“ MTEL” a.d. BANJA LUKA

Consolidated Financial Statements for the year ended 31 December 2017

and

Independent Auditor’s Report

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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 financial statements of "Mtel" a.d. Banja Luka and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as of 31 December 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 year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year 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.

BDO d.o.o. Banja Luka; Broj registarskog upisa 1-11067-00 kod Okružnog privrednog suda u Banja Luci
JIB 4400878260000; Matični broj 1920600
Žiro račun: 562-099-00000250-35 kod NLB Razvojna banka a.d. Banja Luka
BDO d.o.o. Banja Luka je jednočlano privredno društvo.
Upisani i uplaćeni osnovni kapital Društva 80.000,00 KM.

BDO

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 in 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 matters 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 in 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 in 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 in 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/amortisation.

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 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 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 Janjic.

Banja Luka, 22 February 2018

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

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

MTEL A.D. BANJA LUKA

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME
For the Year ended 31 December 2017
(In BAM)

	Note	For the Year ended as of 31 December 2017	For the Year ended as of 31 December 2016
Sales of goods and services	5	432,282,114	451,798,466
Share in the profit of an associate	14	5,349,528	3,042,396
Other operating income	6	4,724,851	5,903,739
Total operating income		442,356,493	460,744,601
Cost of materials, merchandise and combined services	7	(60,881,663)	(60,704,428)
Staff costs	8	(75,717,471)	(75,106,205)
Depreciation and amortization charge	12, 13	(104,737,834)	(103,294,295)
Cost of production services	9	(114,401,153)	(122,518,227)
Other operating expenses	10	(26,135,187)	(28,521,425)
Total operating expenses		(381,873,308)	(390,144,580)
Profit from operations		**60,483,185**	**70,600,021**
Finance income	11	3,228,498	3,057,917
Finance expenses	11	(648,031)	(710,235)
Finance income, net		2,580,467	2,347,682
Profit before taxes		**63,063,652**	**72,947,703**
Income tax expense	33 (a)	(6,760,756)	(7,452,043)
Net profit		**56,302,896**	**65,495,660**
Other comprehensive income, net of income tax:			
(a) Items that may be subsequently reclassified to profit or loss:			
Gains on financial assets available for sale	15	429	654
Total other comprehensive income, net of income tax		429	654
Total comprehensive income for the year		**56,303,325**	**65,496,314**
Earnings per share:			
Basic and diluted earnings per share	35	0.1146	0.1333

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 22 February 2018.

Signed on behalf of the Company and the Group by:

Marko Lopičić
General Manager

L.S.

Jasmina Lopičić
Chief Financial Officer

MTEL A.D. BANJA LUKA

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
For the Year ended 31 December 2017
(In BAM)

	Note	31 December 2017	31 December 2016
ASSETS			
Non-current assets			
Intangible assets and goodwill	12	78,419,846	94,000,912
Property and equipment	13	507,170,329	519,086,873
Investments in the associate	14	85,130,311	79,780,783
Other investments	15	71,646	82,221
Long-term receivables and loans	16	27,218,614	23,226,425
Deferred tax assets	33 (c)	506,297	635,360
		698,517,043	716,812,574
Current assets			
Inventories	17	18,385,392	21,279,814
Assets held for sale		86,278	64,328
Trade receivables	18	66,584,451	54,474,497
Prepaid income taxes	33 (e)	907,692	1,149,947
Other receivables	19	1,085,630	2,673,629
Deposits and loan receivables	21	8,101,477	13,598,937
Prepayments	22	22,735,261	23,034,047
Cash and cash equivalents	23	25,049,349	31,190,365
Deferred tax assets	33 (в)	-	55,494
		142,935,530	147,521,058
Total assets		**841,452,573**	**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		(569)	(998)
Other reserves – reserves arising on commitment to invest	24	97,791,500	97,791,500
Retained earnings		22,517,048	30,588,772
		660,833,500	668,904,795
Non-current liabilities and provisions			
Interest bearing loans and borrowings	25	34,766,189	40,763,030
Deferred income	27	74,202	-
Deferred tax liabilities	33 (d)	776,132	957,241
Employee benefits	28	6,035,526	6,099,828
Provisions	29	57,161	207,434
		41,709,210	48,027,533
Current liabilities			
Interest bearing loans and borrowings	25	25,719,965	16,082,814
Other short-term financial liabilities	26	-	8,930,173
Trade payables	30	59,865,207	70,599,346
Accruals	31	26,751,867	25,446,034
Employee benefits	28	747,027	648,463
Deferred income	27	12,367	56,558
Dividend payables	35	21,564,115	22,946,430
Other liabilities	32	4,249,315	2,691,486
		138,909,863	147,401,304
Total equity and liabilities		**841,452,573**	**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 Year ended 31 December 2017
(In BAM)

	Share Capital	Legal Reserves	Unrealised(losses)/gains on the Available-for-Sale Securities	Other Reserves - 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 year	-	-	-	-	65,495,660	65,495,660
Total other comprehensive income for the year	-	-	654	-	-	654
Total comprehensive income	**-**	**-**	**654**	**-**	**65,495,660**	**65,496,314**
Profit distribution :						
Dividends paid to shareholders	-	-	-	-	(38,452,693)	(38,452,693)
Interim dividends paid to shareholders	-	-	-	-	(31,220,030)	(31,220,030)
Balance as of 31 December 2016	**491,383,755**	**49,141,766**	**(998)**	**97,791,500**	**30,588,772**	**668,904,795**
Net profit for the year	**-**	**-**	-	-	56,302,896	56,302,896
Total other comprehensive income for the year	**-**	**-**	429	-	-	429
Total comprehensive income for the year	**-**	**-**	**429**	**-**	**56,302,896**	**56,303,325**
Profit distribution (Note *35)*:						
Dividends paid to shareholders	-	-	-	-	(38,950,324)	(38,950,324)
Interim dividends paid to shareholders	-	-	-	-	(25,424,296)	(25,424,296)
Balance as of 31 December 2017	**491,383,755**	**49,141,766**	**(569)**	**97,791,500**	**22,517,048**	**660,833,500**

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

CONSOLIDATED STATEMENT OF CASH FLOWS
For the Year ended 31 December 2017
(In BAM)

	For the year ended as of 31 December 2017	For the year ended as of 31 December 2016
Cash flows from operating activities		
Cash receipts from customers and prepayments	418,937,990	446,568,303
Other cash receipts from regular operations	1,609,872	2,265,351
Cash paid to suppliers – purchases of materials, fuel, energy and other expenses	(186,396,805)	(212,664,222)
Cash paid to and on behalf of employees	(75,647,101)	(75,130,666)
Interest paid	(446,851)	(799,205)
Income taxes paid	(5,294,064)	(6,300,427)
Other taxes and duties paid	(5,415,140)	(5,585,289)
Net cash generated by operating activities	**147,347,901**	**148,353,845**
Cash flows from investing activities		
Purchases of property, equipment and intangible assets	(69,886,122)	(80,504,887)
Proceeds from sale of property, equipment and intangible assets	85,826	124,306
Interest received	2,208,214	2,635,686
Outflows per long-term financial investments	(3,973,056)	(4,466,210)
Proceeds per short-term financial investments	5,497,461	1,496,104
Net cash used in investing activities	**(66,067,677)**	**(80,715,001)**
Cash flows from financing activities		
Receipts from long-term loans	2,567,027	2,933,745
Long-term financial liabilities, net outflows	(17,568,406)	(14,105,175)
Dividend and interim dividend payments to the shareholders	(63,489,688)	(72,417,977)
Outflows from other short-term liabilities	(8,930,173)	-
Net cash used in financing activities	**(87,421,240)**	**(83,589,407)**
Net decrease in cash and cash equivalents	**(6,141,016)**	**(15,950,563)**
Cash and cash equivalents at the beginning of the year	31,190,365	47,140,928
Cash and cash equivalents at the end of the year	**25,049,349**	**31,190,365**

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 Karadzica 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 31 December 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 a 100% equity interest therein*).

As of 31 December 2017, the Company held a 49% equity interest in the associate MTEL d.o.o. Podgorica (Republic of 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 31 December 2017, the Group had 2,252 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 31 December 2017, the Group provided telecommunication services for the total number of 1,631,077 users (31 December 2016: 1,633,421 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 31 December 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 vlaue 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

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

	Effective on or after
Amendments to the existing standards effective in the current period	
IAS 7 “ Statement of Cash Flows ”	1 January 2017
IAS 12 “Income Taxes”	1 January 2017

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

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

	Effective on or after
New and Revised Standards and Interpretations in Issue not yet in Effect	
IAS 40 “Investment Property	1 January 2018
IFRS 2 “Share based payments”	1 January 2018
IFRS 4 “Insurance contracts”	1 January 2018
IFRS 9 “Financial instruments”	1 January 2018
IFRS 15 “Revenue from contracts with customers”	1 January 2018
Amendments to IFRS 1, IFRS 12 and IAS 28 as a result of annual improvements project standards “2014-2016 Cycle”	1 January 2018
IFRIC 22 “Foreign currency transactions and advance consideration”	1 January 2018
Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 as a result of annual improvements project standards “2015 – 2017 Cycle”	1 January 2019
IFRIC 23 “Uncertainty over Income Tax Treatments”	1 January 2019
IFRS 16 “Leases”	1 January 2019
IFRS 17 “Insurance contracts”	1 January 2021

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 that are effective on or after 1 January 2018 will have no material impact on the Group’s financial statements in the period of initial application.

The Management has performed an analysis of certain standards deemed that could have the most significant impact, as follows:

- IFRS 9 “Financial Instruments”
- IFRS 15 “ Revenue from Contracts with Customers ”
- IFRS 16 “Leases”

IFRS 9 “Financial Instruments”

IFRS 9 “Financial Instruments” which is effective for annual periods beginning on or after 1 January 2018 replaces the requirements of IAS 39 “Financial Instruments: Recognition and Measurement”. IFRS 9 includes revised guidance on classification and measurement of financial instruments, as well as a new model of expected credit loss for assessment of financial asset impairment and new general requirements for hedge accounting. It continues to include the guidance for recognition and derecognition from IAS 39. The new standard contains requirements in the following areas:

Classification and measurement: IFRS 9 includes three principal classification categories for financial assets: measured at amortized cost, fair value through profit and loss and fair value through other comprehensive income. It eliminates the existing IAS 39 categories held-to-maturity, loans and receivables and available-for-sale. Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk.

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)

IFRS 9 "Financial Instruments" (Continued)

The revised 2014 version of IFRS 9 introduces an "expected credit loss" model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognised. The standard introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures. The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

Impact Assessment of IFRS 9

Based on an analysis of the Group's financial assets and financial liabilities as of 31 December 2017 based on the facts and circumstances that exist at that date, the Group assessed the impact of IFRS 9 on the Group's financial statements as follows.

The Group's financial instruments include trade receivables, other current and non-current receivables, trade payables, borrowings and other current liabilities, which are subsequently measured at amortized cost and fulfil the new requirements of IFRS 9 (business model test and characteristics of contracted cash flows) to be measured at amortized cost. The Group does not have financial assets and liabilities carried at fair value in its statement of financial position. Therefore, all financial assets and financial liabilities will continue to be measured on the same bases as is currently adopted under IAS 39.

Financial assets measured at amortised cost will be subject to the impairment provisions of the IFRS. The Group will need to apply an "expected credit loss" model when calculating impairment losses on its current trade and other receivables. In applying IFRS 9 the Group must consider the probability of a default occurring over the contractual life of its trade receivables and contract assets balances on initial recognition, which will result in greater judgement due to the need to factor in forward looking information when estimating the appropriate amount of provisions.

The Group expects to apply the simplified approach to recognise "lifetime" expected credit losses for its trade receivables (current and non-current) and other receivables without significant financing component using a provision matrix where trade receivables are grouped based on different customer attributes and different historical loss patterns. Considering that IFRS 9 does not provide any practical expedients for related party, key management personnel and intercompany loan receivables, this means that expected credit losses (and the related disclosures) for loans granted to employees, key management personnel and other related parties would have to be provided based on the "full" three-stage model, which requires to recognize 12-month expected credit losses on initial recognition and lifetime expected credit losses if the credit risk of the borrower increased significantly. Based on the assessments undertaken to date of these financial statements, the total estimated adjustment of the first adoption of IFRS 9 is not materially significant.

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)

IFRS 9 "Financial Instruments" (Continued)

The above estimate is preliminary since the activities of standard implementation in the Group are still in progress. The final effect of IFRS 9 application on 1 January 2018 may differ from the estimated one due to the following reasons:

- IFRS 9 requires the Group to modify internal processes, internal acts and internal controls, and the changes thereon are still in progress;
- The new solution to the calculation of expected allowance requires the expected stabilization period and possible changes/tuning/upgrade; and
- New accounting policies, assumptions and estimates may be subject to changes until the preparation of the first following financial statements, which include the date of the first application.

The Group does not expect any significant changes in respect of new hedge accounting requirements at the moment, as it does not apply hedge accounting.

IFRS 15 "Revenue from Contracts with Customers"

IFRS 15 "Revenue from Contracts with Customers" is effective for annual periods beginning on or after 1 January 2018. IFRS 15 supersedes the current revenue recognition guidance including IAS 18 "Revenue", IAS 11 "Construction Contracts" and the related interpretations.

IFRS 15 provides a single, principle-based five-step model to be applied to all contracts with customers. Specifically, the standard introduces a five-step approach to revenue recognition:

- Identify the contract(s) with a customer;
- Identify the performance obligations in the contract (sale of goods/rendering of services);
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contract; and
- Recognise revenue when (or as) the entity satisfies a performance obligation.

Guidance is provided on topics such as the point in which revenue is recognized, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. IFRS 15 also introduces new extensive requirements concerning presentation and disclosures.

An entity recognises when (or as) a performance obligation is satisfied, when (or as) a performance obligation is satisfied, i.e. when control of the goods or services underlying the particular performance obligation is transferred to the customer. The performance obligation can be fulfilled, i.e. revenue recognized over the period the services are performed or at a point in time.

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)

IFRS 15 "Revenue from Contracts with Customers" (Continued)

On transition, there is a choice of two approaches:

- Fully retrospective application, under which IFRS 15 is applied to each prior reporting period with comparative information being restated; or
- A cumulative catch up approach under which IFRS 15 is applied on a retrospective basis with the cumulative effect being recognised as an adjustment of opening balance of equity on 1 January 2018 with not being restated.

Impact Assessment of IFRS 15

Based on the assessments undertaken to date of these financial statements, the total estimated effect of the first adoption of IFRS 15 is not material.

The above estimate is preliminary, since the activities of standard implementation in the Group are still in progress. The final effect of IFRS 15 application on 1 January 2018 may differ from the estimated one due to the following reasons:

- IFRS 15 requires the Group to modify processes, internal acts and internal controls, and the changes thereon are still in progress;
- The new software module for revenue recognition in line with IFRS 15 requires the expected stabilization period and possible changes/tuning/upgrade; and
- New accounting policies, assumptions and estimates may be subject to changes until the preparation of the first following financial statements which include the date of the first application.

The Group intends to apply the cumulative catch up approach on its transition to IFRS 15.

IFRS 16 "Leases"

IFRS 16 "Leases", which is effective for annual periods beginning on or after 1 January 2019, brings major changes for lessees and will have a significant effect on any entity that has entered into material amounts of what are currently accounted for as operating leases. In contrast, for lessors, the accounting requirements have largely been carried forward unchanged from IAS 17. IFRS 16 specifies how an entity will recognize, measure, present and disclose leases. The standard provides a single lease accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset have a low value. The key headline for lessees is that in most cases a lease will result in an asset being capitalized (a "right of use" asset) together with the recognition of a liability for the corresponding lease payments. This will result in changes to key financial ratios and has the potential to affect borrowing costs (interest expenses).

Impact Assessment of IFRS 16

Considering that IFRS 16 is effective for annual periods beginning on or after 1 January 2019, the Group has initiated certain activities in respect of IFRS 16 implementation so that it is fully applied after its entry into force. A preliminary assessment of lease agreements indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Group will recognize a "right-of-use asset" and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of IFRS 16. The Group's management believes that the new requirement of the standard to recognize a "right-of-use asset" and related liabilities will have a significant impact on the Group's financial statements in the period of its first-time adoption. The Group's management considers it is not practicable to provide a reasonable estimate of the financial effect until the review of all relevant factors is completed.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Basis of Consolidation

a) Investments in Subsidiaries

The accompanying consolidated financial statements for the year ended 31 December 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 transactions are eliminated in full on consolidation.

Mtel Austria, 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).

In 2014 and 2015 a capital increase as well as a monetary contribution to the capital reserves of the company *Mtel Austria* was made in the total amount of 6,500,000 EUR (equivalent to BAM 12,712,895). During 2017 the Company made a monetary contribution to the capital reserves of the company *Mtel Austria* in the amount of 1,000,000 EUR (equivalent to BAM 1,955,830).

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

During 2014 the Company acquired a 65% of the equity interest in *Logosoft d.o.o. Sarajevo,* whereas on 21 February 2017 the Municipal Court in Sarajevo issued a Decision on a Change in the Interest Structure of the company *Logosoft d.o.o. Sarajevo* after the purchase and transfer of the remaining 35% of the equity investment. 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 at the acquisition date except that:

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

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 the liabilities assumed.

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

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

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. 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.

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. 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.

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 consolidated statement of financial position as a finance lease obligation.

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

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

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

3.4. Foreign Currencies

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

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

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

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 are reversed.

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences and the effect of tax losses and tax credits, which can be carried forward to future fiscal period, to the extent that it is probable that there will be taxable profit against which tax carry forwards can be utilised.

A Law on Amendments to the Corporate Income Tax Law was adopted at the end of 2016 and has been in effect since 1 January 2017. The most significant change in the said Law refers to the recognition of depreciation expenses in the tax balance sheet given a completely new model for the said recognition. Namely, the new model is related to establishing four groups of non-current assets, with appropriate depreciation rates and a prescribed separate and group calculation of depreciation expenses.

Prescribed depreciation tax rates are shown in the table below:

	The rate recognised in the tax balance sheet (%)
Individual calculation of depreciation/amortization - on a straight-line basis.	
Property and plant	3%
Intangible assets, except software	10%
Group calculation of depreciation– declining balance method	
Computers, information systems, software and servers	40%
Equipment and other assets	20%

A taxable temporary difference resulting from a difference between the carrying amount of an asset and its tax base is recognised as a deferred tax liability when tax depreciation is accelerated, i.e. a deferred tax asset if tax depreciation is slower than the accounting depreciation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6. Intangible Assets

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

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

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

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

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

3.7. Property and Equipment

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

Cost is comprised of the purchase price, 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 or sale 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 intangible assets, property and equipment.

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 intangible assets, property and equipment, less any estimated residual value. Depreciation and amortization are calculated on a straight-line basis.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Depreciation and Amortization (Continued)

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

3.9. Non-Current Assets Available for Sale

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

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

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

3.10. Impairment of Non-Financial Assets

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10. Impairment of Non-Financial Assets (Continued)

Impairment losses recognized in prior years are assessed at each reporting date for any indications that loss has decreased or no longer exists. 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 31 December 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.

3.11. 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11. Financial Assets (Continued)

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11. Financial Assets (Continued)

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.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

3.14. 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 in order to reduce the carrying value of such inventories to the management’s best estimate of their net realizable value. For inventories found to be damaged, or of a substandard quality, appropriate impairment allowances are made or they 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.16. Employee Benefits

a) Employee Taxes and Contributions for Social Security

In accordance with local regulations and its adopted accounting policies, the 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.

Moreover, the Group has to pay jubilee awards amounting to between a half and one and a half average monthly salary of the Group.

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

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

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

3.17. Segment Reporting

The Group applies IFRS 8 *Operating Segments,* which requires the identification of operating segments based on internal reports about components of the Group that are regularly reviewed by managers responsible for making key decisions for the purpose of allocating adequate resources to these segments, as well as 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:

4. SIGNIFICANT ACCOUNTING ESTIMATES (Continued)

Estimated Useful Life of Property, Equipment and Intangible Assets

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

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

Due to the significance of non-current assets in the 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 31 December 2017 in an additional cost of depreciation by BAM 10,473,783 (comparative figure in 2016: BAM 10,329,430).

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).*

Provisions

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

Income and Expenses from International Traffic

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

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

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

Fair Value

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

4. SIGNIFICANT ACCOUNTING ESTIMATES (Continued)

Fair Value (Continued)

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

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

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

5. SALES OF GOODS AND SERVICES

	In BAM Year ended 31 December 2017	2016
Domestic Sales		
Fixed-Line Telephony	78,847,028	87,738,306
Mobile Telephony	198,053,990	208,158,053
Integrated services	54,508,974	51,269,278
Interent services	23,566,839	23,401,793
Income from combined services	38,641,347	32,413,611
Sales of goods	1,883,915	2,150,353
Sales of project design services, software, goods and training services	2,622,900	2,430,425
Total domestic sales	**398,124,993**	**407,561,819**
International market sales		
International settlements	33,489,189	43,865,521
Sales of project design services, software, goods and training services	667,932	371,126
Total international market sales	**34,157,121**	**44,236,647**
Total sales of goods and services	**432,282,114**	**451,798,466**

6. OTHER OPERATING SERVICES

	In BAM Year ended 31 December 2017	2016
Rental income	2,092,506	2,021,698
Reversal of deferred income (grants) - *(Note 27)*	93,658	133,078
Other income	2,538,687	3,748,963
	4,724,851	**5,903,739**

7. COST OF MATERIALS, MERCHANDISE AND COMBINED SERVICES

	In BAM Year ended 31 December 2017	2016
Materials for combined services	48,911,130	48,534,097
Cost of commercial goods sold	2,705,602	2,749,475
Electricity	5,267,921	5,035,184
Fuel and lubricants	1,334,072	1,249,389
Other costs of materials	2,662,938	3,136,283
	60,881,663	**60,704,428**

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

8. STAFF COSTS

	In BAM Year ended 31 December 2017	2016
Net salaries and employee benefits	35,914,807	36,316,139
Payroll taxes and contributions	29,008,502	29,040,816
Remunerations to Management Board and Audit Committee	331,449	274,013
Termination benefits	750,116	227,703
Other staff costs	9,712,597	9,247,534
	75,717,471	**75,106,205**

9. COST OF PRODUCTION SERVICES

	In BAM Year ended 31 December 2017	2016
International settlements	32,185,016	35,124,972
Maintenance	18,876,435	19,680,296
Lease of land and business premises	17,716,575	17,442,704
Marketing and advertising	13,912,029	16,704,525
Broadcasting fees	10,490,826	9,463,632
Other production services	21,220,272	24,102,098
	114,401,153	**122,518,227**

10. OTHER OPERATING EXPENSES

	In BAM Year ended 31 December 2017	2016
Indirect taxes and contributions	3,754,560	3,640,904
Communications Regulatory Agency fee	7,350,373	7,310,884
Losses on disposal of property, equipment and intangible assets	554,421	1,370,494
Shortages	34,471	13,528
Provisioning charge (*Notes 28 and 29)*	513,457	214,402
Allowance for impairment of short-term receivables (*Note 20)*	3,311,108	4,072,587
Other expenses	10,616,797	11,898,626
	26,135,187	**28,521,425**

11. FINANCE INCOME AND EXPENSES

	In BAM Year ended 31 December 2017	2016
Interest income:		
- interest on deposits	1,115,734	1,638,538
- other interest income	1,150,328	1,133,939
	2,266,062	2,772,477
Other finance income	361,442	52,772
Foreign exchange gains	600,994	232,668
Total finance income	3,228,498	3,057,917
Interest expenses:		
- arising from loan agreements	(381,959)	(294,191)
- other interest expenses	(24,020)	(25,774)
	(405,979)	(319,965)
Foreign exchange losses	(242,052)	(390,270)
Total finance expenses	(648,031)	(710,235)
Finance income, net	**2,580,467**	**2,347,682**

12. INTANGIBLE ASSETS AND GOODWILL

In BAM
31 December 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	-	-	-	-	720,012	11,252,287	8,888,205	20,860,504
Transfers	-	-	-	-	-	-	(7,737,022)	(7,737,022)
Disposal	-	-	-	-	(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	-	-	-	-	1,526,985	6,649,023	2,074,741	10,250,749
Transfers	-	-	-	-	-	-	(6,535,490)	(6,535,490)
Disposal	-	-	-	-	(5,619)	(208)	-	(5,827)
Other	-	-	-	-	-	390,396	-	390,396
Balance as of 31 December 2017	**10,339,849**	**390,723**	**117,182,447**	**23,296,086**	**9,592,311**	**78,125,360**	**21,681,773**	**260,608,549**
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 year	-	24,548	7,816,069	1,553,849	672,187	9,348,593	-	19,415,246
Disposals	-	-	-	-	(4,156)	(208)	-	(4,364)
Other	-	-	-	-	-	270,012	-	270,012
Balance as of 31 December 2017	**-**	**79,781**	**103,197,378**	**13,466,691**	**7,406,307**	**58,038,546**	**-**	**182,188,703**
Net book value as of								
31 December 2017	**10,339,849**	**310,942**	**13,985,069**	**9,829,395**	**2,186,004**	**20,086,814**	**21,681,773**	**78,419,846**
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 Equity Interest in Logosoft d.o.o. Sarajevo. Pursuant to the aforesaid Agreement, the Company fully settled the contractual liabilitiy in the amount of BAM 27,357,514 on 9 March 2017.

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.

As of 31 December 2017 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
31 December 2017 and 31 December 2016

	Land	Infrastructure	Leasehold Improvements	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	76,929	23,843,253	348,404	68,477,836	95,752,208	188,498,630
Transfers	-	-	-	(334,473)	(93,721,136)	(94,055,609)
Disposal	-	(232,472)	-	(76,064,558)	(118,189)	(76,415,219)
Shortages	-	-	-	(43,792)	-	(43,792)
Surpluses	-	-	-	2,390	-	2,390
Dismantlement	-	-	-	(184,145)	108,887	(75,258)
Sales	-	(95,165)	-	(110,228)	-	(205,393)
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	171,738	24,454,402	366,563	73,161,200	68,555,068	166,708,971
Transfers		-	-	(94,224)	(92,551,023)	(92,645,247)
Disposal	-	(40,655)	(1,114,719)	(30,394,371)	(178,742)	(31,728,487)
Shortages	-	(1,765)	-	(6,729)	(2,025)	(10,519)
Surpluses	-	769,853	-	25,099	7,969	802,921
Dismantlement	-	-	-	(351,831)	193,763	(158,068)
Sales	-	(309,158)	-	-	-	(309,158)
Transfer to assets intended for sale	-	-	-	(415,772)	-	(415,772)
Balance as of 31 December 2017	**1,710,014**	**695,057,982**	**2,967,046**	**723,596,278**	**75,461,498**	**1,498,792,818**
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)
Shortage	-	-	-	(40,008)	-	(40,008)
Surplus	-	-	-	2,390	-	2,390
Dismantlement	-	-	-	(75,258)	-	(75,258)
Sales	-	(27,033)	-	(99,149)	-	(126,182)
Transfers	-	-	-	(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 year	-	24,839,205	248,680	60,234,703	-	85,322,588
Disposal	-	(38,427)	(1,114,719)	(30,031,109)	-	(31,184,255)
Shortage	-	(1,765)	-	(4,935)	-	(6,700)
Surplus	-	769,853	-	25,000	-	794,853
Dismantlement	-	-	-	(158,068)	-	(158,068)
Sales	-	(169,432)	-	-	-	(169,432)
Transfer to assets held for sale	-	-	-	(346,170)	-	(346,170)
Transfers	-	48	-	(91,679)	-	(91,631)
Balance as of 31 December 2017	**-**	**496,231,128**	**2,139,782**	**493,251,579**	**-**	**991,622,489**
Net book value as of						
31 December 2017	**1,710,014**	**198,826,854**	**827,264**	**230,344,699**	**75,461,498**	**507,170,329**
31 December 2016	**1,538,276**	**199,353,659**	**709,381**	**218,049,069**	**99,436,488**	**519,086,873**

As of 31 December 2017, investments in progress mainly related to the purchased telecommunication equipment not yet put into use.

As of 31 December 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 42,903,522 as of 31 December 2017.

14. INVESTMENTS IN THE ASSOCIATE

	Interest	31 December 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		10,566,572	5,217,044
Investment in Mtel d.o.o. Podgorica, net		**85,130,311**	**79,780,783**

As of 31 December 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.

The value of the total equity investment in Mtel d.o.o. Podgorica, after the originally agreed amount for the purchase, made on 1 February 2010, 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 commercial 2017, amounts to BAM 5,349,528.

Mtel d.o.o. Podgorica has prepared its standalone financial statements for the year ended 31 December 2017.

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

	Year ended 31 December 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*)	5,349,528	3,042,396
Balance, end of the year	**85,130,311**	**79,780,783**

14. INVESTMENTS IN THE ASSOCIATE (Continued)

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

	31 December 2017	In BAM 31 December 2016
Non-current assets	288,078,382	216,547,379
Current assets	138,589,009	111,441,967
Current liabilities	148,100,458	132,509,687
Non-current liabilities	188,833,305	116,663,437

	Year ended 31 December 2017	In BAM Year ended 31 December 2016
Income	135,112,587	109,592,049
Profit from continuing operations	15,403,669	9,058,151
Net profit for the year	**10,917,404**	**6,208,972**
Other comprehensive income for the year	-	-
Total comprehensive income of the associate	**10,917,404**	**6,208,972**
Dividends received from the associate	-	-

15. OTHER INVESTMENTS

	Interest	31 December 2017	In BAM 31 December 2016
Securities available for sale:			
- Nova banka a.d. Banja Luka	0.02%	6,431	6,002
- Center for International Law and International Business Cooperation d.o.o. Banja Luka	22.97%	400	400
		6,831	6,402
Securities held to maturity:			
- Long-term bonds of the Republic of Srpska		64,815	75,819
		71,646	**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

	31 December 2017	In BAM 31 December 2016
Long-term loans to employees	120,823	146,747
Less: Current portion of long-term loans matured within one year (*Note 21*)	(84,864)	(83,632)
Total long-term loans to employees	35,959	63,115
Other long-term deposits and investments:		
- Long-term deposits	27,176,025	23,176,025
- Other long-term investments	52,432	41,216
Total other long-term deposits and investments	27,228,457	23,217,241
Total long-term receivables and loans	**27,264,416**	**23,280,356**
Less: Accumulated impairment losses:		
- allowance for impairment of long-term loans	(8,733)	(12,815)
- allowance for impairment of long-term investments	(37,069)	(41,116)
	(45,802)	**(53,931)**
	27,218,614	**23,226,425**

17. INVENTORIES

	31 December 2017	In BAM 31 December 2016
Materials	4,307,911	4,272,630
Merchandise	223,011	253,993
Materials for combined services	11,286,237	15,422,969
Advances paid to suppliers	2,568,233	1,330,222
	18,385,392	**21,279,814**

18. TRADE RECEIVABLES

	31 December 2017	In BAM 31 December 2016
- related parties (Note 34(a))	5,807,931	1,723,018
- domestic	113,406,729	102,831,727
- foreign	2,102,275	2,904,279
Gross trade receovables	**121,316,935**	**107,459,024**
Less: Allowance for impairment of trade receivables	(54,732,484)	(52,984,527)
	66,584,451	**54,474,497**

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

	31 December 2017	In BAM 31 December 2016
From 0 to 30 days	62,454,490	52,183,803
From 31 to 60 days	4,129,961	2,290,694
Over 61 days	54,732,484	52,984,527
	121,316,935	**107,459,024**

The total gross trade receivables as of 31 December 2017 amounted to BAM 121,316,935. 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 31 December 2017 amounted to 54,732,484 representing 45.12% 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 31 December 2017 matured trade receivables, up to 60 days past due, which were not provided for, amounted to BAM 66,584,451.

The average number days of sales outstanding as of 31 December 2017 was 91 days (2016: 80 days).

19. OTHER RECEIVABLES

In BAM

	31 December 2017	31 December 2016
Other receivables	1,821,449	3,397,402
Less: Allowance for impairment of other receivables	(735,819)	(723,773)
	1,085,630	**2,673,629**

20. ALLOWANCES FOR IMPAIRMENT OF SHORT-TERM RECEIVABLES

In BAM
2017 and 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 *(Note 10)*	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 year *(Note 10)*	3,189,700	121,408	3,311,108
Write-off	(1,550,354)	(751)	(1,551,105)
Other	108,611	(108,611)	-
Balance as of 31 December 2017	**54,732,484**	**735,819**	**55,468,303**

21. DEPOSITS AND LOAN RECEIVABLES

In BAM

	31 December 2017	31 December 2016
Short-term deposits	8,016,613	13,515,305
Loans to employees that mature in one year (*Note 16*)	84,864	83,632
	8,101,477	**13,598,937**

22. PREPAYMENTS

In BAM

	31 December 2017	31 December 2016
Accrued receivables	6,106,528	3,835,357
Accrued receivables for combined services	13,657,281	16,059,582
Prepaid expenses	1,279,997	2,049,846
Deferred input and output advance invoices for the purpose of VAT accrual	1,691,455	1,089,262
	22,735,261	**23,034,047**

Accrued receivables mostly, in the amount of BAM 3,175,059, relate to the estimate of international traffic and roaming, performed in accordance with traffic internal calculations, i.e. a calculation obtained from a clearing house, whereas the amount of BAM 1,402,896 refers to accrued receivables related to the estimate of discounts arising from roaming that the Company should receive based on the calculated international traffic with other operators.

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

In BAM

	31 December 2017	31 December 2016
Gyro accounts	18,943,377	23,932,238
Foreign currency accounts	5,967,340	7,135,062
Cash on hand	38,632	23,065
Cash equivalents	100,000	100,000
	25,049,349	**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 31 December 2017 and 31 December 2016, was as follows:

	31 December 2017	In %	31 December 2016	In %
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
Duif Kristal invest a.d. – OMIF Future fund	16,215,283	3.30	21,274,451	4.33
Other shareholders	87,184,571	17.74	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 31 December 2017 amounts to BAM 1.06 (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 31 December 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 from the Investment Commitment

Other reserves as of 31 December 2017 amounting to 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

	31 December 2017	In BAM 31 December 2016
Long-term borrowings:		
- Cash loans – at amortised cost	5,500,772	2,933,745
- Loans for equipment purchase – at amortized cost	54,985,382	53,912,099
Total non-current portion of liabilities	**60,486,154**	**56,845,844**
Less: current portion of:		
- long-term borrowings	(25,719,965)	(16,082,814)
Total current portion of liabilities	**(25,719,965)**	**(16,082,814)**
	34,766,189	**40,763,030**

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 0.5% to 1.0% annually (2016: six-month EURIBOR as increased by the margin ranging from 0.8% to 1% annually).

During the commercial year 2017 by obtaining new short-term and long-term borrowings, the Group purchased equipment in the aggregate amount of BAM 19,181,343. The contractual currency for all loans, except for loans granted by the Government of the Kingdom of Spain and domestic suppliers, is EUR.

The outstanding interest payables as of 31 December 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:

	31 December 2017	In BAM 31 December 2016
Current portions	25,719,965	16,082,814
From 1 to 2 years	20,353,625	21,543,468
From 2 to 3 years	7,475,169	13,090,755
From 3 to 4 years	2,683,482	2,712,093
From 4 to 5 years	1,628,815	717,607
After 5 years	2,625,098	2,699,107
Total non-current portion of borrowings	34,766,189	40,763,030
	60,486,154	**56,845,844**

26. OTHER SHORT-TERM FINANCIAL LIABILITIES

	31 December 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)	-
Carrying value of the commitment	**-**	**8,930,173**

On 9 March 2017 the Company settled the contractual liabilitiy related to the acquisition of the remaining portion of the equity investment (35%) in the subsidiary Logosoft d.o.o. Sarajevo. The fee for the purchase of 35% of the equity investment was fully paid in cash.

27. DEFERRED INCOME

	31 December 2017	In BAM 31 December 2016
Grants received	86,569	56,558
Less: Current portion of deferred income	(12,367)	(56,558)
	74,202	**-**

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

Movements on deferred income for FY 2017 and FY 2016 were as follows:

	Year ended 31 December 2017	In BAM Year ended 31 December 2016
Balance as of 1 January	56,558	189,636
Grants received	123,669	-
Reversal credited to other income	(93,658)	(133,078)
Balance, end of the year	**86,569**	**56,558**

28. EMPLOYEE BENEFITS

In BAM

	31 December 2017	31 December 2016
Employee benefits		
- non-current portion	6,035,526	6,099,828
- current portion	747,027	648,463
	6,782,553	**6,748,291**

Long-term provisions for employee benefits as of 31 December 2017, in the amount of BAM 6,782,553, 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 2017 on behalf of the Group. When calculating the present value of these accumulated rights to retirement benefits and jubilee awards, the authorized actuary used the following assumptions: a discount rate ranging from 3.8% to 4.5% annually, projected salary growth rate ranging from 1.2% to 2.3% annually, projected years of service for retirement - 40 years for men and 35 to 40 years for women, the projected staff turnover on the basis of historical data on the movement of employees in the past, officially published mortality rates and other conditions necessary for exercising the right to retirement benefits and jubilee awards.

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

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

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

In BAM

	Current portion		Non-current portion	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Balance as of 1 January	648,463	712,772	6,099,828	6,335,950
Provisions during the year (*Note 10*)	98,357	(64,309)	399,908	271,258
Transfer from/to the current portion	464,210	507,380	(464,210)	(507,380)
Payments during the year	(464,003)	(507,380)	-	-
Balance, end of the year	**747,027**	**648,463**	**6,035,526**	**6,099,828**

29. PROVISIONS

	Year ended 31 December 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	(165,465)	(5,000)
Balance, end of the year	**57,161**	**207,434**

30. TRADE PAYABLES

	31 December 2017	In BAM 31 December 2016
- related parties (*Note 34(a)*)	4,551,105	2,412,280
- domestic	41,881,674	50,885,423
- foreign	8,458,532	13,082,582
- uninvoiced investments and services	4,973,896	4,219,061
	59,865,207	**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 FY 2017 was 78 (2016: 83 days).

The ageing structure of trade payables as of 31 December 2017 and 31 December 2016 was as follows:

	31 December 2017	In BAM 31 December 2016
From 0 to 30 days	43,933,351	48,152,682
From 31 to 60 days	7,195,946	7,531,139
From 61 to 120 days	5,684,748	12,661,387
From 121 to 180 days	2,328,391	1,049,359
From 181 to 270 days	234,477	871,175
From 271 to 360 days	488,294	333,604
	59,865,207	**70,599,346**

31. ACCRUALS

	31 December 2017	In BAM 31 December 2016
Deferred income – sales of prepaid top-ups	1,127,934	2,753,668
Accrued liabilities – international traffic	15,352,651	8,616,644
Accrued liabilities – media content distribution/broadcasting	1,580,337	1,695,885
Accrued liabilities per other expenses	6,894,572	11,106,913
Accrued VAT liabilities on advance invoices	1,564,655	953,358
Other accruals	231,718	319,566
	26,751,867	**25,446,034**

Accrued liabilities for international traffic totalling BAM 15,352,651 as of 31 December 2017 mostly, in the amount of BAM 13,401,189, 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 6,894,572 as of 31 December 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

	31 December 2017	In BAM 31 December 2016
Advances and prepayments received	1,775,505	1,724,542
Taxes and customs duties charged to expenses	256,897	265,415
Value added tax payable	1,473,297	104,920
Liabilities to employees	366,141	257,107
Other liabilities	377,475	339,502
	4,249,315	**2,691,486**

33. INCOME TAXES

(a) Components of Income Taxes

	Year ended as of 31 December 2017	In BAM 2016
Current income tax expense	6,757,308	7,810,270
Deferred tax expense/income – decrease/increase in deferred tax assets	129,063	(107,986)
Deferred tax expense/income – decrease/increase in deferred tax assets based on unutilized tax losses	55,494	(55,494)
Deferred tax income – decrease in deferred tax liabilities arising from business combinations	(181,109)	(194,747)
	6,760,756	**7,452,043**

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

	Year ended as of 31 December 2017	In BAM 2016
Profit before taxes	63,063,652	72,947,703
Income taxes calculated at the rate of 10%	6,306,365	7,294,770
Adjustments for:		
- non-taxable income effects	(528,673)	(432,770)
- non-deductible costs effects	979,616	948,270
- temporary differences effects	(52,046)	(302,733)
- recognition of unused tax credits based on carry forwards effects	55,494	(55,494)
Income tax expense	6,760,756	7,452,043
Effective tax rate for the year	10.72%	10.22%

33. INCOME TAXES (Continued)

(c) Deferred Tax Assets

	Year ended as of 31 December 2017	In BAM Year ended as of 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	(129,063)	107,986
Balance, end of the year	**506,297**	**635,360**

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

(d) Deferred Tax Liabilities

	31 December 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 year	181,109	194,747
Balance, end of the year	**(776,132)**	**(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

	31 December 2017	In BAM 31 December 2016
Prepaid income taxes	907,692	1,149,947
Balance, end of the year	**907,692**	**1,149,947**

34. RELATED PARTY TRANSACTIONS

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

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

(a) STATEMENT OF FINANCIAL POSITION

In BAM

	31 December 2017	31 December 2016
ASSETS		
a) Trade receivables:		
- Telekom Srbija a.d. Beograd	3,628,483	1,045,460
- MTEL d.o.o. Podgorica	1,641,454	672,435
- HD - WIN d.o.o. Beograd	5,124	5,124
- MTS d.o.o. Kosovska Mitrovica	532,870	-
	5,807,931	1,723,019
b) Calculated but uninvoiced income from international traffic:		
- Telekom Srbija a.d. Beograd	1,828,231	729,334
- MTEL d.o.o. Podgorica	188,632	122,589
	2,016,863	851,923
c) Other short-term receivables		
- HD - WIN d.o.o. Beograd	352	-
Total receivables	**7,825,146**	**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	(3,813,191)	(2,169,812)
- MTEL d.o.o. Podgorica	(499,790)	(106,153)
- HD - WIN d.o.o. Beograd	(114,416)	-
- Telekom Srbija a.d. Beograd – for uninvoiced acquisition	(123,708)	(136,315)
	(4,551,105)	(2,412,280)
c) Estimated costs:		
- Telekom Srbija a.d. Beograd	(679,419)	(526,895)
- MTEL d.o.o. Podgorica	(283,375)	(303,777)
- HD - WIN d.o.o. Beograd	(229,575)	(112,636)
- GO4YU d.o.o. Beograd	(10,757)	-
	(1,203,126)	(943,308)
Total liabilities	**(5,836,376)**	**(3,437,733)**
Net receivables/(liabilities)	**1,988,770**	**(862,791)**

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.

34. RELATED PARTY TRANSACTIONS (Continued)

(b) STATEMENT OF TOTAL COMPREHENSIVE INCOME

	In BAM Year ended 31 December 2017	2016
INCOME		
a) Sales of services:		
- Telekom Srbija a.d. Beograd	15,762,343	10,035,025
- MTEL d.o.o. Podgorica	2,986,606	1,542,074
- HD - WIN d.o.o. Beograd	61,491	61,491
- MTS d.o.o. Kosovska Mitrovica	534,170	-
	19,344,610	11,638,590
b) Other income:		
- Telekom Srbija a.d. Beograd	52,268	-
Total income	**19,396,878**	**11,638,590**
EXPENSES		
a) Costs of inter-operator settlement exclusive of roaming:		
- Telekom Srbija a.d. Beograd	(13,523,869)	(11,178,679)
- MTEL d.o.o. Podgorica	(1,150,028)	(575,014)
	(14,673,897)	(11,753,693)
b) Roaming costs:		
- Telekom Srbija a.d. Beograd	(1,018,381)	(972,036)
- MTEL d.o.o. Podgorica	(448,870)	(332,263)
	(1,467,251)	(1,304,299)
c) Lease of transmission lines:		
- Telekom Srbija a.d. Beograd	(142,670)	(110,245)
d) Costs of employee secondment:		
- Telekom Srbija a.d. Beograd	(112,730)	(89,731)
e) Cost of internet access:		
- Telekom Srbija a.d. Beograd	(794,223)	(832,401)
f) Cost of vlann connect		
- Telekom Srbija a.d. Beograd	(39,500)	(44,781)
- MTEL d.o.o. Podgorica	(1,590)	-
	(41,090)	(44,781)
g) Cost of signal transmission/IPTV		
- Telekom Srbija a.d. Beograd	(938,403)	(589,522)
- HD - WIN d.o.o. Beograd	(1,381,911)	(1,342,716)
- GO4YU d.o.o. Beograd	(73,344)	-
	(2,393,658)	(1,932,238)
h) Costs of Cloud services		
- Telekom Srbija a.d. Beograd	(20,471)	(79,602)
i) Maintenance costs		
- Telekom Srbija a.d. Beograd	(18,108)	(67,087)
- MTEL d.o.o. Podgorica	(78,038)	(78,843)
	(96,146)	(145,930)
j) Other production services:		
- Telekom Srbija a.d. Beograd	(1,094)	-
- HD - WIN d.o.o. Beograd	(12,850)	-
- MTEL d.o.o. Podgorica	(1,945)	(1,701)
	(15,889)	(1,701)
Total expenses	**(19,758,025)**	**(16,294,621)**
Expenses, net	**(361,147)**	**(4,656,031)**
c)Short-term remunerations to the key management personnel:		
- Executive Board and management of related parties	(1,194,392)	(942,137)
- Management Board	(296,064)	(267,666)
- Audit Committee	(88,816)	(81,029)
	(1,579,272)	**(1,290,832)**

35. EARNINGS PER SHARE

	In BAM	
	Year ended 31 December	
	2017	2016
Net profit for the year	56,302,896	65,495,660
Weighted average number of shares outstanding	491,383,755	491,383,755
Earnings per share (basic and diluted)	**0.1146**	**0.1333**

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 (BAM 0.07927 per share).

In addition, on 6 December 2017 the Company's Assembly passed the Decision on Payment of Interim Dividends in accordance with the Company's Statute, in the amount of BAM 25,424,295.53 (BAM 0.05174 per share).

Liabilities for the remaining unpaid dividends to the shareholders as of 31 December 2017 amounted to BAM 21,564,115 (31 December 2016: BAM 22,946,430).

36. COMMITMENTS AND CONTINGENT LIABILITIES

Litigations

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 31 December 2017 amount to BAM 88,696,107, excluding effects of penalty interest and court expenses.

The major disputes are disputes where the following companies act as plaintiffs: Blicnet d.o.o. Banja Luka, in the amount of BAM 41.5 million, and Crumb group d.o.o. Bijeljina, in the amount of BAM 42 million. The management uses legal advice for the above mentioned litigations, based on which it believes that the possibility of a negative outcome for the Group is remote, considering that there is no valid legal basis for the above mentioned litigations.

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 31 December 2017 the Group established provisions for potential losses which may arise from litigations in the total amount of BAM 57,161. 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 31 December 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 year ended 31 December 2017 are presented in the following table:

In BAM

31 December 2017	**Fixed-Line Telephony and Internet**	**Mobile Telephony**	**Total**
Sales of goods and services	188,432,286	243,849,828	432,282,114
Share in the profit of an associate	2,345,375	3,004,153	5,349,528
Other operating income	816,064	3,908,787	4,724,851
Inter-segment settlement	54,250,477	32,706,349	86,956,826
Total operating income	245,844,202	283,469,117	529,313,319
Cost of materials, merchandise and combined services	(13,699,329)	(47,182,334)	(60,881,663)
Staff costs	(33,302,119)	(42,415,352)	(75,717,471)
Depreciation and amortization charge	(52,050,918)	(52,686,916)	(104,737,834)
Cost of production services	(53,385,258)	(61,015,895)	(114,401,153)
Other operating expenses	(9,034,450)	(17,100,737)	(26,135,187)
Inter-segment settlement	(32,706,349)	(54,250,477)	(86,956,826)
Total operating expenses	(194,178,423)	(274,651,711)	(468,830,134)
Profit from operations	**51,665,779**	**8,817,406**	**60,483,185**
Finance income	1,374,773	1,853,725	3,228,498
Finance expenses	(205,888)	(442,143)	(648,031)
Finance income, net	1,168,885	1,411,582	2,580,467
Profit before taxes	**52,834,664**	**10,228,988**	**63,063,652**
Income tax expense	(2,839,518)	(3,921,238)	(6,760,756)
Net profit	**49,995,146**	**6,307,750**	**56,302,896**

37. SEGMENT REPORTING (Continued)

37.2. Segment Revenues and Results (Continued)

The segment revenues and results for the year ended 31 December 2016 are presented in the following table:

In BAM

31 December 2016	Fixed-Line Telephony and Internet	Mobile Telephony	Total
Sales of goods and services	202,479,466	249,319,000	451,798,466
Share in the profit of an associate	714,752	2,327,644	3,042,396
Other operating income	1,822,193	4,081,546	5,903,739
Inter-segment settlement	47,053,558	36,530,264	83,583,822
Total operating income	**252,069,969**	**292,258,454**	**544,328,423**
Cost of materials, merchandise and combined services	(13,084,901)	(47,619,527)	(60,704,428)
Staff costs	(33,437,997)	(41,668,208)	(75,106,205)
Depreciation and amortization charge	(52,658,613)	(50,635,682)	(103,294,295)
Cost of production services	(58,405,453)	(64,112,774)	(122,518,227)
Other operating expenses	(9,013,150)	(19,508,275)	(28,521,425)
Inter-segment settlement	(36,530,264)	(47,053,558)	(83,583,822)
Total operating expenses	**(203,130,378)**	**(270,598,024)**	**(473,728,402)**
Profit from operations	**48,939,591**	**21,660,430**	**70,600,021**
Finance income	1,362,047	1,695,870	3,057,917
Finance expenses	(241,448)	(468,787)	(710,235)
Finance income, net	**1,120,599**	**1,227,083**	**2,347,682**
Profit before taxes	**50,060,190**	**22,887,513**	**72,947,703**
Income tax expense	(3,278,899)	(4,173,144)	(7,452,043)
Net profit	**46,781,291**	**18,714,369**	**65,495,660**

Segment revenues and results reported above (for FY 2017 and FY 2016) represent revenue generated from external customers. Inter-segment sales during the year have been eliminated.

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

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

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

37. SEGMENT REPORTING (Continued)

37.3. Segment Assets and Liabilities

Segment assets and liabilities as of 31 December 2017 are provided in the table below:

31 December 2017	Fixed-Line Telephony and Internet	Mobile Telephony	Inter-Segment Settlement	Total
ASSETS				
Non-current assets				
Intangible assets and goodwill	53,342,755	25,077,091	-	78,419,846
Property and equipment	347,649,958	159,520,371	-	507,170,329
Investments in the associate	37,323,392	47,806,919	-	85,130,311
Other investments	30,245	41,401	-	71,646
Long-term receivables and loans	11,497,672	15,720,942	-	27,218,614
Deferred tax assets	126,872	379,425	-	506,297
	449,970,894	248,546,149	-	698,517,043
Current assets				
Inventories	5,302,806	13,082,586	-	18,385,392
Assets held for sale	49,825	36,453	-	86,278
Trade receivables	28,803,743	37,464,524	316,184	66,584,451
Prepaid income taxes	454,784	452,908	-	907,692
Other receivables	154,491	931,139	-	1,085,630
Deposits and loan receivables	(1,817,790)	6,593,641	3,325,626	8,101,477
Prepayments	4,754,241	17,970,020	11,000	22,735,261
Cash and cash equivalents	10,893,031	14,156,318	-	25,049,349
	48,595,131	90,687,589	3,652,810	142,935,530
Total assets	**498,566,025**	**339,233,738**	**3,652,810**	**841,452,573**
LIABILITIES				
Non-current liabilities and provisions				
Interest bearing loans and borrowings	5,604,438	29,161,751	-	34,766,189
Deferred income	31,165	43,037	-	74,202
Deferred tax liabilities	776,132	-	-	776,132
Employee benefits	2,547,736	3,487,790	-	6,035,526
Provisions	24,008	33,153	-	57,161
	8,983,479	32,725,731	-	41,709,210
Current liabilities				
Interest bearing loans and borrowings	6,569,469	15,824,870	3,325,626	25,719,965
Trade payables	24,268,423	35,280,600	316,184	59,865,207
Accruals	5,618,352	21,122,515	11,000	26,751,867
Employee benefits	315,246	431,781	-	747,027
Deferred income	5,194	7,173	-	12,367
Dividend payables	9,056,928	12,507,187	-	21,564,115
Other liabilities	1,608,524	2,640,791	-	4,249,315
	47,442,136	87,814,917	3,652,810	138,909,863
Total liabilities	**56,425,615**	**120,540,648**	**3,652,810**	**180,619,073**

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	46,631,829	47,369,083	-	94,000,912
Property and equipment	292,307,078	226,779,795	-	519,086,873
Investments in the associate	18,742,942	61,037,841	-	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
	368,049,947	**348,762,627**	**-**	**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	**417,670,396**	**442,150,529**	**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 short-term financial 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 during the year were as follows:

In BAM

	Fixed-Line Telephony and Internet	Mobile Telephony	Total
31 December 2017			
Capital investments *(Notes 12 and 13)*	56,102,657	21,692,433	**77,795,090**
31 December 2016			
Capital investments *(Notes 12 and 13)*	77,372,713	30,198,462	**107,571,175**

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 (90% 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 share 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 year end were as follows:

	31 December 2017	In BAM 31 December 2016
Debt (a)	60,486,154	56,845,844
Cash and cash equivalents	(25,049,349)	(31,190,365)
Net debt	**35,436,805**	**25,655,479**
Equity (b)	660,833,499	668,904,795
Debt to equity ratio	5.36%	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:

	31 December 2017	In BAM 31 December 2016
Financial assets		
Loans and receivables (including cash and cash equivalents)	127,923,275	123,133,049
Financial assets held to maturity	64,815	75,819
Securities available for sale	6,831	6,402
	127,994,921	123,215,270
Financial liabilities - at amortized cost	**120,634,785**	**136,579,941**

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, during the fiscal 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	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
EUR	12,630,706	11,437,166	65,085,845	60,906,144
USD	488,104	168,252	3,290,178	3,813,197
CHF	1,419	1,553	-	2,666
GBP	1,484	1,746	1,082	136
HRK	-	-	913	-
RSD	1,155	215	-	147
	13,122,868	**11,608,932**	**68,378,018**	**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 foreign currencies exchange rate was 10% higher/lower on an annual basis, the Group's net profit for the FY 2017 would have decreased / increased by the amount of BAM 35,894 (for the FY 2016: BAM 15,760).

(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 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 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 analyses 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 FY 2017 would have decreased / increased by BAM 38,196 (FY 2016: BAM 29,419) as a result of higher/lower interest expenses.

(c) Equity Price Risk

During the reporting period of 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 31 December 2017 and 31 December 2016 were as follows:

Financial assets						In BAM
31 December 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	92,583,015	-	-	-	-	92,583,015
	92,583,015	-	-	-	-	92,583,015
Fixed interest rate						
- Loans and receivables (including cash and cash equivalents)	5,251,760	3,599,704	18,530,075	9,083,057	191,388	36,655,984
- Financial assets held to maturity	9,186	1,645	10,831	32,493	10,660	64,815
	5,260,946	3,601,349	18,540,906	9,115,550	202,048	36,720,799
Total	**97,843,961**	**3,601,349**	**18,540,906**	**9,115,550**	**202,048**	**129,303,814**
31 December 2016						
Non-interest bearing						
Loans and receivables (including cash and cash equivalents)	86,287,089	-	-	-	-	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						У Конвертибилним маркама
31 December 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	54,878,611	5,270,020	-	-	-	60,148,631
- Instruments at variable interest rate	7,169,393	18,655,043	20,796,596	11,558,215	2,642,551	60,821,798
Total	**62,048,004**	**23,925,063**	**20,796,596**	**11,558,215**	**2,642,551**	**120,970,429**
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

	31 December 2017		31 December 2016	
	Carrying Value	**Fair Value**	**Carrying Value**	**Fair Value**
Financial assets:				
Financial assets held to maturity	64,815	51,268	75,819	61,256
Total	**64,815**	**51,268**	**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

			31 December 2017	
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Available for sale:				
- Listed securities (*Note 15*)	6,431	-	400	6,831
Total	**6,431**	**-**	**400**	**6,831**

Total gains 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 gains from securities“.

39. OPERATING LEASE ARRANGEMENTS

The minimum amount of rent recognized as expenses in the FY 2017 amounted to BAM 17,716,575 (2016: BAM 17,442,704).

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

		In BAM
	31 December 2017	31 December 2016
Within 1 year	12,224,522	10,905,231
From 1 to 5 years	41,130,179	38,899,770
Over 5 years	27,432,591	31,551,066
	80,787,292	**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 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 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 median 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:

	31 December 2017	In BAM 31 December 2016
Euro (EUR)	1.95583	1.95583
Serbian Dinar (RSD)	0.01651	0.01584
American Dollar (USD)	1.63081	1.85545
Swiss Franc (CHF)	1.67136	1.82124

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