.

3.1.7. Income and Expenses from International Settlements and Roaming

a) Income and Expenses from International Traffic

The Company 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 Company. 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.1. Revenues (Continued)

3.1.7. Income and Expenses from International Settlements and Roaming (Continued)

a) Income and Expenses from International Traffic (Continued)

The Company 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 in these financial statements.

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.

3.1.8. 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.

3.1.9. Integrated Service

Income from Integrated Service 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.

3.1.10. 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.

3.2. 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 Company 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 Company as Lessee

Assets held under finance leases are initially recognized as assets of the Company 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 unconsolidated 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 Company'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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2. Financial and Operating Leases (Continued)

The Company as Lessee (Continued)

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.

3.3. 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.

3.4. Corporate Income Taxes

Income tax comprises 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. 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 balance sheet 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.

3.5. Intangible Assets

Intangible assets include 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*.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6. 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.

3.7. 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 to 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 in use for the year ended December 31, 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 - 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

3.8. 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, and not 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9. Impairment of Non-Financial Assets

At each statement of financial position date, the Company's management reviews the carrying amounts of the Company'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 Company 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.

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 Company's intangible assets, property and equipment had suffered impairment.

3.10. Investments in Subsidiaries

Investments in subsidiaries were stated at cost, less any impairment.

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.

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.

3.11. Investments in Associates

An associate is an entity over which the Company 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.
Investments in associated were stated in these unconsolidated financial statements at cost, less any impairment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.12. 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 Company 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 Company 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. 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.12. Financial Assets (Continued)

Loans and Receivables (Continued)

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 Company'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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.12. Financial Assets (Continued)

Derecognition of Financial Assets

The Company 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 Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company continues to recognize financial assets.

3.13. 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 Company fulfills the respective obligations, or when the contractual repayment obligation has either been cancelled or has expired.

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.

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 Company 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 Company, 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.16. Employee Benefits

a) Employee Taxes and Contributions for Social Security

In accordance with local regulations and its adopted accounting policies, the Company 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 Company 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) Liabilities for Retirement Benefits and Jubilee Awards

Pursuant to the Collective Bargaining Agreement, the Company 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 Company, 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 pension entitlement is exercised.

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

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 Company has adopted IFRS 8 *Operating Segments* and commenced its application as from January 1, 2009. IFRS 8 requires the identification of operating segments based on internal reports about components of the Company 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 Company.

4. SIGNIFICANT ACCOUNTING ESTIMATES

The presentation of the unconsolidated financial statements requires the Company'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 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 unconsolidated 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 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:

4. SIGNIFICANT ACCOUNTING ESTIMATES (Continued)

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 Company's total assets, any change in the aforesaid assumptions may lead to material effects on the Company's financial position, as well as on its financial performance. For example, if the Company were to shorten the average useful life of assets by 10%, this would have resulted in additional depreciation and amortization charge of BAM 9,268,550 for the year ended December 31, 2015 (comparative data for 2014: BAM 9,855,273).

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 Company 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 21, 22 and 23).

Provisions

Provisions in general are highly judgmental. The Company 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 Company fully provides for the total amount of the liability. The Company 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 unconsolidated 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 Company 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. 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 Company'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	31,147,258	36,856,634
- subscription fees	29,165,578	33,089,508
- income from interconnections with domestic operators in BH	29,764,492	34,062,273
- connection fees from the new subscribers	136,357	173,289
- leased transmission lines	5,696,204	5,954,163
- other	279,730	349,762
	96,189,619	110,485,629
Mobile Telephony:		
- traffic revenue	156,505,431	182,473,954
- subscription fees	56,930,543	49,651,692
- connection fees from the new subscribers	595,838	561,215
- fiscal cash registers	2,685,368	3,103,913
- other	997,870	743,161
	217,715,050	236,533,935
Income from integrated services:		
- traffic revenue within integrated services – fixed-line	5,135,455	6,051,521
- traffic revenue within integrated services – mobile	632,613	448,764
- subscription fees	37,571,293	32,102,101
- other	654,759	525,578
	43,994,120	39,127,964
Internet services:		
- ADSL subscription fees	19,009,554	20,418,554
- direct access	2,957,690	2,797,291
- other	44,666	46,405
	22,011,910	23,262,250
Income from combined services:		
Combined services – fixed-line	4,037,170	2,558,235
Combined services – mobile	23,977,849	20,150,427
	28,015,019	22,708,662
Sales of goods	1,270,682	435,266
Total domestic sales (a)	**409,196,400**	**432,553,706**
(b) International market sales:		
- International settlements (fixed-line telephony)	24,622,626	28,305,806
- Roaming	11,821,157	13,344,996
- International transit telephony traffic	7,746,510	2,753,454
- Other income from international telephony traffic	68,750	95,898
Total international market sales (b)	**44,259,043**	**44,500,154**
Total sales of services (a+b)	**453,455,443**	**477,053,860**

6. OTHER OPERATING INCOME

	In BAM	
	Year Ended December 31,	
	2015	2014
Rental income	2,009,943	2,011,912
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 property, equipment and inventories	352,703	226,523
Reversal of deferred income (grants)	364,779	940,262
Collected penalties and damage claims	291,362	273,806
Proceeds from the legal suits won	353,615	325,760
Write-off of liabilities	137,774	518,317
Surpluses	10,693	406
Other income	797,940	405,026
	5,857,696	**6,090,029**

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	1,090,450	509,135
Electricity	4,518,920	4,354,397
Materials for maintenance of property and equipment	1,659,461	1,659,483
Fuel and lubricants	1,485,303	1,766,540
Office supplies	749,702	963,819
Other materials	613,675	751,730
Cost of SIM cards and top-up cards (vouchers)	398,945	478,391
	58,344,461	**50,671,684**

Cost of materials and consumables for combined services for the most part refers to cost of the mobile and fixed-line telephone devices sold within special service packages.

8. STAFF COSTS

	In BAM	
	Year Ended December 31,	
	2015	2014
Net salaries	31,070,223	31,954,373
Employee meal allowance	4,310,070	4,317,979
Overtime work and other payments to employees	4,984,023	5,189,253
Employee commuting allowance	767,019	728,020
Taxes on salaries and benefits	4,966,100	4,211,617
Contributions to salaries and benefits	24,030,918	24,095,785
Remunerations to Management Board and Audit Committee	269,163	281,752
Termination benefits	1,766,826	1,213,374
Aid to employees	373,694	401,010
Business travel costs and per diems	1,123,704	830,282
Other staff costs	3,553,256	3,277,463
	77,214,996	**76,500,908**

9. COST OF PRODUCTION SERVICES

	In BAM Year Ended December 31, 2015	2014
International settlements, except roaming	17,172,752	14,589,984
Interconnection costs	12,311,353	12,743,286
Roaming	6,669,100	7,026,679
Lease of transmission lines	3,494,721	3,115,030
Preparation and delivery of telephone bills	4,602,529	4,618,541
Other postage and transportation services	699,598	644,966
Maintenance	19,494,587	18,213,406
Lease of premises and equipment	13,506,599	12,575,258
Marketing and advertising	15,669,694	15,290,802
Dealers' fees and commissions	11,304,555	12,359,314
Services of the clearing house	381,387	381,387
Public utilities	292,107	281,526
Broadcasting fees	7,205,618	5,625,384
Other production services	2,609,237	2,047,867
	115,413,837	**109,513,430**

10. OTHER OPERATING EXPENSES

	In BAM Year Ended December 31, 2015	2014
Indirect taxes and contributions	4,815,116	3,734,811
Costs of temporary relocation of employees by the Parent Company	73,834	83,280
Employee professional trainings	979,393	632,771
Intellectual services	1,390,407	1,740,452
Other non-production services	1,679,776	1,582,349
Entertainment	237,834	221,583
Insurance premiums	670,194	631,806
Bank charges	273,953	296,368
Communications Regulatory Agency fee	7,082,524	7,040,216
Membership fees	180,853	157,847
Administrative fees	1,640,530	1,349,417
Fees charged by the youth and student employment agencies	1,648,747	1,583,713
Other non-material expenses	219,610	102,869
Losses on disposal of property, equipment and intangible assets	724,884	1,598,810
Shortages	5,642	6,069
Provisioning charge	239,182	607,999
Allowance for impairment of short-term receivables (*Note 23*)	5,451,215	3,532,214
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	424,731	1,000,759
	28,320,469	**26,727,649**

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	2,289,885	3,003,775
- other interest income	1,091,531	955,819
	3,381,416	3,959,594
Other finance income	1,005,782	911,746
Foreign exchange gains	398,370	84,324
	4,785,568	4,955,664
Total finance income		
Interest expenses:		
- arising from loan agreements	(443,571)	(759,510)
- other interest expenses	(79)	(41,102)
	(443,650)	(800,612)
Foreign exchange losses	(959,151)	(530,957)
Total finance expenses	(1,402,801)	(1,331,569)
Finance income, net	**3,382,767**	**3,624,095**

13. INTANGIBLE ASSETS

In BAM
December 31, 2015 and 2014

	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
Transfer from property and equipment	-	-	133,280	8,876,525	-	9,009,805
Disposals	-	-	-	(10,271)	-	(10,271)
Balance, December 31, 2014	**117,182,447**	**23,296,086**	**6,510,964**	**45,912,428**	**-**	**192,901,925**
Balance, January 1, 2015	117,182,447	23,296,086	6,510,964	45,912,428	-	192,901,925
Additions	-	-	1,514	181,727	9,897,574	10,080,815
Activations	-	-	962,459	6,565,576	(7,528,035)	-
Transfer from property and equipment	-	-	18,000	1,678,826	22,621,800	24,318,626
Disposals	-	-	(196,617)	(84,721)	-	(281,338)
Transfer to other classes	-	-	-	(6,225)	-	(6,225)
Balance, December 31, 2015	**117,182,447**	**23,296,086**	**7,296,320**	**54,247,611**	**24,991,339**	**227,013,803**
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	7,812,164	1,553,849	669,649	4,577,851	-	14,613,513
Transfer from property and equipment	-	-	-	406,150	-	406,150
Disposals	-	-	-	(10,271)	-	(10,271)
Balance, December 31, 2014	**79,749,170**	**8,805,144**	**5,508,413**	**34,004,689**	**-**	**128,067,416**
Balance, January 1, 2015	79,749,170	8,805,144	5,508,413	34,004,689	-	128,067,416
Charge for the year	7,816,069	1,553,849	716,944	4,579,526	-	14,666,388
Disposals	-	-	(190,929)	(83,511)	-	(274,440)
Transfer to other classes	-	-	-	(4,980)	-	(4,980)
Balance, December 31, 2015	**87,565,239**	**10,358,993**	**6,034,428**	**38,495,724**	**-**	**142,454,384**
Net Book Value						
- as at December 31, 2015	**29,617,208**	**12,937,093**	**1,261,892**	**15,751,887**	**24,991,339**	**84,559,419**
- as at December 31, 2014	**37,433,277**	**14,490,942**	**1,002,551**	**11,907,739**	**-**	**64,834,509**

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.

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 2014

	Land	Infrastructure	Leasehold Improvements	Equipment	Investments in Progress	Total Property and Equipment
Cost						
Balance, January 1, 2014	1,368,738	610,489,595	2,602,622	686,338,463	103,465,234	1,404,264,652
Additions	-	89,266	-	3,238,133	91,962,826	95,290,225
Activations and transfers	12,119	8,655,036	63,853	30,974,692	(39,705,700)	-
Transfer to intangible assets	-	-	-	(685,880)	(8,323,925)	(9,009,805)
Retirement of property and equipment damaged and demolished by flooding	-	(37,590)	-	(55,178,132)	(1,511,249)	(56,726,971)
Disposals	-	(144,665)	(34,990)	(9,545,434)	(508,134)	(10,233,223)
Shortages	-	-	-	(59,768)	-	(59,768)
Surpluses	-	-	-	693	-	693
Dismantlement of equipment	-	-	-	(880,682)	270,106	(610,576)
Transfer from TT inženjering during acquisition	-	90,901	-	-	-	90,901
Transfer to assets available 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**	**619,139,972**	**2,631,485**	**652,659,696**	**144,197,953**	**1,420,009,963**
Balance, January 1, 2015	1,380,857	619,139,972	2,631,485	652,659,696	144,197,953	1,420,009,963
Additions	-	431,428	-	2,302,451	93,251,860	95,985,739
Activations and transfers	80,490	19,997,004	677,948	94,916,909	(115,672,351)	-
Transfer to intangible assets	-	-	-	-	(24,318,626)	(24,318,626)
Disposals	-	(1,094,209)	-	(72,668,019)	(98,772)	(73,861,000)
Shortages	-	-	-	(15,935)	(372)	(16,307)
Surpluses	-	12,130	-	-	-	12,130
Dismantlement of equipment	-	-	-	(146,280)	(44)	(146,324)
Sales of property	-	(50,398)	-	-	(146,001)	(196,399)
Transfers to other classes of assets	-	-	-	(17,488)	-	(17,488)
Balance, December 31, 2015	**1,461,347**	**638,435,927**	**3,309,433**	**677,031,334**	**97,213,647**	**1,417,451,688**
Accumulated depreciation						
Balance, January 1, 2014	-	397,251,977	2,081,622	499,526,639	-	898,860,238
Charge for the year	-	24,421,522	328,981	59,188,711	-	83,939,214
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)
Disposals	-	(80,109)	(20,747)	(8,533,558)	-	(8,634,414)
Shortages	-	-	-	(56,091)	-	(56,091)
Surpluses	-	-	-	312	-	312
Dismantlement of equipment	-	-	-	(610,576)	-	(610,576)
Transfer from TT inženjering during acquisition	-	90,901	-	-	-	90,901
Transfer to assets available for sale	-	-	-	(1,205,128)	-	(1,205,128)
Other	-	35,124	-	(35,124)	-	-
Balance, December 31, 2014	**-**	**421,681,825**	**2,389,856**	**497,297,877**	**-**	**921,369,558**
Balance, January 1, 2015	-	421,681,825	2,389,856	497,297,877	-	921,369,558
Charge for the year	-	25,031,991	347,147	52,639,975	-	78,019,113
Disposals	-	(1,034,693)	-	(72,108,321)	-	(73,143,014)
Shortages	-	-	-	(11,056)	-	(11,056)
Surpluses	-	1,437	-	-	-	1,437
Dismantlement of equipment	-	-	-	(146,324)	-	(146,324)
Sales of property	-	(12,836)	-	-	-	(12,836)
Transfers to other classes of assets	-	-	-	(9,991)	-	(9,991)
Transfers among categories	-	(270,228)	-	270,228	-	-
Balance, December 31, 2015	**-**	**445,397,496**	**2,737,003**	**477,932,388**	**-**	**926,066,887**
Net Book Value						
- as at December 31, 2015	**1,461,347**	**193,038,431**	**572,430**	**199,098,946**	**97,213,647**	**491,384,801**
- as at December 31, 2014	**1,380,857**	**197,458,147**	**241,629**	**155,361,819**	**144,197,953**	**498,640,405**

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 were no encumbrances on and restrictions to the Company's titles and ownership rights over property and equipment. Contractually agreed but not yet realized liabilities of the Company for capital expenditures totaled BAM 30,971,222 as at December 31, 2015.

15. EQUITY INVESTMENTS IN SUBSIDIARIES

		In BAM	
	Share	**December 31, 2015**	**December 31, 2014**
Equity investments in subsidiaries:			
- *Logosoft* d.o.o. Sarajevo	65%	18,427,341	18,427,341
- *Mtel Austria GmbH*, Vienna	100%	12,781,349	6,913,859
		31,208,690	**25,341,200**

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. The contractually defined consideration amounted to BAM 18,427,341 and was fully paid up. As of October 1, 2014, the Company took over control of the subsidiary Logosoft d.o.o. Sarajevo.

In accordance with the Agreement, the Company/Group estimated the amount of consideration payable for the remaining equity interest portion (where the Group has no option to withdraw) as amounting to BAM 8,914,818 (commitment as at the control takeover date).

As at December 31, 2015, the Company's management assessed the aforesaid investment in the subsidiary for potential impairment 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 certain 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.

The effects of entire business combination of acquisition of Logosoft d.o.o. Sarajevo and other information in relation to this transaction are additionally presented in the Company's consolidated financial statements.

Mtel Austria GmbH, Vienna

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 Austrija to Mtel Austria GmbH with the relevant Registry of the Republic of Austria.

16. INVESTMENTS IN THE ASSOCIATE

In BAM

	Equity Interest	December 31, 2015	December 31, 2014
- Cost of the investment in MTEL d.o.o. Podgorica	49%	74,563,739	57,939,184
		74,563,739	**57,939,184**

As at December 31, 2015 the Company 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.

Namely, on February 1, 2010, the Company executed an agreement with Ogalar B.V. Netherlands on the purchase of 49% of shares in the total amount of BAM 19,558,300 (EUR 10,000,000). During February 2010, the Company paid the full contracted amount.

Following the purchase of these shares, and 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 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, which increased the equity interest held by Mtel a.d. Banja Luka in Mtel d.o.o. Podgorica by the amount of EUR 8,500,000.

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 unconsolidated 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 total investment in MTEL d.o.o. Podgorica, after initially agreed amount for the purchase of 49% of shares and further investments, as well as other costs directly related to the above said transaction, amounted to BAM 74,563,739.

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

16. INVESTMENTS IN THE ASSOCIATE (Continued)

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

In BAM

	December 31, 2015	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

In BAM

	December 31, 2015	December 31, 2014
Income	86,112,907	80,245,909
Profit from continuing operations	2,621,282	2,402,303
Net loss 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	-	-

17. OTHER INVESTMENTS

In BAM

	Equity Interest	December 31, 2015	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.

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 Company. 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.

18. LONG-TERM LOANS AND RECEIVABLES

	December 31, 2015	In BAM December 31, 2014
Long-term loans to employees	177,698	208,278
Less: Current portion of long-term receivables matured within one year *(Note 24)*	(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
Total other long-term investments	18,500,000	33,500,000
Total long-term loans and receivables	**18,597,962**	**33,632,387**
Less: Accumulated impairment losses:		
- long-term loans	(18,471)	(25,981)
	18,579,491	**33,606,406**

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

19. INVENTORIES

	December 31, 2015	In BAM December 31, 2014
Materials	4,054,447	4,318,486
Spare parts	74,916	93,193
Tools and fixtures	224,563	230,092
Materials for combined services	19,458,465	16,357,947
Advances paid to suppliers	1,246,095	978,120
	25,058,486	**21,977,838**

20. ASSETS HELD FOR SALE

	December 31, 2015	In BAM December 31, 2014
Equipment held for sale	-	179,057
Less: market fair value adjustment	-	(99,057)
	-	**80,000**

21. TRADE RECEIVABLES

	December 31, 2015	In BAM December 31, 2014
Trade receivables:		
- related parties	3,182,199	2,870,115
- domestic	89,128,713	85,025,608
- foreign	6,697,230	4,002,039
	99,008,142	91,897,762
Less: Allowance for impairment of trade receivables	(49,630,046)	(45,519,863)
	49,378,096	**46,377,899**

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

	December 31, 2015	In BAM December 31, 2014
From 0 to 30 days	45,515,178	45,114,531
From 31 to 60 days	3,862,918	1,263,368
From 61 to 120 days	1,851,323	1,416,308
From 121 to 180 days	1,342,688	1,141,429
From 181 to 270 days	1,908,220	1,577,869
From 271 to 360 days	1,652,286	1,039,049
Over 361 days	42,875,529	40,345,208
	99,008,142	**91,897,762**

The Company's total gross trade receivables as of December 31, 2015 amounted to BAM 99,008,142. The Company made full impairment allowance for the trade receivables over 60 days in default.

The total amount of allowance for impairment thereof as of December 31, 2015 amounted to BAM 49,630,046 representing 50.13% of the total gross value of trade receivables. The movements in the allowance for impairment of receivables are shown in *Note 23* to the unconsolidated financial statements.

As of December 31, 2015, the matured trade receivables up to 60 days past-due, which were not provided for, amounted to BAM 49,378,096. The average days sales outstanding for the year ended December 31, 2015 counted 71 days (December 31, 2014: 66 days).

22. OTHER RECEIVABLES

	December 31, 2015	In BAM December 31, 2014
Prepaid taxes	1,652,151	1,045,277
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	652,930	933,002
	3,134,494	3,211,430
Less: Allowance for impairment of other receivables	(962,585)	(956,636)
	2,171,909	**2,254,794**

23. ALLOWANCE FOR IMPAIRMENT OF RECEIVABLES

In BAM
2015 and 2014

	Trade Receivables (Note 21)	Other Receivables (Note 22)	Total
Balance, January 1, 2014	43,247,253	869,374	44,116,627
Charge for the year (*Note 10*)	3,444,952	87,262	3,532,214
Write-off of receivables	(1,191,216)	-	(1,191,216)
Other	18,874	-	18,874
Balance, December 31, 2014	**45,519,863**	**956,636**	**46,476,499**
Balance, January 1, 2015	45,519,863	956,636	46,476,499
Charge for the year (*Note 10*)	5,406,175	45,040	5,451,215
Write-off of receivables	(1,295,992)	(39,091)	(1,335,083)
Balance, December 31, 2015	**49,630,046**	**962,585**	**50,592,631**

24. DEPOSITS AND LOAN RECEIVABLES

In BAM

	December 31, 2015	December 31, 2014
Short-term deposits	15,000,000	5,500,000
Loans to employees that mature in one year (*Note 18*)	79,736	75,891
Short-term investment, *Logosoft* d.o.o. Sarajevo	645,000	-
	15,724,736	**5,575,891**

Breakdown of short-term deposits is provided below:

In BAM

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

The Company's short-term deposits held with banks in Bosnia and Herzegovina were placed for the period of up to one year under market terms to the one-year period and average annual interest rate of 4.2%.

25. PREPAYMENTS

In BAM

	December 31, 2015	December 31, 2014
Accrued receivables	6,891,120	7,178,992
Accrued receivables for combined services	16,433,075	9,903,066
Prepaid expenses	692,442	837,472
Deferred input and output advance invoices for the purpose of VAT accrual	1,043,784	1,389,018
	25,060,421	**19,308,548**

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 where the Company applies the relative fair value method to the determine the values of separate qualifying elements within combined services where the accrued income is recognized at fair value of services calculate, while the remaining portion is allocated to the components delivered.

26. CASH AND CASH EQUIVALENTS

In BAM

	December 31, 2015	December 31, 2014
Gyro accounts	24,851,186	69,114,178
Foreign currency accounts	15,066,793	13,758,592
Cash on hand	17,890	17,378
Cash equivalents	100,000	100,000
	40,035,869	**82,990,148**

27. 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 December 31, 2014 was as provided below:

	December 31, 2015	%	December 31, 2014	%
Telekom Srbija a.d. Beograd, Srbija	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 a nominal 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 a right to one vote.

27. 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 unconsolidated financial statements.

Legal Reserves

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

Legal reserves are used for loss absorption and if they exceed 10% of the share 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 in the amount of BAM 97,791,500 entirely related to capital 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 envisaged, and the Company recorded these payments amounting to BAM 97,791,500 as other reserves.

28. INTEREST BEARING LOANS AND BORROWINGS

		In BAM
	December 31, 2015	**December 31, 2014**
a) Long-term borrowings:		
- borrowings for purchases of equipment	43,643,975	26,727,959
b) Other long-term liabilities	-	5,637,679
Total non-current portion of liabilities	**43,643,975**	**32,365,638**
Less: Current portion of:		
- long-term borrowings	(12,593,744)	(5,891,962)
- other long-term liabilities	-	(5,637,679)
Total current portion of liabilities	**(12,593,744)**	**(11,529,641)**
	31,050,231	**20,835,997**

28. 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. Republic of Srpska	-	-	1,707,139	-
Nokia Siemens Networks Finance B.V. Netherlands	1,060,925	-	3,660,952	-
Huawei International PTE Ltd. Singapore	7,707,938	3,339,810	15,054,428	12,317,945
Huawei International CO Ltd. Hong Kong	748,031	-	1,179,291	-
Intracom Telecom, Beograd, Srbija	-	-	774,509	-
Alcatel - Lucent International, France	2,885,528	2,380,245	3,367,128	5,146,866
Alcatel – Lucent, Serbia	-	-	1,746,172	-
Government of the Kingdom of Spain	191,322	171,907	3,560,612	3,371,186
	12,593,744	**5,891,962**	**31,050,231**	**20,835,997**

The average interest rate accrued on long-term borrowings (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 Company purchased equipment in the aggregate amount of BAM 24,851,178.

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

The Company settles all its 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 BH (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 liabilities 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.

28. 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	12,593,744	11,529,641
From 1 to 2 years	11,812,108	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	1,745,830	171,907
After 5 years	2,795,323	2,683,557
Total non-current portion of borrowings and other long-term liabilities	31,050,231	20,835,997
	43,643,975	**32,365,638**

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 Company (mainly by the Government).

Movements on deferred income for the year ended December 31, 2015 and FY 2014 were as follows:

	Year Ended December 31, 2015	In BAM 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

	December 31, 2015	In BAM December 31, 2014
Employee benefits		
- current portion	6,312,005	6,688,944
- non-current portion	712,772	530,617
	7,024,777	**7,219,561**

Long-term provisions for employee benefits as of December 31, 2015 in the amount of BAM 7,024,777 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*.

30. EMPLOYEE BENEFITS (Continued)

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 Company 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 Company. 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 of 5% annually, projected salary growth rate 2% annually, projected years of service for retirement - 40 years for men and 35 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 FY2015 and FY 2014 were as follows:

	Current portion		Non-current portion	In BAM
	December 31, 2015	December 31, 2014	December 31, 2015	December 31, 2014
Balance, January 1	530,617	498,989	6,688,944	6,542,966
Adjustment to the present value	25,568	(100,692)	209,113	649,269
Acquisition of TTI	-	4,416	-	36,127
Transfer to current portion of provision	586,052	539,418	(586,052)	(539,418)
Reversal of provision during the year	(429,465)	(411,514)	-	-
Balance, end of year	**712,772**	**530,617**	**6,312,005**	**6,688,944**

31. PROVISIONS

	Year Ended December 31, 2015	In BAM 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	3,624,579	3,879,153
- domestic	46,225,249	41,262,249
- foreign	7,960,688	6,260,588
- uninvoiced investments and services	1,315,290	6,182,653
	59,125,806	**57,584,643**

Trade payables are non-interest bearing. The Company 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 year ended December 31, 2015 counted 66 days (year ended December 31, 2014: 61 days).

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

	December 31, 2015	In BAM December 31, 2014
From 0 to 30 days	44,926,677	41,280,796
From 31 to 60 days	7,078,323	5,284,104
From 61 to 120 days	4,926,789	4,930,052
From 121 to 180 days	843,429	2,497,962
From 181 to 270 days	1,078,851	997,811
From 271 to 360 days	271,737	2,593,918
	59,125,806	**57,584,643**

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 expenses - international traffic	24,348,296	18,741,252
Accrued liabilities – media content distribution/broadcasting	1,298,761	911,692
Accrued liabilities per other expenses	12,085,312	13,479,881
Accrued VAT liabilities on advance invoices	921,063	1,236,951
Other accruals	265,247	266,784
	44,867,359	**40,023,348**

Accrued liabilities for international traffic totaling BAM 24,348,296 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 3.1.7 b).

Accrued liabilities per other expenses amounting to BAM 12,085,312 as of December 31, 2015 represent current year's expenses for which there were sufficient information on their existence and inception yet the Company had not received the final invoices for services or goods received until these unconsolidated financial statements' preparation date.

34. OTHER LIABILITIES

In BAM

	December 31, 2015	December 31, 2014
Advances and prepayments received	1,223,774	1,302,118
Liabilities for incorrect customer payments	52,184	56,225
Liabilities for RTV fees	54,391	39,520
Taxes and customs duties charged to expenses	263,849	276,308
Interest payables	82,710	68,721
Sponsorships and financial aid allocated from profit	56,497	56,497
Liabilities to employees	4,143	1,339
Other liabilities	1,431	1,960
	1,738,979	**1,802,688**

35. INCOME TAXES

(a) Components of Income Taxes

In BAM

	Year Ended December 31, 2015	2014
Current income tax expense	9,273,521	11,977,932
Deferred tax expenses – increase in deferred tax assets	(45,754)	(148,362)
	9,227,767	**11,829,570**

(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	2014
Profit before taxes	90,716,642	118,325,741
Income taxes calculated at the rate of 10%	9,071,664	11,832,574
Adjustments for:		
- Non-taxable income effects	(230,957)	(308,158)
- Non-deductible costs effects	432,814	453,516
Income tax expense	9,273,521	11,977,932
Effective tax rate for the year	10.22%	10.12%

(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 the year	**527,374**	**481,620**

35. INCOME TAXES (Continued)

(d)Current Tax Liabilities/Prepaid

In BAM

	December 31, 2015	December 31, 2014
Prepaid income taxes	1,826,637	-
Current income tax liabilities	-	1,679,037
	1,826,637	**1,679,037**

36. RELATED PARTY TRANSACTIONS

The majority owner of the Company 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:

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
- Mtel Austria GMBH Vienna	486,357	305,097
- Logosoft d.o.o. Sarajevo	665,318	419,914
	3,182,199	2,870,115
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
- Mtel Austria GMBH Vienna	498	-
- Logosoft d.o.o. Sarajevo	7,405	-
	1,036,624	1,041,107
c) Equipment held for sale:		
- Mtel Austria GMBH Vienna	-	305,097
- Logosoft d.o.o. Sarajevo	-	53,760
	-	358,857
d) Loan receivable:		
- Logosoft d.o.o. Sarajevo	645,000	-
Total receivables	**4,863,823**	**4,270,079**
LIABILITIES		
a) Trade payables:		
- Telekom Srbija a.d. Beograd	(2,853,965)	(2,850,231)
- MTEL d.o.o. Podgorica	(2,989)	(131)
- Mtel Austria GMBH Vienna	(13)	-
- Logosoft d.o.o. Sarajevo	(767,612)	(1,028,791)
	(3,624,579)	(3,879,153)
b) 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	(78,429)	(60,240)
- Mtel Austria GMBH Vienna	(21)	-
- Logosoft d.o.o. Sarajevo	(13,733)	(208,518)
	(573,319)	(722,942)
Total liabilities	**(4,197,898)**	**(4,602,095)**
Receivables/(liabilities), net	**665,925**	**(332,016)**

36. RELATED PARTY TRANSACTIONS (Continued)

	In BAM	
	Year Ended December 31,	
INCOME	**2015**	**2014**
a) Sales of services:		
- Telekom Srbija a.d. Beograd	13,150,567	15,166,755
- MTEL d.o.o. Podgorica	145,692	220,456
- TT Inženjering d.o.o. Banja Luka	-	422
- Mtel Austria GMBH Vienna	2,187	-
- Logosoft d.o.o. Sarajevo	896,813	319,017
	14,195,259	15,706,650
b) Sales of goods:		
- Logosoft d.o.o. Sarajevo	281,811	156,118
- Mtel Austria GMBH Vienna	89,765	-
	371,576	156,118
c) Other income:		
- Mtel Austria GMBH Vienna	113,191	-
- Telekom Srbija a.d. Beograd	10,757	-
- Logosoft d.o.o. Sarajevo	-	8,150
	123,948	8,150
Total income	**14,690,783**	**15,870,918**
EXPENSES		
a) Costs of inter-operator settlement exclusive of “roaming”		
- Telekom Srbija a.d. Beograd	(11,794,535)	(12,984,014)
- Mtel Austria GMBH Vienna	(34)	-
- Logosoft d.o.o. Sarajevo	(1,460,955)	(394,799)
	(13,255,524)	(13,378,813)
b) Costs of “roaming”		
- Telekom Srbija a.d. Beograd	(1,141,021)	(1,464,545)
- MTEL d.o.o. Podgorica	(448,039)	(559,119)
	(1,589,060)	(2,023,664)
c) Lease of transmission lines		
- Telekom Srbija a.d. Beograd	(280,693)	(300,695)
- Logosoft d.o.o. Sarajevo	(490,702)	-
	(771,395)	(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	(941,145)	(722,930)
	(1,387,008)	(1,139,349)
h) Maintenance costs		
- Telekom Srbija a.d. Beograd	(355,315)	(348,381)
- MTEL d.o.o. Podgorica	(37,042)	(26,932)
- Logosoft d.o.o. Sarajevo	(187,321)	(72,987)
	(579,678)	(448,300)
i) Other non-production services		
- MTEL d.o.o. Podgorica	(1,647)	(2,306)
- Logosoft d.o.o. Sarajevo	(2,712)	-
- TT Inženjering d.o.o. Banja Luka	-	(9,775)
	(4,359)	(12,081)
j) Professional trainings		
- Logosoft d.o.o. Sarajevo	(2,233)	-
k) Costs of sales of goods/combined services:		
- Logosoft d.o.o. Sarajevo	(281,811)	-
- Mtel Austria GMBH Vienna	(43,437)	-
	(325,248)	-
Total expenses	**(19,054,623)**	**(18,448,464)**
Expenses, net	**(4,363,840)**	**(2,577,546)**
Short-term remunerations to the key management personnel:		
- Executive Board	(812,182)	(709,677)
- Management Board	(261,180)	(276,167)
- Audit Committee	(83,020)	(81,205)
	(1,156,382)	**(1,067,049)**

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.

37. EARNINGS PER SHARE

	In BAM Year Ended December 31, 2015	2014
Profit for the period	81,488,875	106,496,171
Weighted average number of shares outstanding	491,383,755	491,383,755
Earnings per share (basic and diluted)	0.1658	0.2167

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 (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 43,036,182 (BAM 0.08758 per share).

Liabilities for the remaining unpaid dividends to the shareholders as of December 31, 2015 totaled BAM 26,608,490 (December 31, 2014: BAM 20,578,767).

38. COMMITMENTS AND CONTINGENT LIABILITIES

a) Litigation

The Company 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 Company as at December 31, 2015 totaled BAM 89,138,275 not including 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 Company 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 Company. Management further expects that the final outcome of these disputes will not significantly or materially hinder the financial operations of the Company. Based on the aforesaid facts, the Company has not recorded provisions for the said legal suits nor does it consider any further disclosures in respect thereof necessary.

39. SEGMENT REPORTING

39.1. Segment information

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

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

39.2. 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	198,873,100	254,582,343	453,455,443
Other operating income	1,279,659	4,578,037	5,857,696
Inter-segment settlement	33,749,118	40,238,520	73,987,638
Total operating income	233,901,877	299,398,900	533,300,777
Cost of materials, goods and combined services	(11,643,637)	(46,700,824)	(58,344,461)
Staff costs	(33,945,374)	(43,269,622)	(77,214,996)
Depreciation and amortization charge	(50,292,773)	(42,392,728)	(92,685,501)
Cost of production services	(52,797,402)	(62,616,435)	(115,413,837)
Other operating expenses	(8,877,326)	(19,443,143)	(28,320,469)
Inter-segment settlement	(40,238,520)	(33,749,118)	(73,987,638)
Total operating expenses	(197,795,032)	(248,171,870)	(445,966,902)
Profit from operations	**36,106,845**	**51,227,030**	**87,333,875**
Finance income	1,739,142	3,046,426	4,785,568
Finance expenses	(530,753)	(872,048)	(1,402,801)
Finance income, net	1,208,389	2,174,378	3,382,767
Profit before taxes	**37,315,234**	**53,401,408**	**90,716,642**
Income taxes	(4,455,841)	(4,771,926)	(9,227,767)
Net profit for the year	**32,859,393**	**48,629,482**	**81,488,875**

39. SEGMENT REPORTING (Continued)

39.2. 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	Total
Sales of goods and services	206,932,115	270,121,745	477,053,860
Other operating income	1,837,756	4,252,273	6,090,029
Inter-segment settlement	26,927,066	52,376,320	79,303,386
Total operating income	235,696,937	326,750,338	562,447,275
Cost of materials, goods and combined services	(10,579,145)	(40,092,539)	(50,671,684)
Staff costs	(32,933,800)	(43,567,108)	(76,500,908)
Depreciation and amortization charge	(49,421,963)	(49,130,764)	(98,552,727)
Cost of production services	(54,174,484)	(55,338,946)	(109,513,430)
Other operating expenses	(8,343,888)	(18,383,761)	(26,727,649)
Inter-segment settlement	(52,376,320)	(26,927,066)	(79,303,386)
Total operating expenses	(207,829,600)	(233,440,184)	(441,269,784)
Profit from operations	**27,867,337**	**93,310,154**	**121,177,491**
Expenses incurred in property and equipment damaged and demolished by flooding	(1,458,038)	(5,017,807)	(6,475,845)
Finance income	1,867,540	3,088,124	4,955,664
Finance expenses	(361,160)	(970,409)	(1,331,569)
Finance income, net	1,506,380	2,117,715	3,624,095
Profit before taxes	**27,915,679**	**90,410,062**	**118,325,741**
Income taxes	(5,335,139)	(6,494,431)	(11,829,570)
Net profit for the year	**22,580,540**	**83,915,631**	**106,496,171**

Segment revenue and results reported above (for the FY2015 and FY2014) represent revenue generated from external customers. Inter-segment sales during the period/year have been eliminated.

The accounting policies of the reporting segments are the same as the Company'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 Company's revenue from its major services is presented in detail in *Note 5* to the unconsolidated financial statements.

39. SEGMENT REPORTING (Continued)

39.3 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	Total
ASSETS			
Non-current assets			
Intangible assets	30,746,477	53,812,942	84,559,419
Property and equipment	307,928,246	183,456,555	491,384,801
Investments in subsidiaries	13,687,274	17,521,416	31,208,690
Investments in an associate	-	74,563,739	74,563,739
Other investments	40,523	51,875	92,398
Long-term loans and receivables	8,178,762	10,400,729	18,579,491
Deferred tax assets	119,849	407,525	527,374
	360,701,131	340,214,781	700,915,912
Current assets			
Inventories	5,395,229	19,663,257	25,058,486
Trade receivables	23,889,605	25,488,491	49,378,096
Prepaid income taxes	803,720	1,022,917	1,826,637
Other receivables	882,873	1,289,036	2,171,909
Deposits and loan receivables	6,896,437	8,828,299	15,724,736
Prepayments	2,620,159	22,440,262	25,060,421
Cash and cash equivalents	17,558,632	22,477,237	40,035,869
	58,046,655	101,209,499	159,256,154
Total assets	**418,747,786**	**441,424,280**	**860,172,066**
LIABILITIES			
Non-current liabilities and provisions			
Interest bearing loans and borrowings	2,878,186	28,172,045	31,050,231
Deferred income	56,558	-	56,558
Employee benefits	2,797,513	3,514,492	6,312,005
Provisions	90,192	114,789	204,981
	5,822,449	31,801,326	37,623,775
Current liabilities			
Interest bearing loans and borrowings	4,351,516	8,242,228	12,593,744
Trade payables	23,793,330	35,332,476	59,125,806
Accruals	6,629,116	38,238,243	44,867,359
Employee benefits	316,092	396,680	712,772
Deferred income	58,554	74,524	133,078
Dividend payables	11,707,736	14,900,754	26,608,490
Other current liabilities	465,411	1,273,568	1,738,979
	47,321,755	98,458,473	145,780,228
Total liabilities	**53,144,204**	**130,259,799**	**183,404,003**

39. SEGMENT REPORTING (Continued)

39.3 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	Total
ASSETS			
Non-current assets			
Intangible assets	5,643,194	59,191,315	64,834,509
Property and equipment	319,153,809	179,486,596	498,640,405
Investments in subsidiaries	10,976,788	14,364,412	25,341,200
Investments in an associate	25,132,336	32,806,848	57,939,184
Other investments	45,136	58,918	104,054
Long-term loans and receivables	14,577,483	19,028,923	33,606,406
Deferred tax assets	119,282	362,338	481,620
	375,648,028	305,299,350	680,947,378
Current assets			
Inventories	5,208,647	16,769,191	21,977,838
Assets held for sale	69,192	10,808	80,000
Trade receivables	27,101,041	19,276,858	46,377,899
Other receivables	890,264	1,364,530	2,254,794
Deposits and loan receivables	2,418,660	3,157,231	5,575,891
Prepayments	1,903,611	17,404,937	19,308,548
Cash and cash equivalents	35,998,717	46,991,431	82,990,148
	73,590,132	104,974,986	178,565,118
Total assets	**449,238,160**	**410,274,336**	**859,512,496**
LIABILITIES			
Non-current liabilities and provisions			
Interest bearing loans and borrowings	4,580,117	16,255,880	20,835,997
Deferred income	276,503	-	276,503
Employee benefits	2,896,838	3,792,106	6,688,944
Provisions	120,927	160,298	281,225
	7,874,385	20,208,284	28,082,669
Current liabilities			
Interest bearing loans and borrowings	2,533,544	8,996,097	11,529,641
Trade payables	22,921,217	34,663,426	57,584,643
Accruals	5,270,333	34,753,015	40,023,348
Employee benefits	230,682	299,935	530,617
Deferred income	54,875	223,036	277,911
Dividend payables	8,848,870	11,729,897	20,578,767
Income taxes payable	721,985	957,052	1,679,037
Other current liabilities	1,012,519	790,169	1,802,688
	41,594,025	92,412,627	134,006,652
Total liabilities	**49,468,410**	**112,620,911**	**162,089,321**

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.

39. SEGMENT REPORTING (Continued)

39.4. 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)*	81,603,094	24,463,460	**106,066,554**
December 31, 2014			
Capital expenditures *(Notes 13 and 14)*	73,658,677	21,650,593	**95,309,270**

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

39.5 Information about Major Customers

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

39.6 Geographical Information

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

40. FINANCIAL INSTRUMENTS

40.1. Capital Risk Management

There is no formal capital risk management framework implemented by the Company. The Management Board of the Company considers capital risk with a view to alleviating risks and ensuring that the Company 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 Company consists of debt, which includes the borrowings (disclosed in *Note 28*), 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 Company's overall capital management strategy remains unchanged.

40.1.1. Debt to Equity Ratio

The Company's gearing ratios as of the year-end were as follows:

In BAM

	December 31, 2015	December 31, 2014
Debt (a)	43,643,975	32,365,637
Cash and cash equivalents	(40,035,869)	(82,990,148)
Net debt	**3,608,106**	**(50,624,511)**
Equity (b)	676,768,063	697,423,175
Debt to equity ratio	*0.53%*	*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.

40. FINANCIAL INSTRUMENTS (Continued)

40.1 Capital Risk Management (Continued)

40.1.2. 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 unconsolidated financial statements.

40.1.3. 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)	124,155,605	170,264,479
Financial assets held to maturity	86,650	97,480
Securities available for sale	5,748	6,574
	124,248,003	170,368,533
Financial liabilities - at amortized cost	**102,877,788**	**90,047,987**

40.2. Financial Risk Management

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

The Company does not enter into transactions with derivative instruments, such as interest rate swaps or forwards. In addition, for the year ended December 31, 2015, the Company undertook no transactions with financial instruments.

(1) Market Risk

(a) Currency Risk

Although the Company performs a number of its transactions in foreign currencies, the Company's management holds that the Company 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 Company 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.

40. FINANCIAL INSTRUMENTS (Continued)

40.2. Financial Risk Management (Continued)

(1) Market Risk (Continued)

(a) Currency Risk (Continued)

The carrying values of financial assets and liabilities of the Company 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	23,886,898	19,893,518	48,912,893	32,242,202
USD	177,180	151,702	3,812,423	3,572,326
CHF	1,169	248	26,939	23,554
GBP	1,862	2,079	1,243	-
RSD	33	371	981	826
	24,067,142	20,047,918	52,754,479	35,838,908

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, net profit for the year ended December 31, 2015 would have decreased / increased by the amount of BAM 56,078 (December 31, 2014: by BAM 44,663).

(b) Interest Rate Risk

The Company 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 Company has no significant interest-bearing assets, the Company's income is to a great extent independent of interest rate risk.

The Company'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 Company' susceptible to cash flow interest rate risk, while the loans obtained at fixed interest rates expose the Company 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 Company 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 Company 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 Company's net profit for the FY2015 would have decreased / increased by BAM 44,357 (FY2014: by BAM 75,951) as a result of higher/lower interest expenses.

40. FINANCIAL INSTRUMENTS (Continued)

40.2. Financial Risk Management (Continued)

(1) Market Risk (Continued)

(c) Equity Price Risk

During the reporting period of 2015, the Company 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 Company is exposed to a risk of price changes due to intensive competition in telecommunications industry.

(2) Liquidity Risk

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

The Company 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 Company does not make use of financial derivatives.

In order to manage liquidity risk, the Company 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 Company to make decisions on certain acquisitions.

Maturities of the Company's financial assets and liabilities as of December 31, 2015 and December 31, 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)	90,475,126	-	-	-	-	90,475,126
	90,475,126	-	-	-	-	90,475,126
Fixed interest rate						
Loans and receivables (including cash and cash equivalents)	402,884	16,040,652	14,012,593	5,115,113	6,581	35,577,823
Financial assets held to maturity	9,186	1,645	10,831	32,493	32,495	86,650
	412,070	16,042,297	14,023,424	5,147,606	39,076	35,664,473
Total	90,887,196	16,042,297	14,023,424	5,147,606	39,076	126,139,599
December 31, 2014						
Non-interest bearing						
Loans and receivables (including cash and cash equivalents)	131,035,774	-	-	-	-	131,035,774
	131,035,774	-	-	-	-	131,035,774
Fixed interest rate						
Loans and receivables (including cash and cash equivalents)	442,930	6,812,672	16,370,621	19,075,688	17,193	42,719,104
Financial assets held to maturity	9,186	1,645	10,831	32,493	43,325	97,480
	452,116	6,814,317	16,381,452	19,108,181	60,518	42,816,584
Total	131,487,890	6,814,317	16,381,452	19,108,181	60,518	173,852,358

40. FINANCIAL INSTRUMENTS (Continued)

40.2. Financial Risk Management (Continued)

(2) Liquidity Risk (Continued)

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	55,370,950	3,862,862	-	-	-	59,233,812
- Instruments at variable interest rate	3,057,004	9,609,449	11,920,543	16,593,746	2,820,982	44,001,724
- Instruments at fixed interest rate	-	-	-	-	-	-
Total	58,427,954	13,472,311	11,920,543	16,593,746	2,820,982	103,235,536
December 31, 2014						
Other liabilities at amortized cost						
-Non-interest bearing	47,472,863	10,209,486	-	-	-	57,682,349
- 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	-	-	-	5,867,490
Total	48,709,571	20,776,795	8,804,596	9,560,590	2,715,010	90,566,562

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 Company expects cash flow in another period), i.e., based on the earliest date on which the Company 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 Company, which will result in financial loss to the Company, The Company 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 Company 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 Company level. In case any service user falls behind in settlement of liabilities to the Company, further services to such a user are suspended.

In addition, the Company 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 Company employees is ensured through salary garnishment, i.e., by decreasing salaries for the adequate amount of repayment installments, whereas the employees leaving the Company enter agreements to regulate the manner of repayment of the outstanding loan portion upon leaving the Company.

40. FINANCIAL INSTRUMENTS (Continued)

40.2. Financial Risk Management (Continued)

(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 unconsolidated 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**

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

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 Company 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.

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 17*)	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 17*), and are stated as a change in “unrealized gains/(losses) from securities.”

41. OPERATING LEASE ARRANGEMENTS

The minimum amount of rent recognized as expenses during the year ended December 31, 2015 amounted to BAM 13,506,599 (year ended December 31, 2014: BAM 12,575,258).

The Company'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**

42. 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 Company may not coincide with that of the management. As a result, transactions may be challenged by tax authorities and the Company 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 Company performs a significant number of business transactions with its related parties. Although the Company’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 Company’s management believes that no varying interpretations could have material impact on the Company’s financial statements on the whole.

43. 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 Company.

44. CURRENT ECONOMIC SITUATION AND ITS IMPACT ON THE COMPANY

As expected, throughout the reporting period, like most other business entities in the Republic of Srpska, the Company'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 current global crisis in the market and its weakening effects on domestic economic activities in the local market in the Republic of Srpska and Bosnia and Herzegovina, the Company 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 Company.

44. 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