“MTEL” a.d. BANJA LUKA

Separate Financial Statements For the Year Ended 31 December 2017

and

Independent Auditor’s Report

CONTENTS

Tel: +387 51 225 011
Fax: +387 51 225 012
www.bdo.ba

Jevrejska 24
78000 Banja Luka
Republika Srpska, BiH

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

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the accompanying separate financial statements of "Mtel" a.d. Banja Luka (hereinafter the "Company"), which comprise the separate statement of financial position as at 31 December 2017 and the separate statement of profit and loss and other comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the separate financial position of the Company as at 31 December 2017, and its separate financial performance and its separate 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 Separate Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code*)*, including those ethical standards relevant to our audit of financial statements in the Republic of Srpska, and we have fulfilled our other ethical responsibilities in accordance with these standards and 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 separate financial statements of the current period. These matters were addressed in the context of our audit of the separate 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.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS AND THE 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 separate financial statements	
There are inherent risks associated with the accuracy of recognized revenues from provided services arising from the complexity of information systems (IT) of the Company, 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 Company'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 23 and 31 to the separate financial statements	
Accrued income of the Company 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 Company 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 Company's accounting policies when recording the roaming discount.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS AND THE 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 separate financial statements	
The aforementioned key audit matter is chosen due to the fact that it includes significant Company 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, property, 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 Company recorded on costs of the current period, as well as the increase the Company 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 Company'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 Company'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 THE MANAGEMENT BOARD OF “MTEL” a.d. BANJA LUKA (Continued)

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

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

In preparing the separate financial statements, the management is responsible for assessing the Company’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 Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 separate 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 separate 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 Company’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

INDEPENDENT AUDITOR'S REPORT

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

Auditor’s Responsibilities for the Audit of the 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 Company’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 separate 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 separate 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

SEPARATE 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	419,452,617	439,581,537
Other operating income	6	4,674,707	5,159,015
Total operating income		**424,127,324**	**444,740,552**
Cost of materials, merchandise and combined services	7	(57,640,380)	(57,924,954)
Staff costs	8	(70,858,742)	(71,026,590)
Depreciation and amortization charge	12, 13	(100,759,452)	(99,097,997)
Cost of production services	9	(106,063,666)	(113,617,107)
Other operating expenses	10	(24,535,525)	(27,547,042)
Total operating expenses		**(359,857,765)**	**(369,213,690)**
Profit from operations		**64,269,559**	**75,526,862**
Finance income	11	3,093,971	3,025,945
Finance expenses	11	(541,441)	(687,847)
Finance income, net		**2,552,530**	**2,338,098**
Profit before taxes		**66,822,089**	**77,864,960**
Income tax expense	33 (a)	(6,767,465)	(7,694,606)
Net profit		**60,054,624**	**70,170,354**
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	16	429	654
Total other comprehensive income, net of income tax		429	654
Total comprehensive income for the year		**60,055,053**	**70,171,008**
Earnings per share:			
Basic and diluted earnings per share	35	0.1222	0.1428

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

The accompanying separate financial statements of the Company were approved for issuance by the Management Board of Mtel a.d., Banja Luka on 22 February 2018.

Signed on behalf of the Company by:

Marko Lopičić
General Manager

L.S.

Jasmina Lopičić
Chief Financial Officer

SEPARATE 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	12	65,828,001	80,212,834
Property and equipment	13	491,407,800	500,954,698
Investments in the subsidiaries	14	42,094,693	31,208,690
Investments in the associate	15	74,563,739	74,563,739
Other investments	16	71,646	82,221
Long-term receivables and loans	17	27,027,226	23,050,300
Deferred tax assets	33 (c)	506,297	635,360
		701,499,402	710,707,842
Current assets			
Inventories	18	18,242,671	21,129,658
Assets held for sale		62,850	-
Trade receivables	19	64,019,307	52,409,269
Prepaid income taxes	33 (d)	780,876	965,037
Other receivables	20	988,497	2,392,303
Deposits and loan receivables	22	11,410,490	17,369,258
Prepayments	23	22,605,473	22,913,375
Cash and cash equivalents	24	24,018,914	28,140,074
		142,129,078	145,318,974
Total assets		**843,628,480**	**856,026,816**
EQUITY AND LIABILITIES			
Equity			
Share capital	25	491,383,755	491,383,755
Legal reserves	25	49,141,766	49,141,766
Unrealized losses on the available-for-sale securities		(569)	(998)
Other reserves – reserves arising on the commitment to invest	25	97,791,500	97,791,500
Retained earnings		34,630,328	38,950,324
		672,946,780	677,266,347
Non-current liabilities and provisions			
Interest bearing loans and borrowings	26	31,343,486	38,196,003
Deferred income	27	74,202	-
Employee benefits	28	6,005,986	6,072,848
Provisions	29	57,161	207,434
		37,480,835	44,476,285
Current liabilities			
Interest bearing loans and borrowings	26	23,559,751	15,454,237
Trade payables	30	57,730,804	68,089,381
Accruals	31	26,309,081	25,253,171
Employee benefits	28	744,451	646,188
Deferred income	27	12,367	56,558
Dividend payables	35	21,564,115	22,946,430
Other liabilities	32	3,280,296	1,838,219
		133,200,865	134,284,184
Total equity and liabilities		**843,628,480**	**856,026,816**

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

SEPARATE STATEMENT OF CHANGES IN EQUITY
For the Year Ended 31 December 2017
(In BAM)

	Share Capital	Legal Reserves	Unrealized (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**	**38,452,693**	**676,768,062**
Net profit for the year	-	-	-	-	70,170,354	70,170,354
Total other comprehensive income for the year	-	-	654	-	-	654
Total comprehensive income for the year	**-**	**-**	**654**	**-**	**70,170,354**	**70,171,008**
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**	**38,950,324**	**677,266,347**
Net profit for the year	-	-	-	-	60,054,624	60,054,624
Total other comprehensive income for the year	-	-	429	-	-	429
Total comprehensive income for the year	**-**	**-**	**429**	**-**	**60,054,624**	**60,055,053**
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**	**34,630,328**	**672,946,780**

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

SEPARATE 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	406,925,852	435,889,198
Other cash receipts from regular operations	1,664,091	2,412,838
Cash paid to suppliers – purchases of materials, fuel, energy and other expenses	(173,519,717)	(200,073,835)
Cash paid to and on behalf of employees	(71,381,815)	(71,254,561)
Interest paid	(372,196)	(314,240)
Income taxes paid	(5,294,064)	(6,300,427)
Other taxes and duties paid	(5,218,255)	(5,484,995)
Net cash generated by operating activities	**152,803,896**	**154,873,978**
Cash flows from investing activities		
Purchases of property, equipment and intangible assets	(69,813,415)	(78,509,500)
Proceeds from sale of property, equipment and intangible assets	80,856	97,306
Interest received	2,208,240	2,635,414
Outflows per long-term financial investments	(3,961,840)	(4,454,322)
Proceeds/(outflows) per short-term financial investments	5,958,768	(1,644,522)
Outflows for purchases of shares and equity interests	(10,886,003)	-
Net cash used in investing activities	**(76,413,394)**	**(81,875,624)**
Cash flows from financing activities		
Long-term financial liabilities, net outflows	(17,021,974)	(13,925,100)
Dividend and interim dividend payments to the shareholders	(63,489,688)	(70,969,049)
Net cash used in financing activities	**(80,511,662)**	**(84,894,149)**
Net decrease in cash and cash equivalents	**(4,121,160)**	**(11,895,795)**
Cash and cash equivalents at the beginning of the year	28,140,074	40,035,869
Cash and cash equivalents at the end of the year	**24,018,914**	**28,140,074**

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

1. CORPORATE INFORMATION

The Company Mtel a.d. (hereinafter: the "Company") is domiciled in Banja Luka, in the Republic of Srpska, Bosnia and Herzegovina, at the following street address: 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:

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

As of 31 December 2017, the Company held a 49% equity interest in the associate MTEL d.o.o. Podgorica (Montenegro). The remaining 51% of the shares were owned by the ultimate parent and owner of the Company – Telekom Srbija a.d. Beograd.

As of 31 December 2017, the Company had 2,136 employees (31 December 2016: 2,143 employees).

The Company's principal business activity is the provision of telecommunication services the most significant of which is domestic and international telephony traffic. In addition, the Company offers a wide range of other telecommunication services, including other fixed line and mobile telephony services, 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 Company also provides services in the area of leasing, construction, management and security of the telecommunication infrastructure.

As of 31 December 2017, the Company provided telecommunication services to 1,593,744 users in total (31 December 2016: 1,612,367 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 separate 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 separate financial statements issuance date were as follows:

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

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

2.1. Statement of Compliance

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

2.2. Basis of Measurement

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

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between the market participants at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Upon estimating the fair 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.

As disclosed in Notes *1* and *15* to the separate financial statements, the Company “Mtel” a.d. Banja Luka has an interest in the associate “Mtel” d.o.o. Podgorica (Montenegro), in which it holds a 49% equity interest, over which the Company has significant influence and the power to participate in the financial and operating policies and decisions of the associate but this power is not control or joint control over those policies and decisions.

In these separate financial statements investments in the associate are stated at cost less impairment, if any. In accordance with International Financial Reporting Standard (IFRS) 10, “Consolidated Financial Statements”, the Company has prepared and issued its consolidated financial statements for the year ended 31 December 2017 prepared in accordance with the International Financial Reporting Standards, where the investment in the associate was accounted for using the equity method.

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 the 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
New 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

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

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

Adoption of these standards, revisions and interpretations has not resulted in significant changes to the accounting policies of the Company or the accompanying separate financial statements.

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 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
МСФИ 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 standards, amendments and interpretations effective for annual periods beginning on or after 1 January 2018 will have no material impact on the Company's financial statements in the period of initial application.

Management of the Company has analysed the following specific standards considered to be the standards that could potentially have the most significant impact:

- 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 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 SEPARATE 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 Company's financial assets and financial liabilities as at 31 December 2017 based on the facts and circumstances that exist at that date, the Company has assessed the impact of IFRS 9 to the Company's financial statements as follows.

The Company'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 Company 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 IFRS. The Company 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 Company 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 Company 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 of 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 SEPARATE 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 Company 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 Company to modify processes, internal acts and internal controls, and the changes thereon are still in progress;
- The new solution for the calculation of expected losses 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 Company 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" and its subsequent amendments are 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, principles 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 revenues 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 SEPARATE 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 these 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 comparative information 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 Company 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 Company 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 lessee 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 Company has initiated certain activities in respect of IFRS 16 implementation so that it is fully applied after its entry into force.

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

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

Impact Assessment of IFRS 16 (Continued)

A preliminary assessment of lease agreements indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Company 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 Company’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 Company’s financial statements in the period of its first-time adoption. The Company’s management considers it is not practicable to provide a reasonable estimate of the financial effect of the first application of IFRS 16 until the review of all relevant factors is completed.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Revenues

Revenue Recognition

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

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

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

3.1.1. Income from Telephone Traffic – Fixed-Line Telephony

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

3.1.2. Telecommunication Subscription - Fixed-Line Telephony

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

3.1.3. Income from New Subscribers - Fixed-Line Telephony

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

3.1.4. Income from Interconnection with Local Operators

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.1. Revenues (Continued)

3.1.5. Income from Mobile Telephony

Mobile telephony income is associated with the income earned from mobile telephony users who use prepaid and postpaid services i.e. traffic, text messages, income from subscriptions, combined services and packages sold, data transfer, as well as other additional services etc.

Sales income is recognized at the fair value of service provided, less any applicable discounts and value added tax. Revenue is recorded when the services are rendered.

Revenue from the telephony traffic is recognized on the basis of traffic. Uninvoiced income earned on mobile telephony services provided in the period from the invoice date up to the end of the period of calculation is accrued, while unrealized revenue until the end of the accounting period is deferred.

Income from prepaid usage services is recognized upon sale of the prepaid top-ups and deferred for the amount of unrealized income at the end of the period. These revenues are deferred over the period of the service provision. Inactive top-ups or top-ups with expired usage are recognized as revenue upon the expiry of the final usage date.

3.1.6. Income from the Sale of Combined Services

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

For combined services sold, the Company applies the relative fair value method whereby the future revenues are recognized at fair value of the services and the remainder is allocated to delivered components.

Other income from rendering services under customer contracts are deferred over the period that each such contract relates to.

3.1.7. Income and Expenses from International Settlements and Roaming

a) Income and Expenses from International Traffic

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

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

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.1. Revenues (Continued)

3.1.8. Direct Access to the Internet

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

3.1.9. Integrated 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.

3.1.10. 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.

3.2. Financial and Operating Leases

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

The Company as Lessor

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

The Company as Lessee

Assets held under finance leases are initially recognized as assets of the Company at the present value of the minimum lease payments determined at the inception of the lease. The corresponding liability to the lessor is included in the separate statement of financial position as a finance lease obligation.

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

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

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3. Foreign Currencies

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

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

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

3.4. Corporate Income Taxes

Income taxes comprise current and deferred taxes. Current and deferred taxes are recognized in the statement of profit and loss, 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 reverse.

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

At the end of 2016, the Law on Amendments and Supplements to the Income Tax Law was adopted, which is in effect from 1 January 2017. The most significant change in the aforementioned law related to the recognition of depreciation/amortization expense in the tax balance (tax return), given the brand new model for their recognition. Namely, the new model for calculating the depreciation/amortization expense in the tax balance (tax return) relates to the forming of four groups of non-current assets, with appropriate depreciation/amortization rates, whereby individual and group calculation of depreciation/amortization expense is prescribed.
The prescribed tax depreciation/amortization rates are given in the following table:

	The rate recognised in the tax balance sheet (%)
Individual calculation of depreciation/amortization - on a straight-line basis	
Property and equipment	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%

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4. Corporate Income Taxes (Continued)

A taxable temporary difference arises between the carrying amount of the asset and its tax base, and results in a deferred tax liability, when tax depreciation is accelerated. If tax depreciation is less rapid than accounting depreciation, a deductible temporary difference arises, and results in a deferred tax asset.

3.5. Intangible Assets

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

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

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

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

3.6. Property and Equipment

Property and equipment are such assets whose expected useful life is longer than one year. 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.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7. 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 Company 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.

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 during FY 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

3.8. Non-Current Assets Available for Sale

Non-current assets are classified as assets held for sale if the carrying value thereof can be recovered primarily from a sales transaction 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9. Impairment of Non-Financial Assets

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

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

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

Impairment losses recognized in prior years are assessed at each reporting date for any indications that loss has decreased or no longer exits. Impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable value. However, this is performed so that the increased carrying amount does not exceed the carrying value that would have been determined had no impairment loss been recognized for the asset (or cash generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately, unless the respective asset is carried at a revalued amount, in which instance, the reversal of the impairment loss is treated as a revaluation increase.

As of 31 December 2017, in management's opinion, there were no indications that the value of the Company's intangible assets, property and equipment had suffered impairment.

3.10. Investments in Subsidiaries

Investments in subsidiaries are carried at cost, net of impairment losses, if any.

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11. Investments in Associates

An associate is an entity over which the Company 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.

Investments in associates in these financial statements are measured at purchase value, net of any impairment.

3.12. Financial Assets

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

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

Effective Interest Method

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

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

Financial Assets Held to Maturity

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

Financial Assets Available for Sale

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

Gains and losses arising from changes in fair value are recognized directly in equity in unrealized gains/losses on securities available for sale with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognized directly in profit or loss.

Where such assets are disposed of or are determined to be impaired, the cumulative gain or loss previously recognized at fair value for the investment is included in profit or loss for the period.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.12. Financial Assets (Continued)

Financial Assets Available for Sale (Continued)

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 statement of financial position 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 is formed indirectly for receivables which are past their due date, which, according to the management’s estimates based on historical evidence about the potential losses due to irrecoverability thereof, receivables which over 60 days past-due.

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

Cash and Cash Equivalents

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

Impairment of Financial Assets

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.12. Financial Assets (Continued)

Impairment of Financial Assets (Continued)

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

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account.

When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in the statement of profit and loss.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through the statement of comprehensive income to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been if the impairment had not been recognized.

In respect of AFS equity securities, impairment losses previously recognized through profit or loss (the statement of comprehensive income) are not reversed through the statement of comprehensive income. Any increase in fair value subsequent to an impairment loss is recognized directly in equity.

Derecognition of Financial Assets

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

3.13. Financial Liabilities

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.14. Inventories

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

The net realizable value is the estimated selling price in the normal course of business, after allowing for the costs of realization. Cost includes the invoiced amount, transport and other attributable expenses. Small tools and inventory are fully written off when issued into use. The cost of inventories is determined using the weighted-average method.

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

Impairment allowances charged to other operating expenses are made where appropriate in order to reduce the carrying value of such inventories to the management's best estimate of their net realizable value. 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 Company has a pending present legal or contractual obligation as a result of a past event, and when it is probable that an outflow of resources will be required to settle the obligation, and when a reliable estimate of the amount can be made.

Provisions are comprised of provisions for litigations filed against the Company, determined by discounting the expected future cash flows that reflect current situation in the market and the risks specified to the liability.

3.16. Employee Benefits

a) Employee Taxes and Contributions for Social Security

In accordance with local regulations and its adopted accounting policies, the Company is obliged to pay contributions to various national social security funds. These obligations include contribution payable by employees and the employer in the amounts calculated by applying the specific statutory rates.

The Company has a legal obligation to withhold contribution from gross salaries of employees, and on their behalf to transfer the withheld funds to appropriate government funds.

Contributions paid by the employees and the employer are expensed in the period during which services are rendered by the employees.

b) Retirement Benefits and Jubilee Awards

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.16. Employee Benefits (Continued)

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

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

3.17. Segment Reporting

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

4. SIGNIFICANT ACCOUNTING ESTIMATES

The presentation of the separate financial statements requires the Company’s management to make best estimates and reasonable assumptions that influence the assets and liabilities amounts, the disclosure of contingent receivables and liabilities as of the date of preparation of the separate 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 separate 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 separate statement of financial position date, which bears the risk that may lead to significant restatement of the present value of assets and liabilities in the ensuing financial year, were as follows:

Estimated Useful Life of Property, Equipment and Intangible Assets

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

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

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

For example, if the Company were to shorten the average useful life of assets by 10%, this would have resulted in the year ended as of 31 December 2017 in an additional cost of depreciation by BAM 10,075,945 (comparative figure in 2016: BAM 9,909,800).

4. SIGNIFICANT ACCOUNTING ESTIMATES (Continued)

Impairment of Trade Receivables

Impairment for bad and doubtful receivables is calculated based on estimated losses resulting from the inability of customers to settle the liabilities to the Company when due.

The management estimates are based on the aging of trade receivables balance and historical write-off experience, customer credit-worthiness and changes in customer payment terms when evaluating the adequacy of the impairment allowance of bad and 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 19, 20 and 21)*.

Provisions

Provisions in general are highly judgmental. The Company assesses the probability of an adverse event as a result of a past event and if the probability is evaluated to higher than 50%, the Company fully provides for the total amount of the liability.

The Company is rather prudent in these assessments but due to the high level of uncertainty in certain cases the estimates may not prove to be in line with the actual outcomes.

Income and Expenses from International Traffic

Income (expenses) and receivables (payables) that have originated under agreements executed with international operators are presented in the accompanying separate financial statements and are associated with the income generated on and expenses incurred from 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 realized traffic are adequate and that they reflect the actually realized international traffic in the corresponding period.

Fair Value

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

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

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

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

5. SALES OF GOODS AND SERVICES

	In BAM Year ended 31 December 2017	2016
Domestic Sales:		
Fixed-Line Telephony	77,522,927	86,710,289
Mobile Telephony	196,649,011	207,902,870
Integrated services	52,244,573	48,779,618
Internet services	21,370,876	21,176,256
Income from combined services	38,375,136	32,288,453
Sales of goods	452,663	593,005
Total domestic sales	**386,615,186**	**397,450,491**
International market sales	**32,837,431**	**42,131,046**
Total sales of goods and services	**419,452,617**	**439,581,537**

6. OTHER OPERATING INCOME

	In BAM Year ended 31 December 2017	2016
Rental income	2,113,290	2,033,898
Reversal of deferred income - grants (*Note 27*)	93,658	133,078
Other income	2,467,759	2,992,039
	4,674,707	**5,159,015**

7. COST OF MATERIALS, MERCHANDISE AND COMBINED SERVICE

	In BAM Year ended 31 December 2017	2016
Materials for combined services	48,354,777	48,301,712
Cost of commercial goods sold	446,450	545,796
Electricity	5,141,252	4,919,484
Fuel and lubricants	1,271,877	1,199,258
Other costs of materials	2,426,024	2,958,704
	57,640,380	**57,924,954**

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	33,023,773	33,864,387
Payroll taxes and contributions	27,412,433	27,758,720
Remunerations to Management Board and Audit Committee	303,436	274,013
Termination benefits	750,116	227,703
Other staff costs	9,368,984	8,901,767
	70,858,742	**71,026,590**

9. COST OF PRODUCTION SERVICES

	In BAM Year ended 31 December 2017	2016
International settlements	29,996,233	33,353,521
Maintenance	17,697,118	18,670,469
Lease of land and business premises	17,009,074	16,857,300
Marketing and advertising	11,832,826	14,469,316
Broadcasting fees	9,933,705	8,097,117
Other production services	19,594,710	22,169,384
	106,063,666	**113,617,107**

10. OTHER OPERATING EXPENSES

	In BAM Year ended 31 December 2017	2016
Indirect taxes and contributions	3,586,690	3,558,948
Communications Regulatory Agency fee	7,269,151	7,217,851
Losses on disposal of property, equipment and intangible assets	527,499	1,365,765
Shortages	34,471	13,528
Provisioning charge (*Notes 28 and 29*)	508,320	209,092
Allowance for impairment of short-term receivables (*Note 21*)	3,020,413	4,065,622
Other expenses	9,588,981	11,116,236
	24,535,525	**27,547,042**

11. FINANCE INCOME AND EXPENSES

	In BAM Year ended 31 December 2017	2016
Interest income:		
- interest on deposits	1,115,721	1,638,210
- other interest income	1,146,320	1,129,918
	2,262,041	2,768,128
Other finance income	247,472	33,458
Foreign exchange gains	584,458	224,359
Total finance income	**3,093,971**	**3,025,945**
Interest expenses:		
- arising from loan agreements	(309,714)	(290,266)
- other interest expenses	(21,609)	(19,693)
	(331,323)	(309,959)
Foreign exchange losses	(210,118)	(377,888)
Total finance expenses	(541,441)	(687,847)
Finance income, net	**2,552,530**	**2,338,098**

12. INTANGIBLE ASSETS

In BAM
31 December 2017 and 31 December 2016

	GSM License	UMTS License	Other Licenses	Other Intangible Assets	Investments in Progress	Total Intangible Assets
Cost						
Balance as of 1 January 2016	117,182,447	23,296,086	7,296,320	54,247,611	24,991,339	227,013,803
Additions	-	-	720,012	10,975,283	8,888,205	20,583,500
Transfers	-	-	-	-	(7,737,022)	(7,737,022)
Disposals	-	-	(2,369)	(458,418)	-	(460,787)
Balance as of 31 December 2016	**117,182,447**	**23,296,086**	**8,013,963**	**64,764,476**	**26,142,522**	**239,399,494**
Balance as of 1 January 2017	117,182,447	23,296,086	8,013,963	64,764,476	26,142,522	239,399,494
Additions	-	-	1,526,985	6,563,714	2,074,741	10,165,440
Transfers	-	-	-	-	(6,535,490)	(6,535,490)
Other	-	-	-	390,396	-	390,396
Balance as of 31 December 2017	**117,182,447**	**23,296,086**	**9,540,948**	**71,718,586**	**21,681,773**	**243,419,840**
Accumulated amortization						
Balance as of 1 January 2016	87,565,239	10,358,993	6,034,428	38,495,724	-	142,454,384
Charge for the year	7,816,070	1,553,849	683,597	7,139,547	-	17,193,063
Disposals	-	-	(2,369)	(458,418)	-	(460,787)
Balance as of 31 December 2016	**95,381,309**	**11,912,842**	**6,715,656**	**45,176,853**	**-**	**159,186,660**
Balance as of 1 January 2017	95,381,309	11,912,842	6,715,656	45,176,853	-	159,186,660
Charge for the year	7,816,069	1,553,849	662,768	8,102,481	-	18,135,167
Other	-	-	-	270,012	-	270,012
Balance as of 31 December 2017	**103,197,378**	**13,466,691**	**7,378,424**	**53,549,346**	**-**	**177,591,839**
Net book value as of						
31 December 2017	**13,985,069**	**9,829,395**	**2,162,524**	**18,169,240**	**21,681,773**	**65,828,001**
31 December 2016	**21,801,138**	**11,383,244**	**1,298,307**	**19,587,623**	**26,142,522**	**80,212,834**

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	638,435,927	3,309,433	677,031,334	97,213,647	1,417,451,688
Additions	76,929	23,843,253	313,657	67,372,376	94,356,358	185,962,573
Transfers	-	-	-	(4,671)	(92,913,937)	(92,918,608)
Disposal	-	(232,471)	-	(76,041,527)	(118,528)	(76,392,526)
Shortages	-	-	-	(43,792)	-	(43,792)
Surpluses	-	-	-	2,390	-	2,390
Dismantlement	-	-	-	(184,145)	108,887	(75,258)
Sales	-	(95,166)	-	(110,228)	(122,940)	(328,334)
Balance as of 31 December 2016	**1,538,276**	**661,951,543**	**3,623,090**	**668,021,737**	**98,523,487**	**1,433,658,133**
Balance as of 1 January 2017	1,538,276	661,951,543	3,623,090	668,021,737	98,523,487	1,433,658,133
Additions	171,738	24,005,367	366,564	72,640,941	68,217,769	165,402,379
Transfers	-	-	-	(94,224)	(91,569,985)	(91,664,209)
Disposal	-	(40,655)	(1,114,719)	(30,220,366)	(178,742)	(31,554,482)
Shortages	-	(1,765)	-	(6,729)	(2,025)	(10,519)
Surpluses	-	769,853	-	25,099	7,969	802,921
Dismantlement	-	-	-	(351,830)	193,763	(158,067)
Sales	-	(309,158)	-	-	-	(309,158)
Transfer to assets held for sale	-	-	-	(415,772)	(28,562)	(444,334)
Balance as of 31 December 2017	**1,710,014**	**686,375,185**	**2,874,935**	**709,598,856**	**75,163,674**	**1,475,722,664**
Accumulated depreciation						
Balance as of 1 January 2016	-	445,397,496	2,737,003	477,932,388	-	926,066,887
Charge for the year	-	25,108,636	249,720	56,546,578	-	81,904,934
Disposals	-	(176,307)	-	(74,850,454)	-	(75,026,761)
Shortages	-	-	-	(40,008)	-	(40,008)
Surpluses	-	-	-	2,390	-	2,390
Dismantlement of equipment	-	-	-	(75,258)	-	(75,258)
Sale of property and equipment	-	(27,033)	-	(99,149)	-	(126,182)
Transfer into other classes	-	-	-	(2,567)	-	(2,567)
Balance as of 31 December 2016	**-**	**470,302,792**	**2,986,723**	**459,413,920**	**-**	**932,703,435**
Balance as of 1 January 2017	-	470,302,792	2,986,723	459,413,920	-	932,703,435
Charge for the year	-	24,589,786	230,199	57,804,300	-	82,624,285
Disposals	-	(38,427)	(1,114,719)	(29,882,563)	-	(31,035,709)
Shortages	-	(1,765)	-	(4,935)	-	(6,700)
Surpluses	-	769,853	-	25,000	-	794,853
Dismantlement	-	-	-	(158,067)	-	(158,067)
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	**-**	**495,452,855**	**2,102,203**	**486,759,806**	**-**	**984,314,864**
Net book value as of						
31 December 2017	**1,710,014**	**190,922,330**	**772,732**	**222,839,050**	**75,163,674**	**491,407,800**
31 December 2016	**1,538,276**	**191,648,751**	**636,367**	**208,607,817**	**98,523,487**	**500,954,698**

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

As of 31 December 2017, there were no encumbrances on and restrictions to the Company's titles and ownership rights over property and equipment. Contractually agreed but not yet realized liabilities of the Company for capital expenditures totalled BAM 41,020,686 as of 31 December 2017.

14. INVESTMENTS IN THE SUBSIDIARIES

	Interest	31 December 2017	In BAM 31 December 2016
Investment in:			
- Logosoft d.o.o. Sarajevo	100%	27,357,514	18,427,341
- Mtel Austria GmbH, Vienna	100%	14,737,179	12,781,349
		42,094,693	**31,208,690**

Logosoft d.o.o. Sarajevo

In 2014, the Company acquired a 65% equity interest in Logosoft d.o.o. Sarajevo. On 21 February 2017, the Decision of the Municipal Court in Sarajevo on the change of stakes in the company Logosoft d.o.o. Sarajevo was issued, subsequent to the purchase and transfer of the remaining 35% of the equity investment. On 9 March 2017, the Company settled the contracted commitment in full, in the amount of BAM 27,357,514.

The Company management assessed the potential impairment of the above mentioned investment into the subsidiary as of 31 December 2017 based on the analyses of the discounted cash flows, the sales volume realized through the current activities and new activities, savings and investments as well as other operating activities of the subsidiary planned for the forthcoming periods. As of the date of compiling these separate financial statements there are no indications that the assumptions used in the analysis are the non-viable.

The effects of the business combination of acquiring Logosoft d.o.o. Sarajevo and other information in respect of this transaction are presented within the Company's consolidated financial statements.

Mtel Austria GmbH, Vienna, Republic of Austria

On 1 July 2014, the newly founded entity *Mtel Austria*, domiciled in Vienna was registered within the relevant Registry of the Republic of Austria. *Mtel Austria* was founded for an undetermined period in order to provide telecommunication services, with the initial permanent investment of EUR 35,000 as founding capital (equivalent to BAM 68,454).

In 2014 and 2015, recapitalisation of the newly established company *Mtel Austria* as well as the entry of cash into capital reserves of the company *Mtel Austria* were performed in the total amount of EUR 6,500,000 (equivalent to BAM 12,712,895). During the year 2017, the entry of cash amounting to EUR 1,000,000 (equivalent to BAM 1,955,830) into capital reserves of the company *Mtel Austria* was performed.

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

15. INVESTMENTS IN THE ASSOCIATE

	Interest	31 December 2017	In BAM 31 December 2016
- Cost of the investment in MTEL d.o.o. Podgorica	49%	74,563,739	74,563,739
		74,563,739	**74,563,739**

As of 31 December 2017, the Company 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 of the initial 49% equity interest performed on 1 February 2010, capital increase and other costs directly related to this transaction, and finally, non-monetary contribution made, amounted to BAM 74,563,739 in total.

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

Summary of 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

	31 December 2017	In BAM 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	-	-

16. 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
- Centre 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 Company. 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.

17. 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 22*)	(84,864)	(83,632)
Total long-term loans to employees	35,959	63,115
Other long-term deposits and investments	27,000,000	23,000,000
Total long-term receivables and loans	**27,035,959**	**23,063,115**
Less: Accumulated impairment losses:		
- allowance for impairment of long-term loans	(8,733)	(12,815)
	27,027,226	**23,050,300**

18. INVENTORIES

In BAM

	31 December 2017	31 December 2016
Materials	4,220,037	4,203,455
Merchandise	168,165	173,012
Materials for combined services	11,286,237	15,422,969
Advances paid to suppliers	2,568,232	1,330,222
	18,242,671	**21,129,658**

19. TRADE RECEIVABLES

In BAM

	31 December 2017	31 December 2016
Trade receivables:		
- related parties (*Note 34(a)*)	6,042,160	2,528,094
- domestic	110,445,434	99,922,620
- foreign	1,824,240	2,730,859
Gross trade receivables	**118,311,834**	**105,181,573**
Less: Allowance for impairment of trade receivables	(54,292,527)	(52,772,304)
	64,019,307	**52,409,269**

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

In BAM

	31 December 2017	31 December 2016
From 0 to 30 days	60,971,544	50,025,558
From 31 to 60 days	3,047,763	2,383,711
Over 61 days	54,292,527	52,772,304
	118,311,834	**105,181,573**

The total gross trade receivables as of 31 December 2017 amounted to BAM 118,311,834. The Company 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 BAM 54,292,527 representing 45.89% of the total gross value of trade receivables. Movements on the allowance for impairment of receivables are shown in *Note 21* to these separate financial statements.

As of 31 December 2017 matured trade receivables, up to 60 days past due, which were not provided for, amounted to BAM 64,019,307. The average number of days of sales outstanding in FY 2017 was 91 days (2016: 81 days).

20. OTHER RECEIVABLES

In BAM

	31 December 2017	31 December 2016
Other receivables	1,724,316	3,116,076
Less: Allowance for impairment of other receivables	(735,819)	(723,773)
	988,497	**2,392,303**

21. ALLOWANCES FOR IMPAIRMENT OF SHORT-TERM RECEIVABLES

In BAM
2017 and 2016

	Trade receivables (*Note 19*)	Other receivables (*Note 20*)	Total
Balance as of 1 January 2016	49,630,046	962,585	50,592,631
Charge for the year *(Note 10)*	3,927,538	138,084	4,065,622
Write-off	(1,162,176)	-	(1,162,176)
Other	376,896	(376,896)	-
Balance as of 31 December 2016	**52,772,304**	**723,773**	**53,496,077**
Balance as of 1 January 2017	52,772,304	723,773	53,496,077
Charge for the year *(Note 10)*	2,899,005	121,408	3,020,413
Write-off	(1,487,393)	(751)	(1,488,144)
Other	108,611	(108,611)	-
Balance as of 31 December 2017	**54,292,527**	**735,819**	**55,028,346**

22. DEPOSITS AND LOAN RECEIVABLES

In BAM

	31 December 2017	31 December 2016
Short-term deposits	8,000,000	13,500,000
Loans to employees that mature in one year (*Note 17*)	84,864	83,632
Other short-term placements	3,325,626	3,785,626
	11,410,490	**17,369,258**

23. PREPAYMENTS

	31 December 2017	In BAM 31 December 2016
Accrued receivables	6,121,985	3,848,789
Accrued receivables for combined services	13,642,876	16,019,062
Prepaid expenses	1,149,157	1,956,262
Deferred input and output advance invoices for the purpose of VAT accrual	1,691,455	1,089,262
	22,605,473	**22,913,375**

The largest portion of the accrued receivables, in the amount of BAM 3,175,059, relates to the estimate of international traffic and roaming performed in accordance with the internal calculations of the realized traffic, i.e. calculation obtained from the clearing house. The amount of BAM 1,402,896 relates to accrued receivables for estimate of discounts arising from roaming that the Company should receive based on the international traffic with other operators.

Accrued receivables for combined services relate to the combined services sold, to which the Company 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.

24. CASH AND CASH EQUIVALENTS

	31 December 2017	In BAM 31 December 2016
Gyro accounts	18,289,162	22,886,857
Foreign currency accounts	5,596,149	5,135,422
Cash on hand	33,603	17,795
Cash equivalents	100,000	100,000
	24,018,914	**28,140,074**

25. 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 separate 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 on the Investment Commitment

Other reserves as of 31 December 2017 amounting to BAM 97,791,500 entirely pertained to the reserves formed during 2008 based on the execution of the commitment to invest undertaken by the majority owner (Telekom Srbija a.d. Beograd), as the purchaser of the majority block of the Company's shares.

26. INTEREST BEARING LOANS AND BORROWINGS

	31 December 2017	In BAM 31 December 2016
Long-term borrowings:		
- Borrowings for purchases of equipment – at amortized cost	54,903,237	53,650,240
Total non-current portion of liabilities	**54,903,237**	**53,650,240**
Less: current portion of:		
- long-term borrowings - at amortized cost	(23,559,751)	(15,454,237)
Total current portion of liabilities	**(23,559,751)**	**(15,454,237)**
	31,343,486	**38,196,003**

The average interest rate accrued on long-term borrowings (cash loans and 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 1.0% annually).

During the FY 2017, by obtaining new short-term and long-term borrowings, the Company purchased equipment in the aggregate amount of BAM 19,181,343.

All borrowings, except those obtained from the Government of the Kingdom of Spain and domestic suppliers, are denominated in 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.

26. INTEREST BEARING LOANS AND BORROWINGS (Continued)

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

	31 December 2017	In BAM 31 December 2016
Current portions	23,559,751	15,454,237
From 1 to 2 years	18,336,676	20,076,596
From 2 to 3 years	6,252,775	11,990,600
From 3 to 4 years	2,500,122	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	31,343,486	38,196,003
	54,903,237	**53,650,240**

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 Company (mainly by the Government).

Movements on deferred income during the FYs 2017 and 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	6,005,986	6,072,848
- current portion	744,451	646,188
	6,750,437	**6,719,036**

Long-term provisions for employee benefits as of 31 December 2017 in the amount of BAM 6,750,437 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 Company has hired a certified actuary to perform the calculation of the present value of accumulated rights to retirement benefits and jubilee awards as at 31 December 2017 on behalf of the Company.

When calculating the present value of these accumulated rights to retirement benefits and jubilee awards, the authorized actuary used the following assumptions: a discount rate of 4.5% annually, projected salary growth rate of 1.2% annually, projected years of service for retirement - 40 years for men and 35 years for women, the projected staff turnover on the basis of historical data on the movement of employees in the past, officially published mortality rates and other conditions necessary for exercising the right to retirement benefits and jubilee awards.

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

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

Movements on long-term provisions for employee benefits in FYs 2017 and 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	646,188	712,772	6,072,848	6,312,005
Provisions during the year (*Note 10*)	98,263	(66,584)	394,866	268,223
Transfer from/to the current portion	461,728	507,380	(461,728)	(507,380)
Payments during the year	(461,728)	(507,380)	-	-
Balance, end of the year	**744,451**	**646,188**	**6,005,986**	**6,072,848**

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
Trade payables:		
- related parties *(Note 34(a))*	5,535,664	2,814,249
- domestic	39,005,122	48,583,480
- foreign	8,362,621	12,837,347
- uninvoiced investments and services	4,827,397	3,854,305
	57,730,804	**68,089,381**

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

The average days payable outstanding in FY 2017 was 80 days (2016: 82 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	42,156,078	46,625,038
From 31 to 60 days	7,163,584	7,515,623
From 61 to 120 days	5,681,281	12,459,714
From 121 to 180 days	2,309,133	913,202
From 181 to 270 days	198,806	567,295
From 271 to 360 days	221,922	8,509
	57,730,804	**68,089,381**

31. ACCRUALS

	31 December 2017	In BAM 31 December 2016
Deferred income – sales of prepaid top-ups	1,069,259	2,753,668
Accrued liabilities – international traffic	15,352,780	8,616,676
Accrued liabilities – media content distribution/broadcasting	1,578,855	1,694,555
Accrued liabilities per other expenses	6,526,194	10,928,567
Accrued VAT liabilities on advance invoices	1,564,655	953,358
Other accruals	217,338	306,347
	26,309,081	**25,253,171**

Accrued liabilities for international traffic totalling BAM 15,352,780 as of 31 December 2017, mostly, in the amount of BAM 13,401,189, relate to the estimates of roaming discounts that the Company needed to approve based on the international traffic realized with other operators, for which final invoices had not yet been issued or calculation received from the clearing house (*Note 3.1.7. b*).

Accrued liabilities per other expenses amounting to BAM 6,526,194 as of 31 December 2017, represent current year's expenses for which there were sufficient information on their existence and inception yet the Company had not received the final invoices for services or goods received until these separate financial statements' preparation date.

32. OTHER LIABILITIES

	31 December 2017	In BAM 31 December 2016
Advances and prepayments received	1,603,955	1,351,899
Taxes and customs duties charged to expenses	246,104	254,764
Value added tax payable	1,261,223	-
Liabilities to employees	1,493	2,652
Other liabilities	167,521	228,904
	3,280,296	**1,838,219**

33. INCOME TAXES

(a) Components of Income Taxes

In BAM

	Year ended 31 December 2017	Year ended 31 December 2016
Current income tax expense	6,638,402	7,802,592
Deferred tax expense/income - decrease/ increase of deferred tax assets	129,063	(107,986)
	6,767,465	**7,694,606**

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

In BAM

	Year ended 31 December 2017	Year ended 31 December 2016
Profit before taxes	66,822,089	77,864,960
Income taxes calculated at the rate of 10%	6,682,209	7,786,496
Adjustments for:		
- non-taxable income effects	10,118	(125,430)
- non-deductible costs effects	(53,925)	141,526
- temporary differences effects	129,063	(107,986)
Income tax expense	**6,767,465**	**7,694,606**
Effective tax rate for the year	10.13%	9.88%

(c) Deferred tax assets

In BAM

	Year ended 31 December 2017	Year ended 31 December 2016
Temporary differences:		
Balance as of 1 January	635,360	527,374
(Decrease)/Increase of deferred tax assets	(129,063)	107,986
Balance, end of the year	**506,297**	**635,360**

(d) Current Tax Prepaid

In BAM

	31 December 2017	31 December 2016
Prepaid income taxes	780,876	965,037
Balance, end of the year	**780,876**	**965,037**

34. RELATED PARTY TRANSACTIONS

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

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

(a) STATEMENT OF FINANCIAL POSITION

	31 December 2017	In BAM 31 December 2016
ASSETS		
a) Trade receivables:		
- Telekom Srbija a.d. Beograd	3,519,097	703,600
- MTEL d.o.o. Podgorica	1,641,454	672,435
- Mtel Austria *GmbH* Vienna	565,426	438,238
- *Logosoft* d.o.o. Sarajevo	316,183	713,821
	6,042,160	2,528,094
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
- Mtel Austria *GmbH* Vienna	8,632	1,667
- *Logosoft* d.o.o. Sarajevo	11,000	13,260
	2,036,495	866,850
c) Loan receivables:		
- *Logosoft* d.o.o. Sarajevo	3,325,626	3,785,626
d) Other short-term receivables:		
- HD - WIN d.o.o. Beograd	352	-
Total receivables	**11,404,633**	**7,180,570**
LIABILITIES		
a) Trade payables:		
- Telekom Srbija a.d. Beograd	(3,779,697)	(2,167,400)
- MTEL d.o.o. Podgorica	(499,685)	(106,139)
- Mtel Austria *GmbH* Vienna	(122)	-
- HD - WIN d.o.o. Beograd	(114,416)	-
- *Logosoft* d.o.o. Sarajevo	(1,018,036)	(404,395)
- Telekom Srbija a.d. Beograd – for uninvoiced acquisitions	(123,708)	(136,315)
	(5,535,664)	(2,814,249)
b) Estimated costs:		
- Telekom Srbija a.d. Beograd	(678,366)	(526,895)
- MTEL d.o.o. Podgorica	(283,375)	(303,777)
- HD - WIN d.o.o. Beograd	(228,832)	(111,306)
- Mtel Austria GmbH, Vienna	(129)	(33)
- *Logosoft* d.o.o. Sarajevo	(25,531)	(14,730)
- GO4YU d.o.o. Beograd	(10,757)	-
	(1,226,990)	(956,741)
Total liabilities	**(6,762,654)**	**(3,770,990)**
Net receivables	**4,641,979**	**3,409,580**

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	15,663,918	9,692,923
- MTEL d.o.o. Podgorica	2,986,606	1,542,074
- Mtel Austria GmbH, Vienna	308,913	30,655
- Logosoft d.o.o. Sarajevo	1,338,425	963,075
	20,297,862	12,228,727
b) Sales of goods:		
- Logosoft d.o.o. Sarajevo	143,356	167,195
c) Other income:		
- Telekom Srbija a.d. Beograd	52,268	-
- Mtel Austria GmbH, Vienna	-	80,845
- Logosoft d.o.o. Sarajevo	25,785	22,045
	78,053	102,890
Total income	**20,519,271**	**12,498,812**
EXPENSES		
a) Costs of inter-operator settlement exclusive of roaming:		
- Telekom Srbija a.d. Beograd	(13,332,485)	(11,145,444)
- MTEL d.o.o. Podgorica	(1,150,028)	(575,014)
- Mtel Austria *GmbH* Vienna	(966)	(251)
- Logosoft d.o.o. Sarajevo	(991,561)	(666,113)
	(15,475,040)	(12,386,822)
b) Roaming costs:		
- Telekom Srbija a.d. Beograd	(946,741)	(962,520)
- MTEL d.o.o. Podgorica	(447,885)	(331,749)
	(1,394,626)	(1,294,269)
c) Lease of transmission lines:		
- Telekom Srbija a.d. Beograd	(142,670)	(110,245)
- Logosoft d.o.o. Sarajevo	(710,496)	(700,181)
	(853,166)	(810,426)
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 vlan 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	(929,774)	(589,522)
- HD - WIN d.o.o. Beograd	(1,372,993)	(1,335,675)
- GO4YU d.o.o. Beograd	(73,344)	-
- Logosoft d.o.o. Sarajevo	(34,980)	(12,120)
	(2,411,091)	(1,937,317)
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)
- Logosoft d.o.o. Sarajevo	(152,476)	(39,925)
	(248,622)	(185,855)
j) Other production services:		
- MTEL d.o.o. Podgorica	(1,945)	(1,701)
- HD - WIN d.o.o. Beograd	(12,850)	-
- Logosoft d.o.o. Sarajevo	(34,403)	(28,294)
	(49,198)	(29,995)
k) The cost of professional training		
- Logosoft d.o.o. Sarajevo	(3,618)	(26,232)
l) Costs of merchandise/combined services sold		
- Logosoft d.o.o. Sarajevo	(143,356)	(167,195)
Total expenses	**(21,547,231)**	**(17,884,626)**
Net expenses	**(1,027,960)**	**(5,385,814)**

34. RELATED PARTY TRANSACTIONS (Continued)

(c) Short-term remunerations to the key management personnel

		In BAM
	Year ended 31 December	
	2017	2016
- Executive Board	(677,965)	(617,253)
- Management Board	(296,064)	(267,666)
- Audit Committee	(88,816)	(81,029)
	(1,062,845)	**(965,948)**

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.

35. EARNINGS PER SHARE

		In BAM
	Year ended 31 December	
	2017	2016
Net profit for the year	60,054,624	70,170,354
Weighted average number of shares outstanding	491,383,755	491,383,755
Earnings per share (basic and diluted)	0.1222	0.1428

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 Company appears at times as a defendant in legal suits filed against it by legal entities and private individuals claiming damages. The estimated contingent liabilities arising from lawsuits filed against the Company as of 31 December 2017 amount to BAM 88,696,107, excluding effects of penalty interest and court expenses.

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

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

As disclosed in *Note* 29 to the financial statements, as of 31 December 2017, the Company established provisions for potential losses which may arise from litigations in the total amount of BAM 57,161. The Company'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 Company'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	177,068,673	242,383,944	419,452,617
Other operating income	772,742	3,901,965	4,674,707
Inter-segment settlement	54,250,477	32,706,349	86,956,826
Total operating income	**232,091,892**	**278,992,258**	**511,084,150**
Cost of materials, merchandise and combined services	(11,011,106)	(46,629,274)	(57,640,380)
Staff costs	(29,881,717)	(40,977,025)	(70,858,742)
Depreciation and amortization charge	(49,547,051)	(51,212,401)	(100,759,452)
Cost of production services	(50,271,817)	(55,791,849)	(106,063,666)
Other operating expenses	(8,055,668)	(16,479,857)	(24,535,525)
Inter-segment settlement	(32,706,349)	(54,250,477)	(86,956,826)
Total operating expenses	**(181,473,708)**	**(265,340,883)**	**(446,814,591)**
Profit from operations	**50,618,184**	**13,651,375**	**64,269,559**
Finance income	1,240,259	1,853,712	3,093,971
Finance expenses	(173,942)	(367,499)	(541,441)
Finance income, net	1,066,317	1,486,213	2,552,530
Profit before taxes	**51,684,501**	**15,137,588**	**66,822,089**
Income tax expense	(2,698,600)	(4,068,865)	(6,767,465)
Net profit	**48,985,901**	**11,068,723**	**60,054,624**

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:

31 December 2016	Fixed-Line Telephony and Internet	Mobile Telephony	In BAM Total
Sales of goods and services	190,589,952	248,991,585	439,581,537
Other operating income	1,015,175	4,143,840	5,159,015
Inter-segment settlement	47,053,559	36,530,264	83,583,823
Total operating income	**238,658,686**	**289,665,689**	**528,324,375**
Cost of materials, merchandise and combined services	(10,445,218)	(47,479,736)	(57,924,954)
Staff costs	(30,567,207)	(40,459,383)	(71,026,590)
Depreciation and amortization charge	(49,871,547)	(49,226,450)	(99,097,997)
Cost of production services	(53,426,699)	(60,190,408)	(113,617,107)
Other operating expenses	(8,529,741)	(19,017,301)	(27,547,042)
Inter-segment settlement	(36,530,264)	(47,053,559)	(83,583,823)
Total operating expenses	**(189,370,676)**	**(263,426,837)**	**(452,797,513)**
Profit from operations	**49,288,010**	**26,238,852**	**75,526,862**
Finance income	1,330,403	1,695,542	3,025,945
Finance expenses	(229,023)	(458,824)	(687,847)
Finance income, net	**1,101,380**	**1,236,718**	**2,338,098**
Profit before taxes	**50,389,390**	**27,475,570**	**77,864,960**
Income tax expense	(3,587,771)	(4,106,835)	(7,694,606)
Net profit	**46,801,619**	**23,368,735**	**70,170,354**

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

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

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

The Company's revenue from its major services is presented in detail in *Note 5* to the separate 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:

In BAM

31 December 2017	Fixed-Line Telephony and Internet	Mobile Telephony	Total
ASSETS			
Non-current assets			
Intangible assets	41,080,402	24,747,599	65,828,001
Property and equipment	336,079,509	155,328,291	491,407,800
Investments in subsidiaries	17,769,949	24,324,744	42,094,693
Investments in the associate	32,690,726	41,873,013	74,563,739
Other investments	30,245	41,401	71,646
Long-term receivables and loans	11,354,405	15,672,821	27,027,226
Deferred tax assets	126,872	379,425	506,297
	439,132,108	262,367,294	701,499,402
Current assets			
Inventories	5,230,913	13,011,758	18,242,671
Assets held for sale	26,397	36,453	62,850
Trade receivables	26,919,298	37,100,009	64,019,307
Prepaid income taxes	327,968	452,908	780,876
Other receivables	141,326	847,171	988,497
Deposits and loan receivables	4,816,850	6,593,640	11,410,490
Prepayments	4,657,942	17,947,531	22,605,473
Cash and cash equivalents	10,139,399	13,879,515	24,018,914
	52,260,093	89,868,985	142,129,078
Total assets	**491,392,201**	**352,236,279**	**843,628,480**
LIABILITIES			
Non-current liabilities and provisions			
Interest bearing loans and borrowings	5,604,438	25,739,048	31,343,486
Deferred income	31,165	43,037	74,202
Employee benefits	2,524,099	3,481,887	6,005,986
Provisions	24,008	33,153	57,161
	8,183,710	29,297,125	37,480,835
Current liabilities			
Interest bearing loans and borrowings	9,895,096	13,664,655	23,559,751
Trade payables	23,747,707	33,983,097	57,730,804
Accruals	5,613,371	20,695,710	26,309,081
Employee benefits	312,669	431,782	744,451
Deferred income	5,194	7,173	12,367
Dividend payables	9,056,928	12,507,187	21,564,115
Other liabilities	896,916	2,383,380	3,280,296
	49,527,881	83,672,984	133,200,865
Total liabilities	**57,711,591**	**112,970,109**	**170,681,700**

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	Total
ASSETS			
Non-current assets			
Intangible assets	33,283,909	46,928,925	80,212,834
Property and equipment	279,658,029	221,296,669	500,954,698
Investments in subsidiaries	13,531,193	17,677,497	31,208,690
Investments in the associate	17,517,299	57,046,440	74,563,739
Other investments	35,649	46,572	82,221
Long-term receivables and loans	9,911,629	13,138,671	23,050,300
Deferred tax assets	285,912	349,448	635,360
	354,223,620	**356,484,222**	**710,707,842**
Current assets			
Inventories	5,640,965	15,488,693	21,129,658
Trade receivables	24,225,111	28,184,158	52,409,269
Prepaid income taxes	434,267	530,770	965,037
Other receivables	953,136	1,439,167	2,392,303
Deposits and loan receivables	7,530,812	9,838,446	17,369,258
Prepayments	2,915,967	19,997,408	22,913,375
Cash and cash equivalents	12,200,729	15,939,345	28,140,074
	53,900,987	**91,417,987**	**145,318,974**
Total assets	**408,124,607**	**447,902,209**	**856,026,816**
LIABILITIES			
Non-current liabilities and provisions			
Interest bearing loans and borrowings	11,298,763	26,897,240	38,196,003
Employee benefits	2,611,325	3,461,523	6,072,848
Provisions	89,197	118,237	207,434
	13,999,285	**30,477,000**	**44,476,285**
Current liabilities			
Interest bearing loans and borrowings	6,645,322	8,808,915	15,454,237
Trade payables	27,513,279	40,576,102	68,089,381
Accruals	7,288,118	17,965,053	25,253,171
Employee benefits	277,861	368,327	646,188
Deferred income	24,320	32,238	56,558
Dividend payables	9,866,965	13,079,465	22,946,430
Other liabilities	844,801	993,418	1,838,219
	52,460,666	**81,823,518**	**134,284,184**
Total liabilities	**66,459,951**	**112,300,518**	**178,760,469**

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:

	Fixed-Line Telephony and Internet	Mobile Telephony	In BAM Total
31 December 2017			
Capital investments *(Notes 12 and 13)*	55,765,358	21,618,869	**77,384,227**
31 December 2016			
Capital investments *(Notes 12 and 13)*	76,306,665	29,588,449	**105,895,114**

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 Company 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 Company generates most of its income in the territory of Bosnia and Herzegovina (91% of the total operating income).

38. FINANCIAL INSTRUMENTS

38.1. Capital Risk Management

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

The capital structure of the Company consists of the borrowings (disclosed in Note 26), 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 Company'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 Company's gearing ratios as of the year end were as follows:

	31 December 2017	In BAM 31 December 2016
Debt (a)	54,903,237	53,650,240
Cash and cash equivalents	(24,018,914)	(28,140,074)
Net debt	**30,884,323**	**25,510,166**
Equity (b)	672,946,780	677,266,347
Debt to Equity Ratio	4.59%	3.77%

(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 separate 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)	127,432,155	121,492,538
Financial assets held to maturity	64,815	75,819
Securities available for sale	6,831	6,402
	127,503,801	121,574,759
Financial liabilities - at amortized cost	**112,707,510**	**121,833,601**

38.2. Financial Risk Management

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

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

The Company does not enter into transactions with derivative instruments, such as interest rate swaps or forwards. In addition, the Company undertook no transactions with financial instruments for the FY 2017.

38. FINANCIAL INSTRUMENTS (Continued)

38.2. Financial Risk Management (Continued)

(1) Market Risk

(a) Currency Risk

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

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

In BAM

	Assets		Liabilities	
	31 December 2017	**31 December 2016**	**31 December 2017**	**31 December 2016**
EUR	12,452,479	9,381,540	59,136,841	57,501,316
USD	467,308	141,711	3,290,178	3,774,760
CHF	1,419	1,553	-	2,666
GBP	1,484	1,746	1,082	136
HRK	-	-	913	-
RSD	1,155	215	-	147
	12,923,845	**9,526,765**	**62,429,015**	**61,279,025**

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 Company's net profit for the FY 2017 would have decreased/increased by the amount of BAM 37,434 (in 2016: BAM 15,353).

(b) Interest Rate Risk

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

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

During the year ended 31 December 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).

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

38. FINANCIAL INSTRUMENTS (Continued)

38.2. Financial Risk Management (Continued)

(1) Market Risk (Continued)

(b) Interest Rate Risk (Continued)

Sensitivity Analysis

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

Had interest rates applied to cash loans and loans in kind during the reporting period been higher /lower by 10% annually where other variables remained unaltered, the Company's net profit in the FY 2017 would have decreased/increased by BAM 30,971 (2016: BAM 29,027) as a result of higher/lower interest expenses.

(c) Equity Price Risk

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

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

(2) Liquidity Risk

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

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

The Company does not make use of financial derivatives.

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

38. FINANCIAL INSTRUMENTS (Continued)

38.2. Financial Risk Management (Continued)

(2) Liquidity Risk (Continued)

Maturities of the Company'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)	92,299,896	-	-	-	-	92,299,896
	92,299,896	-	-	-	-	92,299,896
Fixed interest rate						
- Loans and receivables (including cash and cash equivalents)	5,251,760	3,583,091	18,530,075	9,083,057	-	36,447,983
- Financial assets held to maturity	9,186	1,645	10,831	32,493	10,660	64,815
	5,260,946	3,584,736	18,540,906	9,115,550	10,660	36,512,798
Total	**97,560,842**	**3,584,736**	**18,540,906**	**9,115,550**	**10,660**	**128,812,694**
31 December 2016						
Non-interest bearing						
- Loans and receivables (including cash and cash equivalents)	84,838,008	-	-	-	-	84,838,008
	84,838,008	-	-	-	-	84,838,008
Fixed interest rate						
- Loans and receivables (including cash and cash equivalents)	342,074	14,305,391	8,431,441	15,209,787	1,413	38,290,106
- Financial assets held to maturity	9,186	1,645	10,831	32,493	21,664	75,819
	351,260	14,307,036	8,442,272	15,242,280	23,077	38,365,925
Total	**85,189,268**	**14,307,036**	**8,442,272**	**15,242,280**	**23,077**	**123,203,933**

Financial liabilities **In BAM**

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	52,855,555	4,948,718	-	-	-	57,804,273
- Instruments at variable interest rate	6,719,784	16,935,158	18,458,604	10,450,745	2,642,551	55,206,842
Total	**59,575,339**	**21,883,876**	**18,458,604**	**10,450,745**	**2,642,551**	**113,011,115**
31 December 2016						
Other liabilities at amortized cost						
- Non-interest bearing	61,822,945	6,360,416	-	-	-	68,183,361
- Instruments at variable interest rate	3,604,792	11,923,276	20,227,973	15,536,569	2,719,457	54,012,067
Total	**65,427,737**	**18,283,692**	**20,227,973**	**15,536,569**	**2,719,457**	**122,195,428**

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 Company expects cash flow in another period), i.e., based on the earliest date on which the Company can be expected to settle the liability incurred.

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

(3) Credit Risk

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

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

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

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

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

(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 separate financial statements approximate their fair values.

	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)

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

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

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

- Level 1 of determining the fair value is derived from the quoted market value (non-adjusted) in active markets for identical assets and liabilities.
- Level 2 of determining 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 16*)	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 16*), and are stated as a change in “unrealized gains/(losses) from securities“.

39. OPERATING LEASE ARRANGEMENTS

The minimum amount of rent recognized as expenses during FY 2017 amounted to BAM 17,009,074 (FY 2016: BAM 16,857,300).

The Company'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	12,085,720	10,831,677
From 1 to 5 years	41,118,913	38,792,747
Over 5 years	27,432,591	31,551,066
	80,637,224	**81,175,490**

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

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

41. CURRENT ECONOMIC SITUATION AND ITS IMPACT ON THE COMPANY

As expected, throughout the reporting period, like most other business entities in the Republic of Srpska, the Company's operations were also under a certain influence of the 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 Company 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:

		In BAM
	31 December 2017	**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

BDO d.o.o. Banja Luka
Jevrejska 24
78000 Banja Luka
Republika Srpska, BiH
Tel: +387 51 225 011
Fax: +387 51 225 012

www.bdo.ba