“MTEL” a.d. BANJA LUKA

Consolidated Financial Statements
For the Six-Month Period Ended
30 June 2017

and

Independent Auditors’ Report

CONTENTS

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This is an English translation of Independent Auditor's Report originally issued in the Serbian language

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS AND MANAGEMENT BOARD OF "MTEL" a.d. BANJA LUKA

Opinion

We have audited the consolidated interim financial statements of the joint stock company "Mtel" a.d. Banja Luka and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as of 30 June 2017 and the consolidated statement of profit and loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the six-month period then ended, and explanatory notes to the accompanying consolidated financial statements and a summary of significant accounting policies.

In our opinion, the accompanying consolidated interim financial statements present fairly, in all material respects, the consolidated financial position of the Group as of 30 June 2017, and its consolidated financial performance and its consolidated cash flows for the six-month period then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS AND MANAGEMENT BOARD OF "MTEL" a.d. BANJA LUKA (Continued)

Key Audit Matters (Continued)

Key Audit Matter	Audit procedures applied
1. **Revenue recognition** (accuracy of recording revenues due to the complexity of the information systems for generating income from services rendered), Note 5 to the consolidated financial statements	
There are inherent risks associated with the accuracy of recognized revenues arising from the complexity of information systems (IT) of the Group, through which the realised traffic, billing, approved free traffic and other discounts in the revenue generation process are measured. Based on the procedures performed, we have not identified significant findings in relation to the accuracy of the revenue recorded for the six-month period ended 30 June 2017.	We assessed the Group's most important IT systems for recording the realised traffic, billing and invoicing services to customers and conducted tests of relevant controls over these systems, tested the relevant control over the transfer of data from the respective information systems to the general ledger, as well as controls over the process of payments of bills by the customers and the process of customer complaints resolution. We tested the compliance of prices and discount terms on customers' invoices with the current pricelist and discount terms on a sample basis.

Key Audit Matter	Audit procedures applied
2. **Accrual of income and expenses due to the assessment of contracted and realised roaming discounts in the international traffic,** Notes 22 and 31 to the consolidated financial statements	
Accrued income of the Group from the roaming discounts contracted with other operators in the international traffic, as well as accrued expenses for roaming discounts granted to other operators by the Group were selected as key audit matter due to the fact that they include a significant scope of management estimates relating to meeting the requirements from individual contracts with specific operators. Based on the procedures performed, we have not identified significant findings in relation to the accrued discounts based on the roaming traffic realised for the six-month period ended 30 June 2017.	We reviewed contracts with major operators per income generated/expenses incurred from the roaming discount, tested sales/purchase invoices to/from operators on a sample basis and checked their accuracy, as well as their compliance with the terms defined in the agreements on roaming discounts. We have verified the billing of the amount of roaming with clearings and settlements received from clearing houses for the six-month period ended 30 June 2017. In addition, we have checked the consistency in the application of the group's accounting policies when recording the roaming discount.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS AND MANAGEMENT BOARD OF "MTEL" a.d. BANJA LUKA (Continued)

Key Audit Matters (Continued)

Key Audit Matter	Audit procedures applied
3. **Capitalisation of costs of investments in intangible assets and property, plant and equipment, and their measurement after initial recognition,** Notes 12 and 13 to the consolidated financial statements	
The aforementioned key audit matter is chosen due to the fact that it includes significant Group management estimates in the capitalization of costs of investments in software and property, plant and equipment, as well as upon determination of the depreciation/amortization period and subsequent measurement of the recoverable value of these assets due to the relatively rapid technological changes that are characteristic of telecommunications industry. Based on the procedures performed, we have not identified significant findings in relation to the adequacy of capitalization of costs of investments in intangible assets, plant and equipment, as well as their subsequent measurement after initial recognition within the six-month period ended 30 June 2017.	We have tested on a sample basis the costs of the Group recorded on costs of the current period, as well as the increase the Group recorded during the year on intangible assets and property, plant and equipment, from the standpoint of meeting the criteria for capitalization of costs, i.e. their recognition as costs in the current period. We have analysed the Group's management estimates relating to the existence of impairment indicators for intangible assets, property, plant and equipment, such as changes in use, reduction in the market value, identification of physical damage, etc. We have reviewed the depreciation/amortization rates applied in relation to useful lives of assets, asset replacement schemes, historical disposals experience, as well as income and expenses from disposal of certain assets. We have tested the internal controls implemented by the Group's management in this process. Based on the sample we have checked the arithmetic accuracy of the calculation of depreciation/amortization and compared the rates with the prior accounting period. In addition, we have tested construction in progress by the ageing structure of an investment, its physical condition, additional costs capitalized during the period, at the moment of placing in use and the beginning of depreciation/amortization.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS AND MANAGEMENT BOARD OF “MTEL” a.d. BANJA LUKA (Continued)

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group’s financial reporting process.

Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated interim financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS AND MANAGEMENT BOARD OF "MTEL" a.d. BANJA LUKA (Continued)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Velemir Janjić.

Banja Luka, 28 July 2017

Društvo za konsalting i reviziju BDO d.o.o. Banja Luka

Velemir Janjić
Certified Auditor
BDO d.o.o. Banja Luka

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME
For the Six-Month Period Ended 30 June 2017
(In BAM)

	Notes	Period ended 30 June 2017	Period ended 30 June 2016
Sales of goods and services	5	207,960,446	220,363,610
Share in the profit of the associate	14	792,591	-
Other operating income	6	2,076,743	2,435,999
Total operating income		210,829,780	222,799,609
Cost of materials, merchandise and combined services	7	(28,717,086)	(29,546,881)
Staff costs	8	(38,354,928)	(38,450,917)
Depreciation and amortization charge	12, 13	(52,836,234)	(50,430,045)
Share in the loss of the associate	14	-	(324,580)
Cost of production services	9	(56,288,102)	(61,389,379)
Other operating expenses	10	(11,453,178)	(13,237,677)
Total operating expenses		(187,649,528)	(193,379,479)
Profit from operations		**23,180,252**	**29,420,130**
Finance income	11	1,583,717	1,562,623
Finance expenses	11	(245,069)	(567,614)
Finance income, net		1,338,648	995,009
Profit before taxes		**24,518,900**	**30,415,139**
Income tax expense	33 (a)	(2,725,391)	(3,677,526)
Profit for the period		**21,793,509**	**26,737,613**
Other comprehensive income, net of income tax:			
(a) Items that may be subsequently reclassified to profit or loss:			
Gains/(losses) on financial assets available for sale	15	858	1,168
Total other comprehensive income, net of income tax		858	1,168
Total comprehensive income for the period		**21,794,367**	**26,738,781**
Earnings per share:			
Basic and diluted earnings per share	35	0.0444	0.0544

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

The accompanying consolidated financial statements of the Group were approved for issuance by the Management Board of Mtel a.d., Banja Luka on 28 July 2017.

Signed on behalf of the Company and the Group by:

Marko Lopičić L.S. Jasmina Lopičić
General Manager Chief Financial Officer

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
For the Six-Month Period Ended 30 June 2017
(In BAM)

	Notes	30 June 2017	31 December 2016
ASSETS			
Non-current assets			
Intangible assets and goodwill	12	84,598,058	94,000,912
Property and equipment	13	500,654,815	519,086,873
Investments in the associate	14	80,573,374	79,780,783
Other investments	15	73,892	82,221
Long-term receivables and loans	16	27,214,204	23,226,425
Deferred tax assets	33 (c)	593,559	635,360
		693,707,902	716,812,574
Current assets			
Inventories	17	24,784,592	21,279,814
Assets held for sale		75,860	64,328
Trade receivables	18	58,905,583	54,474,497
Prepaid income taxes	33 (e)	1,274,959	1,149,947
Other receivables	19	853,479	2,673,629
Deposits and loan receivables	21	5,102,745	13,598,937
Prepayments	22	25,071,008	23,034,047
Cash and cash equivalents	23	14,268,630	31,190,365
Deferred tax assets	33 (c)	55,494	55,494
		130,392,350	147,521,058
Total assets		**824,100,252**	**864,333,632**
EQUITY AND LIABILITIES			
Equity			
Share capital	24	491,383,755	491,383,755
Legal reserves	24	49,141,766	49,141,766
Unrealized losses on the available-for-sale securities		(140)	(998)
Other reserves – arising on the commitment to invest	24	97,791,500	97,791,500
Retained earnings		13,431,957	30,588,772
		651,748,838	668,904,795
Interest bearing loans and borrowings	25	37,206,524	40,763,030
Deferred tax liabilities	33 (d)	859,361	957,241
Employee benefits	28	5,650,114	6,099,828
Provisions	29	58,533	207,434
		43,774,532	48,027,533
Current liabilities			
Interest bearing loans and borrowings	25	19,675,420	16,082,814
Other short-term financial liabilities	26	-	8,930,173
Trade payables	30	48,262,744	70,599,346
Accruals	31	23,324,443	25,446,034
Employee benefits	28	648,463	648,463
Deferred income	27	24,800	56,558
Dividend payables	35	25,954,295	22,946,430
Other liabilities	32	10,686,717	2,691,486
		128,576,882	147,401,304
Total equity and liabilities		**824,100,252**	**864,333,632**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the Six-Month Period Ended 30 June 2017
(In BAM)

	Share Capital	Legal Reserves	Unrealized (losses)/gains from the Available-for-Sale Securities	Other Reserves Arising on the Commitment to Invest	Retained Earnings	Total
Balance as of 1 January 2016	**491,383,755**	**49,141,766**	**(1,652)**	**97,791,500**	**34,765,835**	**673,081,204**
Net profit for the period from 1 January to 30 June 2016	-	-	-	-	26,737,613	26,737,613
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**26,737,613**	**26,737,613**
Profit distribution:						
Dividends paid to shareholders	-	-	-	-	(38,452,693)	(38,452,693)
Balance as of 30 June 2016	**491,383,755**	**49,141,766**	**(1,652)**	**97,791,500**	**23,050,755**	**661,366,124**
Net profit for the period from 1 July to 31 December 2016	-	-	-	-	38,758,047	38,758,047
Total other comprehensive income for the period from 1 July to 31 December 2016	-	-	654	-	-	654
Total comprehensive income for the period	**-**	**-**	**654**	**-**	**38,758,047**	**38,758,701**
Profit distribution:						
Interim dividends paid to shareholders	**-**	**-**	**-**	**-**	(31,220,030)	(31,220,030)
Balance as of December 2016	**491,383,755**	**49,141,766**	**(998)**	**97,791,500**	**30,588,772**	**668,904,795**
Net profit for the period from 1 January to 30 June 2017	**-**	**-**	-	-	21,793,509	21,793,509
Total other comprehensive income from 1 January to 30 June 2017	**-**	**-**	858	-		858
Total comprehensive income for the period	**-**	**-**	**858**	**-**	**21,793,509**	**21,794,367**
Profit distribution (Note 35):						
Dividends paid to shareholders	-	-	-	-	(38,950,324)	(38,950,324)
Balance as of 30 June 2017	**491,383,755**	**49,141,766**	**(140)**	**97,791,500**	**13,431,957**	**651,748,838**

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

CONSOLIDATED STATEMENT OF CASH FLOWS
For the Six-Month Period Ended 30 June 2017
(In BAM)

	Period ended 30 June 2017	Period ended 30 June 2016
Cash flows from operating activities		
Cash receipts from customers and prepayments	206,700,868	220,498,096
Other cash receipts from regular operations	786,265	862,619
Cash paid to suppliers – purchases of materials, fuel, energy and other expenses	(101,237,410)	(109,188,856)
Cash paid to and on behalf of employees	(33,278,009)	(33,210,651)
Interest paid	(223,476)	(185,484)
Income taxes paid	(2,397,829)	(2,954,525)
Other taxes and duties paid	(2,509,584)	(2,753,195)
Net cash generated by operating activities	**67,840,825**	**73,068,004**
Cash flows from investing activities		
Purchases of property, equipment and intangible assets	(37,823,224)	(37,836,397)
Proceeds from sale of property, equipment and intangible assets	51,988	41,065
Interest received	1,310,376	1,323,255
(Outflows)/inflows per long-term financial investments	(3,975,161)	13,526,273
Inflows/(outflows) per short-term financial investments	8,496,192	(13,503,860)
Net cash used in investing activities	**(31,939,829)**	**(36,449,664)**
Cash flows from financing activities		
Long-term financial liabilities, net outflows	(9,296,193)	(6,653,301)
Dividend and interim dividend payments to the shareholders	(34,596,365)	(41,693,060)
Outflows per other short-term liabilities	(8,930,173)	-
Net cash used in financing activities	**(52,822,731)**	**(48,346,361)**
Net decrease in cash and cash equivalents	**(16,921,735)**	**(11,728,021)**
Cash and cash equivalents at the beginning of the period	31,190,365	47,140,928
Cash and cash equivalents at the end of the period	**14,268,630**	**35,412,907**

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

1. CORPORATE INFORMATION

The Parent Company Mtel a.d. (hereinafter: the "Company") is domiciled in Banja Luka, in the Republic of Srpska, BiH, at the following street address: no. 2, Vuka Karadžića Street. 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.

The majority shareholder of the Company is the Telecommunications Company "Telekom Srbija" a.d. Beograd, Serbia, holding 65.01% of the Company's shares.

As of 30 June 2017, the Company had two subsidiaries (hereinafter together as – the "Group"):

1. *Mtel Austria GmbH,* Vienna, Republic of Austria (holding 100% equity interest therein), and
2. *Logosoft d.o.o.* Sarajevo, Bosnia and Herzegovina (holding 100% equity interest therein).

As of 30 June 2017, the Company held a 49% equity interest in the associate MTEL d.o.o. Podgorica (Montenegro). The remaining 51% of the shares were owned by the ultimate parent and owner of the Group – Telekom Srbija a.d. Beograd.

As of 30 June 2017, the Group had 2,241 employees (31 December 2016: 2,250 employees).

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

As of 30 June 2017, the Group provided telecommunication services of fixed line telephony to 244,242 users (31 December 2016: 256,012 users), Internet services to 138,199 users (31 December 2016: 178,924 users), mobile telephony services to 1,275,161 users (31 December 2016: 1,316,761 users), including integrated services to 94,176 users (31 December 2016: 89,774 users).

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

The General Manager of the Company as of 30 June 2017 is Mr. Marko Lopičić.

The members of the Management Board on the accompanying consolidated financial statements issuance date were as follows:

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

The members of the Executive Board on the accompanying consolidated financial statements issuance date were as follows:

Mr. Marko Lopičić
Ms Jasmina Lopičić
Ms Radmila Bojanić
Mr. Miodrag Vojinović
Mr. Vladimir Četrović
Mr. Nikola Rudović

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

2.1. Statement of Compliance

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

2.2. Basis of Measurement

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

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

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

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

2.3. Functional and Presentation Currency

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

2.4. Application and Impact of the new and revised IAS/IFRS

Amendments to the Existing Standards Effective in the Current Period

The following amendments to the existing standards issued by the International Accounting Standards Board have been effective over the current period:

- Amendment to IAS 7, “Cashflow Statements”, Disclosure initiative - (effective for annual periods beginning on or after 1 January 2017);
- Amendment to IAS 12 “Income Taxes” – Recognition of deferred tax assets for unrealised losses (effective for annual periods beginning on or after 1 January 2017);

The adoption of these standards, revisions and interpretations has not resulted in significant changes to the accounting policies of the Group or the impact to the accompanying consolidated financial statements of the Group.

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

2.4. Application and Impact of the new and revised IAS/IFRS (Continued)

New and Revised Standards and Interpretations that have been issued but 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:

- Amendments to IAS 40 “Investment Property” – Transfers of Investment Property (Effective for annual periods beginning on or after 1 January 2018);
- Amendments to IFRS 2 “Share based payments” (effective for annual periods beginning on or after 1 January 2018);
- Amendments to IFRS 4 “Insurance contracts” regarding the implementation of IFRS 9 “Financial instruments” (effective for annual periods beginning on or after 1 January 2018);
- IFRS 9 “Financial instruments” (effective for annual periods beginning on or after 1 January 2018);
- IFRS 15 “Revenue from contracts with customers” (effective for annual periods beginning on or after 1 January 2018);
- Amendment to IFRS 15 “Revenue from contracts with customers” (effective for annual periods beginning on or after 1 January 2018);
- Amendments to various standards (IFRS 1, IFRS 12 and IAS 28) as a result of annual improvements project standards, “2014-2016 Cycle”, published by the IASB in December 2016 (effective for annual periods beginning on or after 1 January 2018);
- IFRIC 22 “Foreign currency transactions and advance consideration” (effective for annual periods beginning on or after 1 January 2018) and
- IFRS 16 “Leases” (effective for annual periods beginning on or after 1 January 2019).

Management of the Company has decided not to adopt these standards, amendments and interpretations before they become effective. Management anticipates that the adoption of these standards, amendments and interpretations will have no material impact on the Company’s and the Group’s financial statements in the period of initial application.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Basis of Consolidation

a) Investments in Subsidiaries

The accompanying consolidated financial statements for the six-month period ended 30 June 2017 comprise the financial statements of the Company - (Mtel a.d. Banja Luka), and its two consolidated subsidiaries: *Mtel Austria* Vienna and *Logosoft* d.o.o. Sarajevo.

Under the 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.

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

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

Mtel Austria GmbH, Vienna, Republic of Austria

On 1 July 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).

The initial capital of *Mtel Austria* was increased in 2014 by 3,500,000 EUR (equivalent to BAM 6,845,405), whereas in 2015 a monetary contribution of 3,000,000 EUR (equivalent to BAM 5,867,490) was made to the equity reserves of the subsidiary. Pursuant to a Decision enacted by the Company's General Manager on 4 April 2017, a monetary contribution of 500,000 EUR (equivalent to BAM 977,915) was made to the equity reserves of the subsidiary.

Mtel Austria operates as a MVNO *(Mobile virtual network operator*).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.1. Basis of Consolidation (Continued)

a) Investments in Subsidiaries (Continued)

Logosoft d.o.o. Sarajevo

On 12 May 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. As of 1 October 2014, the Company took over control of the subsidiary *Logosoft* d.o.o. Sarajevo. On 26 December 2016 an agreement on the sale and transfer of 35% of the equity investment (remaining portion of interest) in Logos*oft* d.o.o. Sarajevo was concluded between the sellers and Mtel a.d. Banja Luka, as a buyer. The Municipal Court in Sarajevo issued a Decision on the Change of Equity Investment in the company *Logosoft* d.o.o. Sarajevo on 21 February 2017. The subsidiary *Logosoft* d.o.o. Sarajevo was founded in 1995, as a company involved in informatics engineering. The subsidiary's first business activities included ICT system integration; two years after foundation, it became the first Internet service provider in Bosnia and Herzegovina. Nowadays the subsidiary provides services of internet access, telephony and television, computer equipment sales and service in system integration and IT training and consulting services.

b) Business Combinations

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

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

- deferred tax assets and liabilities or liabilities and assets related to employee benefit arrangements are recognized and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits* respectively*;*
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree, are measured in accordance with IFRS 2 *Share-Based Payment* at the acquisition date; and
- assets (or a disposal group) that are classified as held for sale in accordance with IFRS 5 *Non-Current Assets Held for Sale and Discounted Operations* are measured in accordance with that Standard.

c) Goodwill

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree, and the fair value of the acquirer`s previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed.

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

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any. For the purposes of impairment testing, goodwill is allocated to each of the Group`s cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combinations.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.1. Basis of Consolidation (Continued)

c) Goodwill (Continued)

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

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

d) Investments in Associates

An associate is an entity over which the Group has significant influence that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policies and decisions of the investee but is not control or joint control over those policies and decisions.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method. Under the equity method, an investment in an associate is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2. Revenues

Revenue Recognition

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

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

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

3.2.1. Income from Telephone Traffic – Fixed-Line Telephony

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

3.2.2. Telecommunication Subscription - Fixed-Line Telephony

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

3.2.3. Income from New Subscribers - Fixed-Line Telephony

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

3.2.4. Income Interconnection with Local Operators

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

3.2.5. Income from Mobile Telephony

Mobile telephony income is associated with the income earned from mobile telephony users who use prepaid and postpaid services i.e. traffic, text messages, income from subscriptions, combined services and packages sold, data transfer, 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2. Revenues (Continued)

3.2.6. Income from the Sale of Combined Services

Income earned on the sale of hardware is presented within item Income from the sale of combined services and is credited to income when the sale is realized, i.e. when the device/hardware is delivered to the package user and related costs recognized as expenses in profit or loss statement.

For combined services sold, the Group applies the relative fair value method whereby the future revenues are recognized at fair value of the services and the remainder is allocated to delivered components. Other income from rendering services under customer contracts are deferred over the period that each such contract relates to.

3.2.7. Income and Expenses from International Settlements and Roaming

a) Income and Expenses from International Traffic

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

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

b) Income and Expenses from Roaming

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

3.2.8. Direct Access to the Internet

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

3.2.9. Integrated services

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

3.2.10. Other Income from 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3. Financial and Operating Leases

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

The Group as Lessor

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

The Group as Lessee

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

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Group’s general policy on borrowing costs.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

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

3.4. Foreign Currencies

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to BAM at the foreign exchange rate ruling at that date.

Non-monetary assets and liabilities denominated in foreign currencies, which are stated at fair value, are translated into BAM at foreign exchange rate ruling at the transaction date.

Transactions in foreign currencies are translated into BAM by applying the exchange rate in effect on the date of each transaction. The foreign exchange gains or losses arising upon the translation of transactions and assets and liabilities components denominated in foreign currencies are included in the statement of comprehensive income, under financial income/expenses (*Note 11*).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5. Corporate Income Taxes

Income taxes comprise current and deferred taxes. Current and deferred taxes are recognized in the statement of profit and loss and comprehensive income except for those related to a business combination or items recognized directly in equity or in other comprehensive income.

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

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

Deferred income tax is provided using the financial statement liability method, for the temporary differences arising between the tax bases of assets and liabilities and their carrying values in the financial statements.

The currently enacted tax rates or the subsequently enacted rates at the statement of financial position date are used to determine the deferred income tax amount, based on the tax rates that are expected to be applied to temporary differences when they reverse.

Deferred tax liabilities are recognized for all taxable, temporary differences. Deferred tax assets are recognized for all deductible temporary differences, and for the tax effects of income tax losses available for carry forwards, to the extent that it is probable that taxable profit will be available against which the deductible temporary difference and the tax loss carry forwards can be utilized.

3.6. Intangible Assets

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

Telecommunication licenses, acquired computer software and other licenses are recorded at cost less accumulated amortization and accumulated impairment losses, if any.

Cost of an item of intangible assets comprises its purchase price, including import duties and non-refundable purchase taxes and any costs directly attributable to bringing the asset to the location and condition necessary for its operating capability. Cost is reduced by all received discounts and/or rebates.

Telecommunication licenses are amortized on a straight-line basis over their useful lives as delineated under IAS 38 *Intangible Assets*.

Customer relations represent contractual arrangements with the users and are recognized at appraised value after business combination of the acquisition of a subsidiary.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7. Property and Equipment

Items of property and equipment are recorded at cost less accumulated depreciation and accumulated impairment losses, if any.

Cost is comprised of the purchase price, 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.

3.8. Depreciation and Amortization

The depreciation/amortization rate is determined based on the estimated useful life of property, equipment and intangible assets.

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

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

The estimated useful lives of particular classes of property and equipment, as well as intangible assets used in the calculation of depreciation and amortization, and prescribed depreciation and amortization rates applied within the sixth-month period ended 30 June 2017 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 channelling	16.7	6
Switching systems and service platforms	3 - 11	9.09 - 33.33
Transmission network	4 - 12.5	8 - 25
Wireless access network	5 - 12.5	8 - 20
Equipment within the access network and terminal equipment	4 - 11	9.09 - 25
Computers and computer equipment	4 - 5	20 - 25
Office furniture and other equipment	5 - 8	12.5- 20

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9. Non-Current Assets Available for Sale

Non-current assets are classified as assets held for sale if the carrying value thereof can be recovered primarily from a sales transaction rather than through further use.

This condition is deemed fulfilled only if the sale of an asset (or a disposal group) is highly probable and if the asset (or the disposal group) is available for immediate sale in its present condition. Management must be committed to a plan to sell such assets, and the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.

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

3.10. Impairment of Non-Financial Assets

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

The recoverable value of an asset (or its related cash generating unit) is the higher of its fair value less costs to sell and value in use. The estimate of the value in use comprises the assessment of future cash inflows and outflows discounted to their present value by applying the pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the estimate is recoverable amount of assets (or cash generating unit) is below their carrying value, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount and an impairment loss is recognized as an expense of the current period under operating expenses.

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 30 June 2017, in the management's opinion, there were no indications that the value of the Group’s intangible assets, property and equipment had suffered impairment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11. Financial Assets

Financial assets are recognized and derecognized on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, including transaction costs.

Non-derivative financial assets are classified into the following specified categories: 'held-to-maturity investments', 'available-for-sale' (AFS) and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective Interest Method

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

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

Financial Assets Held to Maturity

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

Financial Assets Available for Sale

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

Gains and losses arising from changes in fair value are recognized directly in equity in unrealized gains/losses on securities available for sale with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognized directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in the investments revaluation reserve is included in profit or loss for the period.

Equity instruments classified as available for sale that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at historical cost less impairment.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11. Financial Assets (Continued)

Loans and Receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'.

Loans and receivables are measured at amortized cost using the effective interest method less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Trade receivables are stated at their nominal value less allowance for impairment of receivables deemed irrecoverable. The allowance are formed for receivables which are past their due date, which, according to the management's estimates based on historical evidence about the potential losses due to irrecoverability thereof, receivables which over 60 days past-due.

Direct write-off of receivables is carried out in cases when impossibility of collection of the receivables is certain and documented. Receivables that are subject to offsets are impaired on the basis of net exposure principle.

Cash and Cash Equivalents

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

Impairment of Financial Assets

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

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

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

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

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis.

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, delays in collecting payments after maturity period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11. Financial Assets (Continued)

Impairment of Financial Assets (Continued)

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.

Derecognition of Financial Assets

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

3.12. Financial Liabilities

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

Financial liabilities are initially recognized at fair value less directly applicable transaction costs. Once recognized, financial liabilities are measured at the initially recognized amount less principal repaid net of any amount of write-off as approved by a creditor.

Financial liabilities are stated at amortized cost by applying the effective interest rate. Interest accrued on financial liabilities is charged to expenses of the respective period and is presented within other current liabilities.

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

3.13. Derivative Financial Instruments

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

Embedded Derivatives

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 and inventory 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 Group has a pending present legal or contractual obligation as a result of a past event, and when it is probable that an outflow of resources will be required to settle the obligation, and when a reliable estimate of the amount can be made. Provisions are comprised of provisions for litigations filed against the Group, determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the true value of money and the risks specified to the liability.

3.16. Employee Benefits

a) Employee Taxes and Contributions for Social Security

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

b) Retirement Benefits and Jubilee Awards

The Group has an obligation to pay to its employee retirement benefits upon retirement in the amount of three net monthly salaries earned by the vesting employee.

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.17. Segment Reporting

The Group applies IFRS 8 *Operating Segments,* which requires the identification of operating segments based on internal reports about components of the Group that are regularly reviewed by managers responsible for making key decisions for the purpose of allocating adequate resources to these segments, as well as analysing their results. Segment information is analysed based on the type of services provided by the operating components of the Group (*Note 37*).

4. SIGNIFICANT ACCOUNTING ESTIMATES

The presentation of the consolidated financial statements requires the Group's management to make best estimates and reasonable assumptions that influence the assets and liabilities amounts, the disclosure of contingent liabilities and receivables as of the date of preparation of the consolidated financial statements, as well as the income and expenses arising during the accounting period.

These estimations and assumptions are based on historical experience and other information available as of the date of preparation of the consolidated financial statements. However, actual results may vary from these estimates.

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

Estimated Useful Life of Property, Equipment and Intangible Assets

The estimate of useful life of property, equipment and intangible assets is founded on the historical experience with similar assets, as well as foreseen technical advancement and changes in economic and industrial factors.

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

Due to the significance of non-current assets in the Group's total assets, any change in the aforesaid assumptions may lead to material effects on the Group's financial position, as well as on its financial performance.

For example, if the Group were to shorten the average useful life of assets by 10%, this would have resulted in the period ended 30 June 2017 in an additional cost of depreciation by BAM 5,283,623 (comparative figure in 2016: BAM 5,043,005).

Impairment of Trade Receivables

Impairment for bad and doubtful receivables is calculated based on estimated losses resulting from the inability of customers to settle the liabilities to the Group when due. The management estimates are based on the aging of trade receivables balance and historical write-off experience, customer credit-worthiness and changes in customer payment terms when evaluating the adequacy of the impairment allowance of doubtful receivables. This involves assumptions about future customer behaviour 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 18, 19 and 20).*

4. SIGNIFICANT ACCOUNTING ESTIMATES (Continued)

Provisions

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

Income and Expenses from International Traffic

Income (expenses) and receivables (payables) that have originated under agreements executed with international operators are presented in the accompanying consolidated financial statements and are associated with the income generated on all incoming and outgoing international calls realized with the countries maintaining direct international traffic calculation.

A portion of the income earned or expenses incurred is recorded on the basis of an estimate made in accordance with the internal settlements for realized traffic.

Management believes that the internal calculations/accounts of international traffic are adequate and that they reflect the actually realized international traffic in the corresponding period.

Fair Value

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

However, in the Republic of Srpska sufficient market experience, stability and liquidity do not presently exist for the purchase and sale of financial assets or liabilities for which quoted prices on an active market are not readily available. Hence, the fair value cannot be reliably determined in the absence of an active market.

The Group’s management assesses its overall risk exposure, and in instances in which it estimates that the value of assets stated in its books may not have been realized, it recognizes a provision.

In the opinion of management, the reported carrying amounts are the most valid and useful reporting values under the present market conditions.

5. SALES OF GOODS AND SERVICES

	In BAM Period ended 30 June	
	2017	**2016**
(a) Domestic Sales:		
Fixed-Line Telephony :		
- traffic revenue	11,947,596	14,205,600
- subscription fees	12,102,632	13,362,814
- income from interconnections with domestic operators in BH	13,038,881	13,253,331
- connection fees from the new subscribers	437,783	350,230
- leased transmission lines	2,557,947	2,840,044
- other income	63,719	115,995
	40,148,558	44,128,014
Mobile Telephony:		
- traffic revenue	58,275,785	69,242,433
- subscription fees	33,666,517	30,580,563
- connection fees from the new subscribers	270,174	252,906
- fiscal cash registers	1,349,279	1,329,457
- other income	521,591	667,984
	94,083,346	102,073,343
Integrated services:		
- traffic revenue on integrated services – fixed line	2,241,152	2,808,305
- traffic revenue on integrated services – mobile	223,268	280,866
- subscription fees	23,467,221	21,028,231
- other income	478,442	1,047,185
	26,410,083	25,164,587
Internet services:		
- ADSL subscription fees	9,366,250	9,428,998
- direct access	2,493,694	2,259,325
- other income	45,443	53,870
	11,905,387	11,742,193
Income from combined services:		
Combined services – fixed-line	1,985,145	2,479,553
Combined services – mobile	16,778,156	11,209,990
	18,763,301	13,689,543
Sales of goods	399,972	704,927
Sales of project design services, software, goods and training services	1,027,804	1,215,785
Total domestic sales (a)	**192,738,451**	**198,718,392**
(b) International market sales:		
International settlements:		
- International settlements (fixed-line telephony)	9,499,366	11,823,959
- Roaming	4,139,491	4,556,225
- International transit telephony traffic	1,347,074	5,018,757
- Other income from international telephony traffic	211,219	239,084
	15,197,150	21,638,025
Sales of project design services, software, goods and training services	24,845	7,193
Total international market sales (b)	**15,221,995**	**21,645,218**
Total sales of goods and services (a+b)	**207,960,446**	**220,363,610**

6. OTHER OPERATING INCOME

In BAM
Period ended 30 June

	2017	2016
Rental income	1,052,985	1,002,366
Commission for RTV fee collection	106,760	193,065
Marketing support income as per relevant contracts	379,820	429,844
Collection of receivables previously written off	6,625	6,234
Gains on the sale of retired property, equipment and inventories	51,988	41,065
Reversal of deferred income (grants) – *Note 27*	31,757	66,539
Collected penalties and damage claims	202,847	135,478
Proceeds from the legal suits won	110,645	112,561
Other income	133,316	448,847
	2,076,743	**2,435,999**

7. COST OF MATERIALS, MERCHANDISE AND COMBINED SERVICES

In BAM
Period ended 30 June

	2017	2016
Materials for combined services	23,566,663	24,012,256
Cost of commercial goods sold	774,212	1,050,796
Electricity	2,624,388	2,474,963
Materials for maintenance of property and equipment	294,715	762,237
Fuel and lubricants	685,227	602,180
Office supplies	326,614	266,181
Other materials	190,082	206,712
Cost of SIM cards and top-up cards (vouchers)	255,185	171,556
	28,717,086	**29,546,881**

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

8. STAFF COSTS

In BAM
Period ended 30 June

	2017	2016
Net salaries with meal allowance included	17,376,184	18,169,326
Overtime work and other payments to employees	3,362,412	2,864,378
Employee commuting allowance	423,571	414,878
Payroll taxes	2,454,276	2,511,228
Payroll contributions	12,341,003	12,493,144
Remunerations to Management Board and Audit Committee	151,718	133,388
Termination benefits	205,423	-
Aid to employees	162,107	149,374
Business travel costs and per diems	277,517	442,626
Other staff costs	1,600,717	1,272,575
	38,354,928	**38,450,917**

9. COST OF PRODUCTION SERVICES

	In BAM Period ended 30 June	
	2017	**2016**
International settlements, except roaming	7,373,162	7,687,074
Interconnection costs	5,500,653	7,820,938
Roaming	2,792,256	2,535,847
Lease of transmission lines	1,745,843	2,115,594
Other production related services	225,113	314,127
Preparation and delivery of telephone bills	2,071,300	2,291,414
Other postage and transportation services	361,375	400,608
Maintenance	9,796,835	9,847,300
Lease of land and business premises	8,674,647	8,491,380
Marketing and advertising	6,952,280	8,047,075
Dealers' fees and commissions	4,208,691	5,206,848
Services of the clearing house	177,198	190,693
Public utilities	122,235	130,575
Broadcasting fees	5,176,502	4,757,666
Other production services	1,110,012	1,552,240
	56,288,102	**61,389,379**

10. OTHER OPERATING EXPENSES

	In BAM Period ended 30 June	
	2017	**2016**
Indirect taxes and contributions	1,782,399	1,755,472
Costs of temporary relocation of employees by the Parent Company	59,441	38,080
Employee professional trainings	159,143	173,366
Intellectual services	539,108	470,467
Other non-production services	1,106,235	1,023,475
Entertainment	99,526	133,281
Insurance premiums	373,109	389,828
Bank charges	172,681	178,212
Communications Regulatory Agency fee	3,632,792	3,682,683
Membership fees	101,092	118,859
Administrative fees	914,914	875,066
Fees charged by the youth and student employment agencies	724,907	873,538
Other non-material expenses	115,471	85,519
Losses on disposal of property, equipment and intangible assets	6,692	57,354
Shortages	8,006	-
Provisioning charge *(Notes 28 and 29)*	15,192	5,000
Allowance for impairment of short-term receivables *(Note 20)*	1,272,830	3,074,485
Litigation costs	143,194	83,448
Support to the Trade Union	100,000	100,000
Other expenses	126,446	119,544
	11,453,178	**13,237,677**

11. FINANCE INCOME AND EXPENSES

	In BAM Period ended 30 June	
	2017	**2016**
Interest income:		
- interest on deposits	616,554	847,932
- other interest income	577,229	492,100
	1,193,783	1,340,032
Other finance income	71,878	46,562
Foreign exchange gains	318,056	176,029
Total finance income	1,583,717	1,562,623
Interest expenses:		
- arising from loan agreements	(185,386)	(167,424)
- other interest expenses	(14,553)	(258,838)
	(199,939)	(426,262)
Foreign exchange losses	(45,130)	(141,352)
Total finance expenses	(245,069)	(567,614)
Net finance income	**1,338,648**	**995,009**

12. INTANGIBLE ASSETS AND GOODWILL

In BAM
30 June 2017 and 31 December 2016

	Goodwill	Customer Relations	GSM License	UMTS License	Other Licenses	Other Intangible Assets	Investments in Progress	Total Intangible Assets
Cost								
Balance as of 1 January 2016	10,339,849	390,723	117,182,447	23,296,086	7,355,190	60,292,280	24,991,339	243,847,914
Additions during the year	-	-	-	-	-	1,408,189	8,888,205	10,296,394
Activation	-	-	-	-	720,012	6,111,813	(6,831,825)	-
Transfer from property and equipment	-	-	-	-	-	3,732,285	-	3,732,285
Transfer to property and equipment	-	-	-	-	-	-	(905,197)	(905,197)
Disposals	-	-	-	-	(4,257)	(458,418)	-	(462,675)
Balance as of 31 December 2016	**10,339,849**	**390,723**	**117,182,447**	**23,296,086**	**8,070,945**	**71,086,149**	**26,142,522**	**256,508,721**
Balance as of 1 January 2017	10,339,849	390,723	117,182,447	23,296,086	8,070,945	71,086,149	26,142,522	256,508,721
Additions during the period	-	-	-	-	175,062	255,602	58,259	488,923
Activation	-	-	-	-	513,743	2,881,179	(3,394,922)	-
Transfer from property and equipment	-	-	-	-	-	525,252	-	525,252
Transfer to property and equipment	-	-	-	-	-	-	(364,732)	(364,732)
Transfer to other classes	-	-	-	-	-	-	(11,772)	(11,772)
Balance as of 30 June 2017	**10,339,849**	**390,723**	**117,182,447**	**23,296,086**	**8,759,750**	**74,748,182**	**22,429,355**	**257,146,392**
Accumulated amortization								
Balance as of 1 January 2016	-	30,685	87,565,239	10,358,993	6,047,831	40,264,949	-	144,267,697
Charge for the year	-	24,548	7,816,070	1,553,849	693,663	8,613,618	-	18,701,748
Disposals	-	-	-	-	(3,218)	(458,418)	-	(461,636)
Balance as of 31 December 2016	**-**	**55,233**	**95,381,309**	**11,912,842**	**6,738,276**	**48,420,149**	**-**	**162,507,809**
Balance as of 1 January 2017	-	55,233	95,381,309	11,912,842	6,738,276	48,420,149	-	162,507,809
Charge for the period	-	12,274	3,908,034	776,924	366,245	4,977,048	-	10,040,525
Balance as of 30 June 2017	**-**	**67,507**	**99,289,343**	**12,689,766**	**7,104,521**	**53,397,197**	**-**	**172,548,334**
Net book value as of:								
30 June 2017	**10,339,849**	**323,216**	**17,893,104**	**10,606,320**	**1,655,229**	**21,350,985**	**22,429,355**	**84,598,058**
31 December 2016	**10,339,849**	**335,490**	**21,801,138**	**11,383,244**	**1,332,669**	**22,666,000**	**26,142,522**	**94,000,912**

12. INTANGIBLE ASSETS AND GOODWILL (Continued)

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

On 12 May 2014, the Company executed the Agreement on the Purchase of the subsidiary *Logosoft* d.o.o. Sarajevo. Pursuant to the Agreement, on 9 March 2017 the Company fully settled the contractual commitment in the amount of BAM 27,357,514.

Goodwill is attributable to the synergy effects through the increased market share and provision of new services. Any goodwill arising on the aforedescribed acquisition is not expected to be used as a deductible item for tax purposes.

On 31 December 2016, the Company assessed goodwill for potential impairment in accordance with IAS 36 *Impairment of Assets*, based on the analyses of the discounted cash flows, the sales volume realized through the current activities and the new activities, savings and investments as well as other operating activities of the subsidiary planned for the forthcoming periods. At the date of preparation of these consolidated financial statements there is no indication that the assumptions used in the analysis are unsustainable.

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

The GSM license represents a special permit to provide GSM services in the territory of Bosnia and Herzegovina issued by the Communications Regulatory Agency of Bosnia and Herzegovina ("RAK"), for a period of 15 years from the date of the license issuance, as from 12 October 2004.
Another significant telecommunication license relates to the license for the Universal Mobile Telecommunication Systems (UMTS license). Namely, on 26 March 2009, RAK issued to the Company a license to provide mobile services within universal mobile telecommunication systems (UMTS license), valid from 1 April 2009 to 1 April 2024 (15 years).

Other intangible assets mainly consist of software.

Investments in progress mostly refer to the software in progress.

13. PROPERTY AND EQUIPMENT

In BAM
30 June 2017 and 31 December 2016

	Land	Infrastructure	Leasehold limproveme nts	Equipment	Investments in Progress	Total Property and Equipment
Cost						
Balance as of 1 January 2016	1,461,347	646,669,689	3,366,798	689,929,876	97,414,718	1,438,842,428
Additions during the year	-	435,474	51,355	2,270,742	94,517,209	97,274,780
Activations and transfers	76,929	23,407,779	297,049	66,207,094	(89,988,851)	-
Transfer to intangible assets	-	-	-	-	(3,732,285)	(3,732,285)
Disposal	-	(232,472)	-	(76,064,558)	(118,189)	(76,415,219)
Shortages	-	-	-	(43,792)	-	(43,792)
Surpluses	-	-	-	2,390	-	2,390
Dismantlement of equipment	-	-	-	(184,145)	108,887	(75,258)
Sale of property and equipment	-	(95,165)	-	(110,228)	-	(205,393)
Transfer into other classes	-	-	-	(334,473)	329,802	(4,671)
Transfer from intangible assets	-	-	-	-	905,197	905,197
Balance as of 31 December 2016	**1,538,276**	**670,185,305**	**3,715,202**	**681,672,906**	**99,436,488**	**1,456,548,177**
Balance as of 1 January 2017	1,538,276	670,185,305	3,715,202	681,672,906	99,436,488	1,456,548,177
Additions during the period	-	569,072	4,899	985,863	22,971,257	24,531,091
Activations and transfers	5,700	7,577,200	15,118	28,871,846	(36,469,864)	-
Transfer to intangible assets	-	-	-	-	(525,252)	(525,252)
Disposals	-	(24,407)	-	(12,156,595)	-	(12,181,002)
Surplus	-	172,067	-	25,000	-	197,067
Dismantlement of equipment	-	-	-	10,149	(38,794)	(28,645)
Sale of property and equipment	-	-	-	(27,979)	-	(27,979)
Transfer from intangible assets	-	-	-	-	364,732	364,732
Transfer between categories	-	920	-	(920)	-	-
Balance as of 30 June 2017	**1,543,976**	**678,480,157**	**3,735,219**	**699,380,270**	**85,738,567**	**1,468,878,189**
Accumulated depreciation						
Balance as of 1 January 2016	-	445,691,303	2,737,959	479,743,374	-	928,172,636
Charge for the year	-	25,343,683	267,862	58,981,002	-	84,592,547
Disposal	-	(176,307)	-	(74,869,457)	-	(75,045,764)
Shortages	-	-	-	(40,008)	-	(40,008)
Surpluses	-	-	-	2,390	-	2,390
Dismantlement of equipment	-	-	-	(75,258)	-	(75,258)
Sales of property and equipment	-	(27,033)	-	(99,149)	-	(126,182)
Transfer to other classes	-	-	-	(19,057)	-	(19,057)
Balance as of 31 December 2016	**-**	**470,831,646**	**3,005,821**	**463,623,837**	**-**	**937,461,304**
Balance as of 1 January 2017	-	470,831,646	3,005,821	463,623,837	-	937,461,304
Charge for the period	-	12,632,997	121,496	30,041,216	-	42,795,709
Disposals	-	(24,096)	-	(12,150,214)	-	(12,174,310)
Surplus	-	172,067	-	25,000	-	197,067
Dismantlement of equipment	-	-	-	(28,645)	-	(28,645)
Sale of property and equipment	-	-	-	(27,751)	-	(27,751)
Transfer between categories	-	48	-	(48)	-	-
Balance as of 30 June 2017	**-**	**483,612,662**	**3,127,317**	**481,483,395**	**-**	**968,223,374**
Net book value as of:						
30 June 2017	**1,543,976**	**194,867,495**	**607,902**	**217,896,875**	**85,738,567**	**500,654,815**
31 December 2016	**1,538,276**	**199,353,659**	**709,381**	**218,049,069**	**99,436,488**	**519,086,873**

As of 30 June 2017 investments in progress mainly related to the purchased telecommunication equipment not yet placed into use.

As of 30 June 2017, there were no encumbrances on and restrictions to the Group's titles and ownership rights over property and equipment. Contractually agreed but not yet realized liabilities of the Group for capital expenditures totalled BAM 48,382,577 as of 30 June 2017.

14. INVESTMENTS IN THE ASSOCIATE

	Interest	30 June 2017	In BAM 31 December 2016
Investment in Mtel d.o.o. Podgorica (Montenegro):	49%		
- Cost of the investment in Mtel d.o.o. Podgorica		74,563,739	74,563,739
- Adjustment of the cost of investment based on recognition of portion of profit/(loss) using the equity method		6,009,635	5,217,044
Investment in Mtel d.o.o. Podgorica, net		**80,573,374**	**79,780,783**

As of 30 June 2017, the Group held a 49% equity interest in Mtel d.o.o. Podgorica, Montenegro, which is also involved in provision of telecommunication services in the territory of Montenegro. On 1 February 2010, the Group executed an agreement with Ogalar B.V. Netherlands on the purchase of a 49% equity interest in Mtel d.o.o. Podgorica (Montenegro) for the total amount of BAM 19,558,300 (EUR 10,000,000). During February 2010, the Group paid the full contracted amount. Following the purchase of the equity interest, based on Decision of the Company's Management Board number 1-02-5691/10 dated 26 March 2010, further investment in Mtel d.o.o. Podgorica was made in the total amount of EUR 19,600,000.

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

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

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

Investment in the associate Mtel d.o.o. Podgorica is accounted for using the equity method. The Group's share in the profit of the associate for the six-month period ended 30 June 2017 amounts to BAM 792,591.

Mtel d.o.o. Podgorica has prepared its interim financial statement for the period of six months, ended 30 June 2017.

14. INVESTMENTS IN THE ASSOCIATE (Continued)

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

	Period ended 30 June 2017	In BAM Year ended 31 December 2016
Balance as of 1 January	79,780,783	76,738,387
The share in the profit of the associate accounted for using the equity method (Note 3.1.d)	792,591	3,042,396
Balance, end of the period/year	**80,573,374**	**79,780,783**

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

	30 June 2017	In BAM 31 December 2016
Non-current assets	233,207,325	216,547,379
Current assets	140,019,949	111,441,967
Current liabilities	131,081,573	132,509,687
Non-current liabilities	161,711,946	116,663,437

	Period ended 30 June 2017	In BAM Period ended 30 June 2016
Income	64,673,143	49,944,006
Profit/(loss) from continuing operations	4,693,333	(168,428)
Net profit/(loss) of the period	1,617,532	(662,408)
Other comprehensive income for the period	-	-
Total comprehensive income of the associate	**1,617,532**	**(662,408)**
Dividends received from the associate	-	-

15. OTHER INVESTMENTS

	Interest	30 June 2017	In BAM 31 December 2016
Securities available for sale:			
- Nova banka a.d. Banja Luka	0.02%	6,860	6,002
- Center for International Law and International Business Cooperation d.o.o. Banja Luka	22.97%	400	400
		7,260	6,402
Securities held to maturity:			
- Long-term bonds of the Republic of Srpska		66,632	75,819
		73,892	**82,221**

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 Group. The bonds were issued with maturities of up to 15 years, starting from 31 December 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.

16. LONG-TERM RECEIVABLES AND LOANS

	30 June 2017	In BAM 31 December 2016
Long-term loans to employees	135,235	146,747
Less: Current portion of long-term loans matured within one year (*Note 21*)	(87,440)	(83,632)
Total long-term loans to employees	47,795	63,115
Other long-term deposits and investments:		
- Komercijalna banka a.d. Banja Luka	3,000,000	3,000,000
- Addiko Bank a.d. Banja Luka	7,000,000	3,000,000
- Sberbank a.d. Banja Luka	12,000,000	12,000,000
- UniCredit Bank a.d. Banja Luka	-	5,000,000
- Nova banka a.d. Banja Luka	5,000,000	-
- Telekom Slovenia	176,025	176,025
- other long-term investments	40,884	41,216
Total other long-term deposits and investments	27,216,909	23,217,241
Total long-term receivables and loans	**27,264,704**	**23,280,356**
Less: Accumulated impairment losses:		
- long-term loans	(11,407)	(12,815)
- long-term investments	(39,093)	(41,116)
	(50,500)	**(53,931)**
	27,214,204	**23,226,425**

17. INVENTORIES

	30 June 2017	In BAM 31 December 2016
Materials	4,240,232	4,169,534
Tools and fixtures	70,156	103,096
Goods	452,768	253,993
Materials for combined services	19,049,335	15,422,969
Advances paid to suppliers	972,101	1,330,222
	24,784,592	**21,279,814**

18. TRADE RECEIVABLES

	30 June 2017	In BAM 31 December 2016
- related parties *(Note 34 (a))*	2,720,444	1,723,019
- domestic	108,658,118	102,831,727
- foreign	1,842,813	2,904,278
	113,221,375	**107,459,024**
Less: Allowance for impairment of receivables	(54,315,792)	(52,984,527)
	58,905,583	**54,474,497**

The aging structure of trade receivables as of 30 June 2017 and 31 December 2016 is as follows:

	30 June 2017	In BAM 31 December 2016
From 0 to 30 days	55,338,878	52,183,803
From 31 to 60 days	3,566,708	2,290,694
From 61 to 120 days	1,334,576	1,456,388
From 121 to 180 days	979,928	1,434,045
From 181 to 270 days	1,386,705	1,405,299
From 271 to 360 days	1,245,765	1,434,540
Over 361 days	49,368,815	47,254,255
	113,221,375	**107,459,024**

18. TRADE RECEIVABLES (Continued)

The total gross trade receivables as of 30 June 2017 amounted to BAM 113,221,375. The Group made full impairment allowance for the trade receivables over 60 days past due.

The total amount of allowance for impairment of trade receivables as of 30 June 2017 amounted to BAM 54,315,792 representing 48% of the total gross value of trade receivables. Movements on the allowance for impairment of receivables are shown in *Note 20* to these consolidated financial statements.

As of 30 June 2017, matured trade receivables, up to 60 days past due, which were not provided for, amounted to BAM 58,905,583.

The average number of days of sales outstanding for the six-month period ended 30 June 2017 was 92 days (2016: 80 days).

19. OTHER RECEIVABLES

		In BAM
	30 June 2017	**31 December 2016**
Prepaid taxes	89,036	1,760,912
Receivables for sick leave allowances	226,602	323,790
Receivables for RTV fees	217,386	209,804
Interest receivable from banks	59,774	180,763
Other receivables	923,908	922,133
	1,516,706	3,397,402
Less: Allowance for impairment of other receivables	(663,227)	(723,773)
	853,479	**2,673,629**

20. ALLOWANCES FOR IMPAIRMENT OF SHORT-TERM RECEIVABLES

			In BAM
		Period 1 January – 30 June 2017 and FY 2016	
	Trade receivables (Note 18)	**Other receivables (Note 19)**	**Total**
Balance as of 1 January 2016	49,835,304	962,585	50,797,889
Charge for the year	3,934,503	138,084	4,072,587
Write-off	(1,162,176)	-	(1,162,176)
Other	376,896	(376,896)	-
Balance as of 31 December 2016	**52,984,527**	**723,773**	**53,708,300**
Balance as of 1 January 2017	52,984,527	723,773	53,708,300
Charge for the period *(Note 10)*	1,224,765	48,065	1,272,830
Other	106,500	(108,611)	(2,111)
Balance as of 30 June 2017	**54,315,792**	**663,227**	**54,979,019**

21. DEPOSITS AND LOAN RECEIVABLES

	30 June 2017	In BAM 31 December 2016
Short-term deposits	5,015,305	13,515,305
Loans to employees that mature in one year (*Note 16*)	87,440	83,632
	5,102,745	**13,598,937**

The breakdown of short-term deposits is provided below:

	Maturity	30 June 2017	In BAM 31 December 2016
Short-term deposits:			
- Unicredit Bank a.d. Banja Luka	27 March 2018	5,000,000	-
- Sberbank a.d. Banja Luka	6 June 2017	-	4,500,000
- Nova Banka a.d. Banja Luka	14 April 2017	-	9,000,000
- Others	December 2017	15,305	15,305
		5,015,305	**13,515,305**

22. PREPAYMENTS

	30 June 2017	In BAM 31 December 2016
Accrued receivables	4,420,962	3,835,357
Accrued receivables for combined services	14,386,442	16,059,582
Prepaid expenses	5,179,692	2,049,846
Deferred input and output advance invoices for the purpose of VAT accrual	1,083,912	1,089,262
	25,071,008	**23,034,047**

Accrued receivables mostly relate to the estimate of discounts arising from roaming the Company should receive based on the international traffic with other operators, and for which the calculation had not been received from the clearing house yet.

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

23. CASH AND CASH EQUIVALENTS

	30 June 2017	In BAM 31 December 2016
Gyro accounts	11,607,740	23,932,238
Foreign currency accounts	2,522,587	7,135,062
Cash on hand	38,303	23,065
Cash equivalents	100,000	100,000
	14,268,630	**31,190,365**

24. 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 30 June 2017 and 31 December 2016, was as follows:

	30 June 2017	%	31 December 2016	%
Telekom Srbija a.d. Beograd, Serbia	319,428,193	65.01	319,428,193	65.01
RS Pension and Disability Insurance Fund, Banja Luka	43,840,269	8.92	43,840,269	8.92
RS Restitution Fund, Banja Luka	24,715,439	5.03	24,715,439	5.03
ZMIF in transformation *Zepter fond* a.d. Banja Luka	21,215,283	4.32	21,274,451	4.33
Other shareholders	82,184,571	16.72	82,125,403	16.71
	491,383,755	**100.00**	**491,383,755**	**100.00**

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

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 30 June 2017 amounts to BAM 1.07 (31 December 2016: BAM 1.04). Earnings and dividend per share are disclosed in *Note 35* to the consolidated financial statements.

Legal Reserves

Legal reserves as of 30 June 2017, amounting to BAM 49,141,766 represent allocations from profit made pursuant to Article 231 of the Company Law in the amount of no less than 5% of the net profit for the year less prior year losses until such reserves, together with equity reserves, attain a level equivalent to 10% of the Company's total core capital or the legally defined greater portion of the core capital.

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

Other Reserves - Reserves Arising on the Investment Commitment

Other reserves as of 30 June 2017 amounting to BAM 97,791,500 entirely pertained to the reserves formed during 2008 based on the execution of the commitment to invest undertaken by the majority owner (Telekom Srbija a.d. Beograd), as the purchaser of the majority block of the Company's shares.

25. INTEREST BEARING LOANS AND BORROWINGS

In BAM

	30 June 2017	31 December 2016
a) Long-term borrowings:		
- Cash loans	2,933,745	2,933,745
- Borrowings for purchases of equipment	53,948,199	53,912,099
Total non-current portion of long-term liabilities	**56,881,944**	**56,845,844**
Less: current portion of:		
- long-term borrowings	(19,675,420)	(16,082,814)
Total current portion of long-term liabilities	**(19,675,420)**	**(16,082,814)**
	37,206,524	**40,763,030**

a) Long-term borrowings

In BAM

	Current Portion		Non-Current Portion	
	30 June 2017	31 December 2016	30 June 2017	31 December 2016
Cash loans – at amortized cost:				
Bank Austria	1,100,154	366,718	1,833,591	2,567,027
	1,100,154	**366,718**	**1,833,591**	**2,567,027**

In BAM

	Current Portion		Non-Current Portion	
	30 June 2017	31 December 2016	30 June 2017	31 December 2016
Loans for purchase of equipment - at amortized cost:				
Telegroup d.o.o. Banja Luka	805,103	569,317	1,968,779	2,478,999
Enetel Solutions d.o.o. Banja Luka	-	-	2,077,187	2,077,187
Huawei Technologies, Banja Luka	1,154,930	863,068	1,549,096	1,493,530
MTEL d.o.o. Podgorica	82,145	82,145	-	-
Nokia Siemens Networks Finance B.V. Netherlands	1,557,407	1,060,925	9,304,765	6,317,075
Huawei International PTE Ltd. Singapore	5,776,535	6,228,615	6,117,260	9,005,528
Huawei International CO LTD Hong Kong	6,226,620	3,713,731	10,199,975	11,020,029
Intracom Telecom, Serbia	387,254	387,254	193,627	387,254
Alcatel-Lucent International, France	1,817,285	2,027,903	535,891	1,339,225
Alcatel-Lucent, Serbia	584,828	584,828	292,414	584,828
Kingdom of Spain Government	183,159	198,310	3,133,939	3,492,348
	18,575,266	**15,716,096**	**35,372,933**	**38,196,003**

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 (2016: six-month EURIBOR as increased by the margin ranging from 0.8% to 1% annually).

During the six-month period ended 30 June 2017 by obtaining new short-term and long-term borrowings, the Group purchased equipment in the aggregate amount of BAM 10,001,413. The contractual currency for all loans, except for loans granted by the Government of the Kingdom of Spain and domestic suppliers, is EUR.

25. INTEREST BEARING LOANS AND BORROWINGS (Continued)

The outstanding interest payables related to the aforesaid loans as of 30 June 2017 are presented in *Note 32.*

The Company settles 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.

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

	30 June 2017	In BAM 31 December 2016
Current portions	19,675,420	16,082,814
From 1 to 2 years	20,372,949	21,543,468
From 2 to 3 years	8,598,264	13,090,755
From 3 to 4 years	3,207,032	2,712,093
From 4 to 5 years	2,156,970	717,607
After 5 years	2,871,309	2,699,107
Total non-current portion	37,206,524	40,763,030
	56,881,944	**56,845,844**

26. OTHER SHORT-TERM FINANCIAL LIABILITIES

	30 June 2017	In BAM 31 December 2016
Commitment in respect of the purchase of the remaining equity interest in the subsidiary Logosoft d.o.o. Sarajevo	8,930,173	9,922,415
Less: Adjustment to the present value of the commitment	-	(992,242)
	8,930,173	8,930,173
Paid in cash	(8,930,173)	
Present value of the commitment	**-**	**8,930,173**

On 9 March 2017 the Company settled the contractual commitment in respect of the acquisition of the remaining equity interest (35%) in the subsidiary Logosoft d.o.o. Sarajevo. The fee for the purchase of the 35% of the equity interest is fully paid in cash.

27. DEFERRED INCOME

	30 June 2017	In BAM 31 December 2016
Grants received	24,800	56,558
Less: Current portion of deferred income	(24,800)	(56,558)
	-	**-**

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

27. DEFERRED INCOME (Continued)

Movements on deferred income for the six-month period ended 30 June 2017 and FY 2016 were as follows:

	Period ended 30 June 2017	In BAM Year ended 31 December 2016
Balance as of 1 January	56,558	189,636
Reversal credited to other income	(31,758)	(133,078)
Balance, end of the period/year	**24,800**	**56,558**

28. EMPLOYEE BENEFITS

	30 June 2017	In BAM 31 December 2016
Employee benefits		
- non-current portion	5,650,114	6,099,828
- current portion	648,463	648,463
	6,298,577	**6,748,291**

Long-term provisions for employee benefits as of 30 June 2017, in the amount of BAM 6,298,577 relate to the non-current and current provisions formed based on the calculation of present value of accumulated employee entitlements to retirement benefits and jubilee awards in accordance with IAS 19 *Employee Benefits*.

The cost associated with the retirement benefits and jubilee awards are determined using the projected unit credit method, with actuarial calculation performed as of the date of the financial position statement.

Accordingly, the Group has hired a certified actuary to perform the calculation of the present value of accumulated rights to retirement benefits and jubilee awards as at 31 December 2016 on behalf of the Group. When calculating the present value of these accumulated rights to retirement benefits and jubilee awards, the authorized actuary used the following assumptions: a discount rate of 4.5% per annum, projected salary growth rate ranging from 1.4% to 3% annually, projected years of service for retirement - 40 years for men and 35 to 40 years for women, the projected staff turnover on the basis of historical data on the movement of employees in the past, officially published mortality rates and other conditions necessary for exercising the right to retirement benefits and jubilee awards.

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

Number of years of service with the Company	Number of salaries
10	0.5
20	1
30	1.5
40	0.5

Given the fact that there were no significant fluctuations in the number of employees or changes to other actuarial assumptions, in the six-month period ended 30 June 2017, the Group updated the aforesaid actuarial calculation of the present value of the accumulated employee entitlements to retirement benefits and jubilee awards.

28. EMPLOYEE BENEFITS (Continued)

Movements on long-term provisions for employee benefits as of 30 June 2017 and for FY 2016 were as follows:

	Current portion		Non-current portion	In BAM
	30 June 2017	31 December 2016	30 June 2017	31 December 2016
Balance as of 1 January	648,463	712,772	6,099,828	6,335,950
Adjustment to the present value, end of year	-	(64,309)	-	271,258
Transfer from/to the current portion	449,714	507,380	(449,714)	(507,380)
Payments during the period/year	(449,714)	(507,380)	-	-
Balance, end of the period/year	**648,463**	**648,463**	**5,650,114**	**6,099,828**

29. PROVISIONS

	Period ended 30 June 2017	In BAM Year ended 31 December 2016
Balance as of 1 January	207,434	204,981
Provisions for litigations	15,192	7,453
Reversal of provisions for litigations	(164,093)	(5,000)
Balance, end of the period/year	**58,533**	**207,434**

30. TRADE PAYABLES

	30 June 2017	In BAM 31 December 2016
Trade payables:		
- related parties *(Note 34(a))*	2,915,278	2,412,280
- domestic	37,506,998	50,885,423
- foreign	5,109,528	13,082,582
- uninvoiced investments and services	2,730,940	4,219,061
	48,262,744	**70,599,346**

Trade payables are non-interest bearing. The Group regularly settles its liabilities to suppliers and has financial risk management policies in place which ensure that the liabilities are settled within the agreed time lines.

The average days payable outstanding in the period of six months ended 30 June 2017 was 81 days (31 December 2016: 83 days).

30. TRADE PAYABLES (Continued)

The ageing structure of trade payables within the six-month period ended 30 June 2017 and 31 December 2016 was as follows:

	30 June 2017	In BAM 31 December 2016
From 0 to 30 days	26,950,270	48,152,682
From 31 to 60 days	7,649,002	7,531,139
From 61 to 120 days	8,580,318	12,661,387
From 121 to 180 days	3,091,992	1,049,359
From 181 to 270 days	1,273,857	871,175
From 271 to 360 days	717,305	333,604
	48,262,744	**70,599,346**

31. ACCRUALS

	30 June 2017	In BAM 31 December 2016
Deferred income – sales of prepaid top-ups	2,775,424	2,753,668
Accrued liabilities – international traffic	7,260,377	8,616,644
Accrued liabilities – media content distribution/broadcasting	1,746,081	1,695,885
Accrued liabilities per other expenses	10,288,161	11,106,913
Accrued VAT liabilities on advance invoices	974,442	953,358
Other accruals	279,958	319,566
	23,324,443	**25,446,034**

Accrued liabilities for international traffic totalling BAM 7,260,377 as of 30 June 2017, mostly, in the amount of BAM 4,735,817, relate to the estimates of roaming discounts that the Group needed to approve based on the international traffic realized with other operators, for which final invoices had not yet been issued or calculation received from the clearing house (*Note 3.2.7. b*).

Accrued liabilities per other expenses amounting to BAM 10,288,161 as of 30 June 2017, represent current year's expenses for which there were sufficient information on their existence and inception yet the Group had not received the final invoices for services or goods received until these consolidated financial statements preparation date.

32. OTHER LIABILITIES

	30 June 2017	In BAM 31 December 2016
Advances and prepayments received	1,399,888	1,724,542
Liabilities for incorrect customer payments	49,232	60,981
Liabilities for RTV fees	-	32,005
Taxes and customs duties charged to expenses	260,510	265,415
Interest payables	54,892	78,429
Sponsorships and financial aid allocated from profit	56,497	56,497
Value added tax payable	2,793,782	104,920
Liabilities to employees	5,811,726	257,107
Other liabilities	260,190	111,590
	10,686,717	**2,691,486**

33. INCOME TAXES

(a) Components of Income Taxes

	Period ended 30 June 2017	In BAM 2016
Current income tax expense	2,781,470	3,735,645
Deferred tax expense - decrease in deferred tax assets	41,801	39,041
Deferred tax income - decrease in deferred tax liabilities arising from business combinations	(97,880)	(97,160)
	2,725,391	**3,677,526**

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

	Period ended 30 June 2017	In BAM 2016
Profit before taxes	**24,518,900**	**30,415,139**
Income taxes calculated at the rate of 10%	**2,451,890**	**3,041,514**
Adjustments for:		
- Non-taxable income effects	(153,729)	(91,331)
- Non-deductible costs effects	483,310	785,462
- Temporary differences effects	(56,080)	(58,119)
Income tax expense	**2,725,391**	**3,677,526**
Effective tax rate for the period	**11.12%**	**12.09%**

33. INCOME TAXES (Continued)

(c) Deferred Tax Assets

	Period ended 30 June 2017	In BAM Year ended 31 December 2016
Temporary differences:		
Balance as of 1 January	635,360	527,374
Deferred tax assets in respect of property and equipment measurement for tax purposes	(41,801)	107,986
Balance, end of the period/year	**593,559**	**635,360**

	Period ended 30 June 2017	In BAM Year ended 31 December 2016
Unutilised tax loss		
Balance as of 1 January	55,494	-
Increase in deferred tax assets arising from unused tax losses – Logosoft d.o.o. Sarajevo	-	55,494
Balance, end of the period/year	**55,494**	**55,494**

(d) Deferred Tax Liabilities

	30 June 2017	In BAM 31 December 2016
Temporary differences as per business combination		
Balance as of 1 January	(957,241)	(1,151,988)
Decrease in deferred tax liabilities during the period/year	97,880	194,747
Balance, end of the period/year	**(859,361)**	**(957,241)**

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

(e) Current Tax Prepaid

	30 June 2017	In BAM 31 December 2016
Prepaid income taxes	1,274,959	1,149,947
Balance, end of the period/year	**1,274,959**	**1,149,947**

34. RELATED PARTY TRANSACTIONS

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

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

STATEMENT OF FINANCIAL POSITION	30 June 2017	In BAM 31 December 2016
ASSETS		
a) Trade receivables:		
- Telekom Srbija a.d. Beograd	1,312,435	1,045,460
- MTEL d.o.o. Podgorica	1,402,885	672,435
- HD - WIN d.o.o. Beograd	5,124	5,124
	2,720,444	1,723,019
b) Calculated but uninvoiced income from international traffic:		
- Telekom Srbija a.d. Beograd	1,477,847	729,334
- MTEL d.o.o. Podgorica	128,181	122,589
	1,606,028	851,923
Total receivables	**4,326,472**	**2,574,942**
LIABILITIES		
a) Long-term liabilities		
- MTEL d.o.o. Podgorica	(82,145)	(82,145)
b) Trade payables:		
- Telekom Srbija a.d. Beograd	(2,281,661)	(2,169,812)
- MTEL d.o.o. Podgorica	(512,356)	(106,153)
- HD - WIN d.o.o. Beograd	(114,416)	-
- GO4YU d.o.o. Beograd	(6,845)	-
-Telekom Srbija a.d. Beograd – for uninvoiced acquisitions	-	(136,315)
	(2,915,278)	(2,412,280)
c) Estimated costs:		
- Telekom Srbija a.d. Beograd	(888,074)	(526,895)
- MTEL d.o.o. Podgorica	(465,303)	(303,777)
- HD - WIN d.o.o. Beograd	(128,009)	(112,636)
- GO4YU d.o.o. Beograd	(6,845)	-
	(1,488,231)	(943,308)
Total liabilities	**(4,485,654)**	**(3,437,733)**
Net liabilities	**(159,182)**	**(862,791)**

34. 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.

		In BAM Period ended 30 June
STATEMENT OF PROFIT AND LOSS	**2017**	**2016**
INCOME		
a) Sales of services:		
- Telekom Srbija a.d. Beograd	5,586,295	5,824,271
- MTEL d.o.o. Podgorica	1,493,279	48,379
- HD - WIN d.o.o. Beograd	30,746	30,746
	7,110,320	5,903,396
b) Other income:		
- Telekom Srbija a.d. Beograd	27,331	-
Total income	**7,137,651**	**5,903,396**
EXPENSES		
a) Costs of inter-operator settlement exclusive of roaming:		
- Telekom Srbija a.d. Beograd	(5,931,157)	(5,991,656)
- MTEL d.o.o. Podgorica	(575,014)	-
	(6,506,171)	(5,991,656)
b) Roaming costs:		
- Telekom Srbija a.d. Beograd	(494,637)	(491,151)
- MTEL d.o.o. Podgorica	(224,122)	(108,054)
	(718,759)	(599,205)
c) Lease of transmission lines:		
- Telekom Srbija a.d. Beograd	(39,602)	(72,713)
d) Costs of employee secondment:		
- Telekom Srbija a.d. Beograd	(59,441)	(38,080)
e) Cost of internet access:		
- Telekom Srbija a.d. Beograd	(397,112)	(400,163)
f) Cost of vlann connect		
- Telekom Srbija a.d. Beograd	(22,390)	(22,390)
g) Cost of signal transmission/IPTV		
- Telekom Srbija a.d. Beograd	(347,567)	(226,847)
- HD - WIN d.o.o. Beograd	(690,956)	(683,974)
- GO4YU d.o.o. Beograd	(20,536)	-
	(1,059,059)	(910,821)
h) Costs of Cloud services		
- Telekom Srbija a.d. Beograd	(8,756)	-
i) Maintenance costs		
- Telekom Srbija a.d. Beograd	(13,839)	(35,698)
- MTEL d.o.o. Podgorica	(39,019)	(39,422)
	(52,858)	(75,120)
j) Other non-production services:		
- MTEL d.o.o. Podgorica	(689)	(806)
- HD - WIN d.o.o. Beograd	(12,850)	-
	(13,539)	(806)
Total expenses	**(8,877,687)**	**(8,110,954)**
Expenses, net	**(1,740,036)**	**(2,207,558)**
Short-term remunerations to the key management personnel:		
- Executive Board and management of related parties	(584,714)	(427,904)
- Management Board	(148,032)	(129,812)
- Audit Committee	(44,408)	(40,515)
	(777,154)	**(598,231)**

35. EARNINGS PER SHARE

		In BAM Period ended 30 June 2016
	2017	2016
Profit for the period	21,793,509	26,737,613
Weighted average number of shares outstanding	491,383,755	491,383,755
Earnings per share (basic and diluted)	0.0444	0.0544

On 5 June 2017, the Company's Assembly enacted Decision on the Distribution of Profit Earned in 2016, whereby the profit was distributed to the shareholders in accordance with the Company's Statute, in the amount of BAM 38,950,324 (0.07927 BAM per share).

Liabilities for the remaining unpaid dividends to the shareholders as of 30 June 2017 amounted to BAM 25,954,295 (31 December 2016: BAM 22,946,430).

36. COMMITMENTS AND CONTINGENT LIABILITIES

Litigation

The Group appears at times as a defendant in legal suits filed against it by legal entities and private individuals claiming damages. The estimated contingent liabilities arising from lawsuits filed against the Group as of 30 June 2017 amount to BAM 88,881,226, excluding effects of penalty interest and court expenses.

The most significant court proceedings are those involving the following plaintiffs: Blicnet d.o.o. Banja Luka claiming BAM 41.5 million and Crumb group d.o.o. Bijeljina claiming BAM 42 million. Management uses legal advisory services in these cases, based on which it believes that the probability of negative outcomes for the Group is very remote, given that these lawsuits are lacking in merit.

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

As disclosed in Note 29 to the financial statements, as of 30 June 2017 the Group established provisions for potential losses which may arise from litigations in the total amount of BAM 58,533. The Group's management estimates that no material losses shall arise from the outcomes of the remaining litigations in progress, in excess of the amount for which provision has been made.

37. SEGMENT REPORTING

37.1. Segment Information

As of 30 June 2017, the Group's reporting segments in accordance with IFRS 8, were as follows:

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

37.2. Segment Revenues and Results

The segment revenues and results for the six-month period ended 30 June 2017 are presented in the following table:

In BAM

30 June 2017	Fixed-Line Telephony and Internet	Mobile Telephony	Total
Sales of goods and services	92,625,341	115,335,105	207,960,446
Share in the profit of the associate	-	792,591	792,591
Other operating income	405,242	1,671,501	2,076,743
Inter-segment settlement	25,678,652	15,782,749	41,461,401
Total operating income	118,709,235	133,581,946	252,291,181
Cost of materials, merchandise and combined services	(6,038,204)	(22,678,882)	(28,717,086)
Staff costs	(17,143,169)	(21,211,759)	(38,354,928)
Depreciation and amortization charge	(28,465,336)	(24,370,898)	(52,836,234)
Cost of production services	(26,480,295)	(29,807,807)	(56,288,102)
Other operating expenses	(3,789,897)	(7,663,281)	(11,453,178)
Inter-segment settlement	(15,782,749)	(25,678,652)	(41,461,401)
Total operating expenses	(97,699,650)	(131,411,279)	(229,110,929)
Profit from operations	**21,009,585**	**2,170,667**	**23,180,252**
Finance income	719,178	864,539	1,583,717
Finance expenses	(72,859)	(172,210)	(245,069)
Finance income, net	646,319	692,329	1,338,648
Profit before taxes	**21,655,904**	**2,862,996**	**24,518,900**
Income tax expense	(1,171,918)	(1,553,473)	(2,725,391)
Profit for the period	**20,483,986**	**1,309,523**	**21,793,509**

37. SEGMENT REPORTING (Continued)

37.2. Segment Revenues and Results (Continued)

The segment revenues and results for the six-month period ended 30 June 2016 are presented in the following table:

In BAM

30 June 2016	Fixed-Line Telephony and Internet	Mobile Telephony	Total
Sales of goods and services	102,203,603	118,160,007	220,363,610
Other operating income	627,748	1,808,251	2,435,999
Inter-segment settlement	22,418,866	17,624,301	40,043,167
Total operating income	125,250,217	137,592,559	262,842,776
Cost of materials, merchandise and combined services	(6,821,469)	(22,725,412)	(29,546,881)
Staff costs	(17,836,738)	(20,614,179)	(38,450,917)
Depreciation and amortization charge	(27,708,198)	(22,721,847)	(50,430,045)
Share in the loss of the associate	-	(324,580)	(324,580)
Cost of production services	(29,970,942)	(31,418,437)	(61,389,379)
Other operating expenses	(4,097,991)	(9,139,686)	(13,237,677)
Inter-segment settlement	(17,624,301)	(22,418,866)	(40,043,167)
Total operating expenses	(104,059,639)	(129,363,007)	(233,422,646)
Profit from operations	**21,190,578**	**8,229,552**	**29,420,130**
Finance income	712,661	849,962	1,562,623
Finance expenses	(396,654)	(170,960)	(567,614)
Finance income, net	316,007	679,002	995,009
Profit before taxes	**21,506,585**	**8,908,554**	**30,415,139**
Income tax expense	(2,813,893)	(863,633)	(3,677,526)
Profit for the period	**18,692,692**	**8,044,921**	**26,737,613**

Segment revenues and results reported above (for the six-month period ended 30 June 2017 and 2016) represent revenue generated from external customers. Inter-segment sales during the period have been eliminated.

The accounting policies of the reporting segments are the same as the Group's accounting policies described in *Note 3*.

Segment profit represents the profit earned by each segment with allocation of all costs, on the basis of the revenues earned by each individual reporting segment. This is the measure reported to the chief operating decision makers for the purposes of adequate resource allocation and assessment of segment performance.

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

37. SEGMENT REPORTING (Continued)

37.3. Segment Assets and Liabilities

Segment assets and liabilities as of 30 June 2017 are provided in the table below:

In BAM

30 June 2017	Fixed-Line Telephony and Internet	Mobile Telephony	Inter-Segment Settlement	Total
ASSETS				
Non-current assets				
Intangible assets and goodwill	42,959,574	41,638,484	-	84,598,058
Property and equipment	306,328,784	194,326,031	-	500,654,815
Investments in the associate	-	80,573,374	-	80,573,374
Other investments	32,010	41,882	-	73,892
Long-term receivables and loans	11,765,497	15,448,707	-	27,214,204
Deferred tax assets	167,415	426,144	-	593,559
	361,253,280	332,454,622	-	693,707,902
Current assets				
Inventories	5,864,306	18,920,286	-	24,784,592
Assets held for sale	68,495	7,365	-	75,860
Trade receivables	25,329,522	33,092,404	483,657	58,905,583
Prepaid income taxes	648,027	626,932	-	1,274,959
Other receivables	313,982	539,497	-	853,479
Deposits and loan receivables	(3,179,451)	4,836,570	3,445,626	5,102,745
Prepayments	4,673,527	20,386,379	11,102	25,071,008
Cash and cash equivalents	6,613,475	7,655,155	-	14,268,630
Deferred tax assets	23,862	31,632	-	55,494
	40,355,745	86,096,220	3,940,385	130,392,350
Total assets	**401,609,025**	**418,550,842**	**3,940,385**	**824,100,252**
LIABILITIES				
Non-current liabilities and provisions				
Interest bearing loans and borrowings	7,663,633	29,542,891	-	37,206,524
Deferred tax liabilities	859,361	-	-	859,361
Employee benefits	2,445,689	3,204,425	-	5,650,114
Provisions	25,169	33,364	-	58,533
	10,993,852	32,780,680	-	43,774,532
Current liabilities				
Interest bearing loans and borrowings	4,506,416	11,723,378	3,445,626	19,675,420
Trade payables	20,499,025	27,280,062	483,657	48,262,744
Accruals	6,901,833	16,411,508	11,102	23,324,443
Employee benefits	280,135	368,328	-	648,463
Deferred income	10,664	14,136	-	24,800
Dividend payables	11,160,347	14,793,948	-	25,954,295
Other liabilities	5,563,442	5,123,275	-	10,686,717
	48,921,862	75,714,635	3,940,385	128,576,882
Total liabilities	**59,915,714**	**108,495,315**	**3,940,385**	**172,351,414**

37. SEGMENT REPORTING (Continued)

37.3. Segment Assets and Liabilities (Continued)

Segment assets and liabilities as of 31 December 2016 are provided in the table below:

In BAM

31 December 2016	Fixed-Line Telephony and Internet	Mobile Telephony	Inter-Segment Settlement	Total
ASSETS				
Non-current assets				
Intangible assets and goodwill	47,208,076	46,792,836	-	94,000,912
Property and equipment	321,091,213	197,995,660	-	519,086,873
Investments in the associate	-	79,780,783	-	79,780,783
Other investments	35,649	46,572	-	82,221
Long-term receivables and loans	10,046,537	13,179,888	-	23,226,425
Deferred tax assets	285,912	349,448	-	635,360
	378,667,387	**338,145,187**	**-**	**716,812,574**
Current assets				
Inventories	5,739,900	15,539,914	-	21,279,814
Assets held for sale	64,328	-	-	64,328
Trade receivables	25,973,392	27,787,284	713,821	54,474,497
Prepaid income taxes	619,176	530,771	-	1,149,947
Other receivables	953,992	1,719,637	-	2,673,629
Deposits and loan receivables	(25,135)	9,838,446	3,785,626	13,598,937
Prepayments	2,974,878	20,045,909	13,260	23,034,047
Cash and cash equivalents	13,296,056	17,894,309	-	31,190,365
Deferred tax assets	23,862	31,632	-	55,494
	49,620,449	**93,387,902**	**4,512,707**	**147,521,058**
Total assets	**428,287,836**	**431,533,089**	**4,512,707**	**864,333,632**
LIABILITIES				
Non-current liabilities and provisions				
Interest bearing loans and borrowings	11,298,763	29,464,267	-	40,763,030
Deferred tax liabilities	957,241	-	-	957,241
Employee benefits	2,637,444	3,462,384	-	6,099,828
Provisions	89,196	118,238	-	207,434
	14,982,644	**33,044,889**	**-**	**48,027,533**
Current liabilities				
Interest bearing loans and borrowings	2,859,696	9,437,492	3,785,626	16,082,814
Other current liabilities	8,930,173	-	-	8,930,173
Trade payables	29,096,578	40,788,947	713,821	70,599,346
Accruals	7,274,678	18,158,096	13,260	25,446,034
Employee benefits	280,136	368,327	-	648,463
Deferred income	24,320	32,238	-	56,558
Dividend payables	9,866,965	13,079,465	-	22,946,430
Other liabilities	1,231,966	1,459,520	-	2,691,486
	59,564,512	**83,324,085**	**4,512,707**	**147,401,304**
Total liabilities	**74,547,156**	**116,368,974**	**4,512,707**	**195,428,837**

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.

37. SEGMENT REPORTING (Continued)

37.4. Capital Expenditures of the Segments

Capital expenditures of the segments were as follows:

In BAM

	Fixed-Line Telephony and Internet	Mobile Telephony	Total
30 June 2017			
Capital investments *(Notes 12 and 13)*	17,010,255	8,009,759	**25,020,014**
30 June 2016			
Capital investments *(Notes 12 and 13)*	17,206,490	6,851,126	**24,057,616**

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

37.5. Information about Major Customers

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

37.6. Geographical Information

The Company's country of origin and, at the same time, the centre of business operations is Bosnia and Herzegovina. The Group generates most of its income in the territory of Bosnia and Herzegovina (91% of the total operating income).

38. FINANCIAL INSTRUMENTS

38.1. Capital Risk Management

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

The capital structure of the Group consists of the borrowings (disclosed in *Note 25*), cash and cash equivalents and equity, comprising issued capital, reserves and retained earnings.

The Management Board of the Company reviews the capital structure on an as-needed basis. Based on this review, the Company will balance its overall capital structure through new long-term investments as well as obtaining new borrowings or redemption of the existing debt. The Group's overall capital management strategy remains unchanged.

38. FINANCIAL INSTRUMENTS (Continued)

38.1 Capital Risk Management (Continued)

38.1.1. Debt to Equity Ratio

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

	30 June 2017	In BAM 31 December 2016
Debt (a)	56,881,944	56,845,844
Cash and cash equivalents	(14,268,630)	(31,190,365)
Net debt	**42,613,314**	**25,655,479**
Equity (b)	651,748,838	668,904,795
Debt to equity ratio	6.54%	3.84%

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

38.1.2. 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, financial liabilities and equity, is set out in *Note 3* to the consolidated financial statements.

38.1.3. Categories of Financial Instruments

Categories of financial instruments are presented as follows:

	30 June 2017	In BAM 31 December 2016
Financial assets		
Loans and receivables (including cash and cash equivalents)	106,138,900	123,133,049
Financial assets held to maturity	66,633	75,819
Securities available for sale	7,260	6,402
	106,212,793	123,215,270
Financial liabilities - at amortized cost	**105,454,110**	**137,572,183**

38.2. Financial Risk Management

In its regular course of business, the Group is exposed to certain financial risks, which are: market risk (comprised of currency risk, interest rate risk and price risk), liquidity risk and credit risk. The risk management in the Group is focused on minimizing the potential adverse effects on the Group's financial position and business operations, contingent on the volatility of the market. The accounting policies adopted by the Group regulate the risk management.

The Group does not enter into transactions with derivative instruments, such as interest rate swaps or forwards. In addition, in the six-month period ended 30 June 2017, the Group undertook no transactions with financial instruments.

38. FINANCIAL INSTRUMENTS (Continued)

38.2. Financial Risk Management (Continued)

(1) Market Risk

(a) Currency Risk

Although the Group performs a number of its transactions in foreign currencies, the Group's management holds that the Group is not significantly exposed to currency risk in transactions in the country and abroad, as it mostly performs its business operations in the local currency (Convertible Mark), as well as in EUR, to which the Convertible Mark is indexed-linked (1 EUR = BAM 1.95583).

Accordingly, the Group did not perform analysis of the sensitivity to the changes of the foreign exchange rates, except for the USD currency as it has certain liabilities denominated in USD.

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

In BAM

	Assets		Liabilities	
	30 June 2017	**31 December 2016**	**30 June 2017**	**31 December 2016**
EUR	6,685,451	11,437,166	53,607,860	60,906,144
USD	152,720	168,252	3,971,619	3,813,197
CHF	1,518	1,553	-	2,666
GBP	1,551	1,746	1,116	136
RSD	80	215	-	147
	6,841,320	**11,608,932**	**57,580,595**	**64,722,290**

Sensitivity Analysis

Sensitivity analysis to changes in foreign currency was made only for USD, and determined based on the exposure to foreign currency exchange rate at the end of the reporting period.

If the USD exchange rate were 10% higher/lower on an annual basis, the Group's net profit for the six-month period ended 30 June 2017 would have decreased / increased by the amount of BAM 27,293 (for the six-month period ended 30 June 2016: BAM 3,468).

(b) Interest Rate Risk

The Group is exposed to various risks which through the effects of the fluctuations in the market interest rates influence its financial position and cash flows. Given that the Group has no significant interest-bearing assets, the Group's income is to a great extent independent of interest rate risk.

The Group's risk from the changes in the interest rates arises primarily on the long-term borrowings from banks and suppliers. The loans obtained at variable interest rates make the Group' susceptible to cash flow interest rate risk, while the loans obtained at fixed interest rates expose the Group to the fair value interest rate risk.

During the six-month period ended 30 June 2017, 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).

38. FINANCIAL INSTRUMENTS (Continued)

38.2. Financial Risk Management (Continued)

(1) Market Risk (Continued)

(b) Interest Rate Risk (Continued)

The Group analyzes its exposure to interest rate risk on a dynamic basis taking into consideration the alternative sources for financing and refinancing, of long-term liabilities in the first place, as these represent the most important interest-bearing item.

The Group still does not swap variable for fixed interest rates, and vice versa, but takes steps to securitize loans from banks at more favourable terms.

Sensitivity Analysis

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

Had interest rates applied to cash loans and loans in kind during the reporting period been higher/lower by 10% annually where other variables remained unaltered, the Group's net profit for the six-month period ended 30 June 2017 would have decreased / increased by BAM 18,539 (for the six-month period ended 30 June 2016: BAM 16,742) as a result of higher/lower interest expenses.

(c) Equity Price Risk

During the reporting period of six months ended 30 June 2017, the Group was exposed to a risk of price changes of equity securities. The aforesaid investments are held for strategic purposes rather than everyday trading, and they are not actively traded.

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

(2) Liquidity Risk

On the Group level, liquidity management is centralized. Ultimate responsibility for the liquidity risk management rests with the Group's management, which has established certain procedures for the management of the Group's short and long-term liquidity.

The Group handles its assets and liabilities in a manner that ensures that the Group is able to settle its liabilities at any moment.

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

The Group does not make use of financial derivatives.

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

38. FINANCIAL INSTRUMENTS (Continued)

38.2. Financial Risk Management (Continued)

(2) Liquidity Risk (Continued)

Maturities of the Group's financial assets and liabilities as of 30 June 2017 and 31 December 2016 were as follows:

Financial assets **In BAM**

30 June 2017	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)	73,802,210	-	-	-	-	73,802,210
	73,802,210	-	-	-	-	73,802,210
Fixed interest rate						
- Loans and receivables (including cash and cash equivalents)	244,923	5,686,566	3,632,897	24,289,236	177,817	34,031,439
- Financial assets held tomaturity	-	10,831	10,831	32,493	12,478	66,633
	244,923	5,697,397	3,643,728	24,321,729	190,295	34,098,072
Total	**74,047,133**	**5,697,397**	**3,643,728**	**24,321,729**	**190,295**	**107,900,282**
31 December 2016						
Non-interest bearing						
- Loans and receivables (including cash and cash equivalents)	86,287,059	-	-	-	-	86,287,089
	86,287,089	-	-	-	-	86,287,089
Fixed interest rate						
- Loans and receivables (including cash and cash equivalents)	342,075	14,320,696	8,431,441	15,209,787	177,538	38,481,537
- Financial assets held to maturity	9,186	1,645	10,831	32,493	21,664	75,819
	351,261	14,322,341	8,442,272	15,242,280	199,202	38,557,356
Total	**86,638,350**	**14,322,341**	**8,442,272**	**15,242,280**	**199,202**	**124,844,445**

Financial liabilities **In BAM**

30 June 2017	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	39,681,645	8,890,521	-	-	-	48,572,166
- Instruments at variable interest rate	4,376,156	15,384,828	20,511,600	14,057,288	2,890,848	57,220,720
Total	**44,057,801**	**24,275,349**	**20,511,600**	**14,057,288**	**2,890,848**	**105,792,886**
31 December 2016						
Other liabilities at amortized cost						
- Non-interest bearing	63,678,375	7,125,549	-	-	-	70,803,924
- Instruments at variable interest rate	3,784,845	12,374,677	21,705,906	16,645,019	2,719,457	57,229,904
- Instruments at fixed interest rate	8,930,173	-	-	-	-	8,930,173
Total	**76,393,393**	**19,500,226**	**21,705,906**	**16,645,019**	**2,719,457**	**136,964,001**

38. FINANCIAL INSTRUMENTS (Continued)

38.2. Financial Risk Management (Continued)

(2) Liquidity Risk (Continued)

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

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

(3) Credit Risk

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

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

The Group is exposed to credit risk to a limited extent. As hedges against credit risk, certain measures and activities have been taken on the Group level. In case any service user falls behind in settlement of liabilities to the Group, further services to such a user are suspended.

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

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

(4) Fair Value

Fair Value of Financial Assets Other than Measured at Fair Value

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

In BAM

	30 June 2017		31 December 2016	
	Carrying Value	**Fair Value**	**Carrying Value**	**Fair Value**
Financial assets:				
Financial assets held to maturity	66,632	52,827	75,819	61,256
Total	**66,632**	**52,827**	**75,819**	**61,256**

38. FINANCIAL INSTRUMENTS (Continued)

38.2. Financial Risk Management (Continued)

(4) Fair Value (Continued)

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 Group for similar financial instruments.
- For securities available for sale that are traded in an active market, fair value calculation is based on the current market value of listed securities.

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

				30 June 2017
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Available for sale:				
- Listed securities (*Note 15*)	6,860	-	400	7,260
Total	**6,860**	**-**	**400**	**7,260**

Total losses presented in the other comprehensive income relate to the financial assets available for sale (Nova banka a.d. Banja Luka, *Note 15*), and are stated as a change in “Unrealized losses from securities“.

39. OPERATING LEASE ARRANGEMENTS

The minimum amount of rent recognized as expenses during the six-month period ended 30 June 2017 amounted to BAM 8,674,647 (comparative period of 2016: BAM 8,491,380).

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

		In BAM
	30 June 2017	**31 December 2016**
Within 1 year	8,432,807	10,905,231
From 1 to 5 years	40,475,028	38,899,770
Over 5 years	29,664,265	31,551,066
	78,572,100	**81,356,067**

40. 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. Besides that, 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, with regard to tax issues there is limited number of cases that can be used as an example. Often, contrary opinions pertaining to legal interpretations exist both among, and within, governmental ministries and organizations, thusly creating uncertainties and areas of legal contention. Tax declarations, together with other legal compliance matters (e.g., customs and currency control matters) are subject to the review and investigation by a number of authorities that are legally enabled to impose extremely severe fines, penalties and interest charges.

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

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

41. CURRENT ECONOMIC SITUATION AND ITS IMPACT ON THE GROUP

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

42. 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
	30 June 2017	**31 December 2016**
Euro (EUR)	1.95583	1.95583
Serbian Dinar (RSD)	0.01614	0.01584
American Dollar (USD)	1.71369	1.85545
Swiss Franc (CHF)	1.78860	1.82124

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