MTEL A.D. BANJA LUKA

Unconsolidated Financial Statements
For the Year Ended December 31, 2018
and Independent Auditors' Report

Translation of the Auditors' Report issued in the Serbian language
Translation of the Company's Unconsolidated Financial Statements and Notes to the Unconsolidated Financial Statements

CONTENTS

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Translation of the Auditors' Report issued in the Serbian language

INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the accompanying unconsolidated financial statements (pages 7 to 59) of Mtel a.d., Banja Luka (hereinafter: the "Company"), which comprise the unconsolidated statement of financial position as at December 31, 2018, and the related unconsolidated statement of profit and loss and other comprehensive income, unconsolidated statement of changes in equity and unconsolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

In our opinion, the unconsolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018, and its financial performance and cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with the International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements relevant for our audit of the unconsolidated financial statements in the Republic of Srpska, and we have fulfilled our other ethical responsibilities in accordance with these requirements. 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 most significant in our audit of the unconsolidated financial statements for the current period. These matters were addressed in the context of our audit of the unconsolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

(Continued)

INDEPENDENT AUDITORS' REPORT

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

Key Audit Matters (Continued)

Key audit matter	Related audit procedures
Revenue recognition – accuracy of the recorded revenues given the system complexity	
(Please refer to Notes 3.1, 4, 5, 11 and 23 to the unconsolidated financial statements) The Company's revenues for the year ended December 31, 2018 arose from several streams based on the information systems that process massive quantities of data on a daily basis. Revenue is a materially significant category subject to significant inherent risk due to the complexity of the systems necessary for proper recording and identification of revenues and to the effects of the fast-changing business environment, prices and tariff models (including tariff structure, customer discounts and incentives). Accordingly, appropriate application of the accounting standards is deemed complex and to a certain extent based on the estimates and assumptions made by the management, particularly in keeping with the adoption of IFRS 15.	We performed analyses to determine whether the management of the Company adequately recognized revenues and applied requirements of IFRS 15. Our audit procedures included internal control testing and other audit procedures, such as: - Assess IT system environment relating to the invoicing of services and revenue measurement, as well as other relevant systems supporting the revenue accounting, including the implemented system modification controls; - Evaluate the accounting polices relating to the revenue recognition, including multiple-element agreements (MEA) and customer loyalty programs, as well as the impact of the new business models; - Check the invoicing system and revenue recognition up to the entry into the general ledger; - Check individual invoices issued to customers (based on the audit sampling); - Assess design of the processes in place for explanation of transactions in accordance with IFRS 15 and that of IT systems for supporting implementation of the new requirements; - Assess adequacy of the methods used to determine the expected impact of the first-time adoption of IFRS 15; - Review the new accounting policies applied and disclosures required in connection with IFRS 15 adoption. Based on the audit procedures performed, we identified no significant findings in respect of the accuracy of revenues recorded for the year ended December 31, 2018. We satisfied ourselves that the systems and processes set up by the management, as well as the estimates and assumptions made, were sufficiently documented and supported to ensure proper application of IFRS 15.

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INDEPENDENT AUDITORS' REPORT

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

Key Audit Matters (Continued)

Key audit matter	Related audit procedures
Revenue recognition – estimates of the realized roaming discounts in the international traffic	
(Please refer to Notes 23 and 31 to the unconsolidated financial statements) Calculated yet non-invoiced revenues of the Company relating to the roaming discounts approved by other operators in the international traffic, as well as accrued expenses for the roaming discounts approved by the Company to the other operators in the international traffic, were selected as a key audit matter because they involve significant volume of management estimates pertaining to the fulfillment of the terms defined by the individual contracts executed with certain operators. There is a risk arising from the management's estimate of the Company's calculated yet non-invoiced revenues of the Company from the roaming discounts agreed with other operators in the international traffic and calculated accrued expenses per roaming discounts approved by the Company to the other operators in the international traffic.	We performed analyses to determine whether the Company's management made adequate calculation and deferral of the revenues and expenses per international traffic roaming discounts. Our audit procedures included internal control testing and other audit procedures, such as: - Review of the contracts with most significant operators per realized revenue/expenses from received/approved roaming discounts; - Perform tests of details on incoming and outgoing invoices issued by/to operators and checkup of their accuracy and compliance with the terms of the relevant contracts on roaming discounts; - Review and check the invoicing of the roaming amounts by comparison to the calculations and settlements obtained from the clearing houses for the year ended December 31, 2018. - Review of the final invoices for billing and settlements after the reporting date Based on the audit procedures performed, we identified no significant findings in respect of the accuracy of revenues recorded based on the estimated roaming discounts for the year ended December 31, 2018.

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INDEPENDENT AUDITORS' REPORT

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

Key Audit Matters (Continued)

Key audit matter	Related audit procedures
Impairment of property, plant, equipment and intangible assets	
(Please refer to Notes 4, 12 and 13 to the unconsolidated financial statements) The Company's intangible assets totaled BAM 57.1 million as of December 31, 2018, while its property, plant and equipment totaled BAM 553.3 million as of that date. In accordance with the requirements of IFRS, the Company is required to perform annual testing for impairment of the reported values of goodwill and intangible assets with indefinite useful lives. With regard to the intangible assets with definite useful lives, and property, plant and equipment, the Company is required to assess at each reporting date whether there are indications of impairment of such assets and, if so, to perform impairment testing of those assets. We identified impairment testing of the Company's property, plant, equipment and intangible assets as a key audit matter, since those are similar types of assets with material amounts, as well as due to the complexity of the impairment testing process itself, which requires use of estimates and relies on the management's assumptions, which are under the influence of the future market and economic conditions.	The following procedures were performed: - We evaluated the design and implementation of the controls relating to the impairment testing process; - We assessed the composition of the cash-generating units (CGU) and assets allocated to each CGU; - We compared the projected revenues and EBITDA margins as well as capital expenditures and changes to the working capital for all CGU provided by the Company's management and analyzed the most significant assumptions on the future development included in the Company's business plans in order to assess the appropriateness of the relevant projections; - We verified the assumptions on the discount rate and growth rate; - Deloitte valuation experts helped us perform the audit procedures relating to the impairment testing; - In addition, we evaluated adequacy of the disclosures made on the impairment testing performed and the relating assumptions. Based on the audit procedures performed, we identified no significant findings in respect of potential impairment of the Company's property, plant, equipment and intangible assets as of December 31, 2018. We satisfied ourselves that the systems and processes set up by the management, as well as the estimates and assumptions made, were sufficiently documented and supported to ensure proper application of the provisions of IFRS relating to the impairment of non-current assets, including intangible assets.

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INDEPENDENT AUDITORS' REPORT

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

Emphasis of Matter

We draw attention to Note 2.2 to the unconsolidated financial statements, disclosing that the Company is a parent entity of a group, and that its consolidated financial statements prepared in accordance with the International Financial Reporting Standards have been issued separately. The Company's consolidated financial statements as of and for the year ended December 31, 2018 were audited by us and our audit report dated April 4, 2019 expressed an unqualified opinion there on. Our opinion is not modified in respect of this matter.

Other Matter

The Company's unconsolidated financial statements as of and for the year ended December 31, 2017 were audited another auditor, whose report dated February 22, 2018 expressed an unqualified opinion thereon.

Responsibilities of Management and those in Charge of Governance for the Financial Statements

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

In preparing the unconsolidated financial statements, 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 in charge of governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibility for the Audit of the Unconsolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the unconsolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 the International Standards on Auditing 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 unconsolidated financial statements.

As part of an audit in accordance with the International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the unconsolidated 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.

(Continued)

Translation of the Auditors' Report issued in the Serbian language

INDEPENDENT AUDITORS' REPORT

To the Management Board and Shareholders of Mtel a.d. Banja Luka (Continued)

Auditors' Responsibility for the Audit of the Unconsolidated Financial Statements (Continued)

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- 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 unconsolidated 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 an entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the unconsolidated financial statements, including the disclosures and whether the unconsolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation..

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

From the matters communicated to those in charge of governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore key audit matters.

We describe those matters in our auditors' report unless an applicable law or a regulations 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 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 auditors' report is Mr. Mirko Ilić, Certified Auditor.

Banja Luka, April 5, 2019

Mirko Ilić
Partner
Certified Auditor

DELOITTE D.O.O. 1 BANJA LUKA

On behalf of:

Deloitte d.o.o. Banja Luka
Braće Mažar i majke Marije 58 i 60
Banja Luka

UNCONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME
Year Ended December 31, 2018
(In BAM)

	Note	Year Ended December 31, 2018	Year Ended December 31 2017 *Audited by another auditor*
Sales of goods and services	5	414,234,450	419,452,617
Other operating income	6	15,688,230	4,674,707
Cost of materials, combined services and merchandise	7	(58,970,938)	(57,640,380)
Staff costs	8	(72,621,551)	(70,858,742)
Depreciation and amortization charge	12, 13	(98,737,278)	(100,759,452)
Cost of production services	9	(106,180,831)	(106,063,666)
Other operating expenses	10	(21,894,170)	(21,515,112)
Finance income – interest income	11	1,569,625	2,262,041
Finance income – other finance income	11	384,881	831,930
Losses on impairment of financial assets	21	(3,546,642)	(3,020,413)
Finance expenses	11	(1,725,521)	(541,441)
Profit before taxes		**68,200,255**	**66,822,089**
Income tax expense	33 (a)	(7,182,743)	(6,767,465)
Net profit for the year		**61,017,512**	**60,054,624**
Other comprehensive income, net of income tax:			
(a) Items that may be subsequently reclassified to profit or loss:			
(Losses)/gains on the financial assets at fair value through other comprehensive income (2017: financial assets under IAS 39)	16	(643)	429
Total other comprehensive income, net of income tax		(643)	429
Total positive comprehensive income for the year		**61,016,869**	**60,055,053**
Earnings per share:			
- Basic and diluted earnings per share	35	0.1242	0.1222

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

The accompanying unconsolidated financial statements of the Company were approved for issuance by the Management Board of Mtel a.d., Banja Luka on February 28, 2019.

Signed on behalf of the Company by:

Marko Lopičić
General Manager

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Jasmina Lopičić
Chief Financial Officer

UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION
As of December 31, 2018
(In BAM)

	Note	December 31, 2018	December 31 2017
			Audited by another auditor
ASSETS			
Non-current assets			
Intangible assets	12	57,080,594	65,828,001
Property and equipment	13	553,318,244	491,407,800
Investments in subsidiaries	14	45,028,438	42,094,693
Investments in associates	15	74,563,739	74,563,739
Other investments	16	60,345	71,646
Long-term loans and receivables	17	7,459,945	27,027,226
Deferred tax assets	33 (c)	268,641	506,297
		737,779,946	701,499,402
Current assets			
Inventories	18	13,744,533	18,242,671
Assets held for sale		-	62,850
Trade receivables	19	64,005,466	64,019,307
Prepaid income taxes	33 (e)	-	780,876
Other receivables	20	1,075,137	988,497
Deposits and loan receivables	22	63,228,131	11,410,490
Prepayments	23	18,851,823	22,605,473
Cash and cash equivalents	24	69,768,328	24,018,914
		230,673,418	142,129,078
Total assets		**968,453,364**	**843,628,480**
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 financial assets at fair value through other comprehensive income		(1,212)	(569)
Other reserves – arising on commitment to invest	25	97,791,500	97,791,500
Retained earnings		38,445,821	34,630,328
		676,761,630	672,946,780
Non-current liabilities and provisions			
Interest bearing loans and borrowings	26	159,008,277	31,343,486
Deferred income	27	61,835	74,202
Deferred tax liabilities	33(d)	415,159	-
Employee benefits	28	6,144,678	6,005,986
Provisions	29	147,862	57,161
		165,777,811	37,480,835
Current liabilities			
Interest bearing loans and borrowings	26	28,773,808	23,559,751
Trade payables	30	59,517,569	57,730,804
Accruals	31	21,014,017	26,309,081
Employee benefits	28	660,996	744,451
Deferred income	27	12,367	12,367
Dividend payable	35	9,884,812	21,564,115
Income tax payable	33 (e)	227,089	-
Other liabilities	32	5,823,265	3,280,296
		125,913,923	133,200,865
Total equity and liabilities		**968,453,364**	**843,628,480**

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

UNCONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Year Ended December 31, 2018
(In BAM)

	Share Capital	Legal Reserves	Unrealized (Losses)/Gains on Financial Assets at FVtOCI	Other Reserves Arising on Commitment to Invest	Retained Earnings	Total
Balance at January 1, 2017	**491,383,755**	**49,141,766**	**(998)**	**97,791,500**	**38,950,324**	**677,266,347**
Profit for the year	-	-	-	-	60,054,624	60,054,624
Total other comprehensive for the year	-	-	429	-	-	429
Total comprehensive income for the year	**-**	**-**	**429**	**-**	**60,054,624**	**60,055,053**
Profit distribution:						
Dividend paid to the shareholders	-	-	-	-	(38,950,324)	(38,950,324)
Interim dividend paid to the shareholders	-	-	-	-	(25,424,296)	(25,424,296)
Balance at December 31, 2017 *(audited by another auditor)*	**491,383,755**	**49,141,766**	**(569)**	**97,791,500**	**34,630,328**	**672,946,780**
Profit for the year	-	-	-	-	61,017,512	61,017,512
Total other comprehensive for the year	-	-	(643)	-	-	(643)
Total comprehensive income for the year	**-**	**-**	**(643)**	**-**	**61,017,512**	**61,016,869**
Profit distribution (Note 35):						
Dividend paid to the shareholders	-	-	-	-	(34,630,328)	(34,630,328)
Interim dividend paid to the shareholders	-	-	-	-	(22,571,691)	(22,571,691)
Balance at December 31, 2018	**491,383,755**	**49,141,766**	**(1,212)**	**97,791,500**	**38,445,821**	**676,761,630**

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

UNCONSOLIDATED STATEMENT OF CASH FLOWS
Year Ended December 31, 2018
(In BAM)

	Year Ended December 31, 2018	Year Ended December 31, 2017
		Audited by another auditor
Cash flows from operating activities		
Cash receipts from customers and prepayments	419,307,030	406,925,852
Other cash receipts from regular operations	2,005,016	1,664,091
Cash paid to suppliers – purchases of materials, fuel, energy and other expenses	(177,720,348)	(173,519,717)
Cash paid to and on behalf of employees	(73,225,240)	(71,381,815)
Interest paid	(1,046,704)	(372,196)
Income taxes paid	(5,552,748)	(5,294,064)
Other taxes and duties paid	(5,448,085)	(5,218,255)
Net cash generated by operating activities	**158,318,921**	**152,803,896**
Cash flows from investing activities		
Purchases of property, equipment and intangible assets	(136,266,041)	(69,813,415)
Proceeds from sale of property, equipment and intangible assets	288,591	80,856
Interest received	1,627,110	2,208,240
Inflows/(outflows) per long-term financial investments	19,580,114	(3,961,840)
(Outflows)/inflows from short-term financial investments	(51,817,641)	5,958,768
Purchases of shares and equity investments	(2,933,745)	(10,886,003)
Net cash used in investing activities	**(169,521,612)**	**(76,413,394)**
Cash flows from financing activities		
Long-term borrowings, inflows	140,244,955	-
Long-term financial liabilities, outflows	(27,086,793)	(17,021,974)
Dividend and interim dividend payments to the shareholders	(56,206,057)	(63,489,688)
Net cash generated by/(used in) financing activities	**56,952,105**	**(80,511,662)**
Net increase/(decrease) in cash and cash equivalents	**45,749,414**	**(4,121,160)**
Cash and cash equivalents at the beginning of the year	24,018,914	28,140,074
Cash and cash equivalents at the end of the year	**69,768,328**	**24,018,914**

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

1. CORPORATE INFORMATION

The Company Mtel a.d. (hereinafter: the "Company") is domiciled in Banja Luka, in the Republic of Srpska at the following street address: No. 2, Vuka Karadžića Street. The full registered name of the Company is: Telekomunikacije Republike Srpske a.d. Banja Luka, while in its operations the Company uses two abbreviated names – Mtel a d. Banja Luka and Telekom Srpske a.d. Banja Luka.

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

As at December 31, 2018, the Company had two subsidiaries:

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

As at December 31, 2018, the Company held a 49% equity interest in the associate MTEL d.o.o. Podgorica (Republic of Montenegro). The remaining 51% of the shares were owned by the ultimate parent and owner of the Group – Telekom Srbija a.d. Beograd.

As at December 31, 2018, the Company had 2,130 employees (December 31, 2017: 2,136 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 at December 31, 2018 the Company provided telecommunication services to 1,603,865 users (December 31, 2017: 1,593,744 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 2018 is Mr. Marko Lopičić.

The members of the Management Board on the accompanying unconsolidated financial statements issue date were as follows:

Mr. Predrag Ćulibrk
Ms. Vesna Lončar
Mr. Dejan Carević
Mr. Slavko Mitrović
Mr. Draško Marković
Mr. Branko Malović

The members of the Executive Board on the accompanying unconsolidated financial statements issue date were as follows:

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

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

2.1. Statement of Compliance

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

2.2. Basis of Measurement

The Company's unconsolidated financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments, financial assets at fair value through other comprehensive income (FVTOCI), which are measured at fair value, as further explained in accounting policies for financial instruments.

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

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

As disclosed in Notes 1 and 15 to the unconsolidated financial statements, the Company holds a 49% equity interest in the associate MTEL d.o.o. Podgorica (Republic of Montenegro) over which the Company has significant influence and the power to participate in the financial and operating policies and decisions of the associate but this power is not control or joint control over those policies and decisions.

In these unconsolidated financial statements investments in the associate are stated at cost less impairment, if any. In accordance with International Financial Reporting Standard (IFRS) 10, "Consolidated Financial Statements", the Company has prepared and issued its consolidated financial statements for the year ended December 31, 2018, 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. BASIS OF PREPARATION AND PRESENTATION OF THE UNCONSOLIDATED FINANCIAL STATEMENTS AND ACCOUNTING CONVENTION (Continued)

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 ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") have been effective over the current period:

	Effective for annual periods beginning on or after	Amendments	Impact on the presentation of the financial statements
IFRS 9 "Financial Instruments"	January 1, 2018	IFRS 9 "Financial Instruments" supersedes IAS 39 "Financial Instruments". IFRS 9 includes revised guidelines for classification and measurement of the financial instruments, and a new model of expected credit loss for measurement of impairment of financial asset and new general requirements for hedge accounting. Financial assets are classified based on the business model for managing of the financial assets and contractual characteristics of the cash flows.	No material impact on the Company's performance except for additional disclosures
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018	This standard supersedes the current guidelines for revenue recognition, including IAS 18 "Revenue" and IAS 11 "Construction Contracts" and relating interpretations thereof. IFRS 15 provides a comprehensive five-step model for revenue recognition applicable to all contracts with customers. The standard provides guidelines for the time of revenue recognition, accounting for variable income, costs of contract realization or contract negotiating and execution and other related matters.	No material impact; Deferred receivables per combined services were reclassified to contractual assets, while capitalized costs of contracting were recognized within intangible assets
IFRS 1and IAS 28 Amendments resulting from the annual project of improvements to IFRS/IAS (Cycle 2014 – 2016)	January 1, 2018	Includes clarifications for several issued standards.	No material impact
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	January 1, 2018	IFRIC 22 clarifies what exchange rate is to be applied to the initial recognition of foreign currency transactions when the payment has been made before realization of assets, costs or revenues.	No material impact
IAS 40 "Investment Property"	January 1, 2018	Amendments clarify the transfers from/to investment property.	No material impact
IFRS 2 "Share-Based Payments	January 1, 2018	Amendments clarify classification and measurement of share-based payments.	No material impact
IFRS 4 "Insurance Contracts"	January 1, 2018	Entities applying IFRS 4, whose prevailing activity is insurance, may temporarily postpone the adoption and application of IFRS 9 until the effective date of the new standard on insurance contracts.	No material impact

As stated in the table above, IFRS 15 had no material impact on the Company's performance, while IFRS 9 was adopted and applied for the first time for the period beginning on January 1, 2018.

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

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

At the date of approval of these unconsolidated financial statements the following new standards and revisions of and amendments to the existing standards were in issue but not yet effective:

New standards and/or amendments to the existing standards in issue but not yet effective	Effective on or after
IFRS 16 "Leases"	January 1, 2019
IFRS 17 "Insurance Contracts"	January 1, 2021
IFRIC 23 "Uncertainty over Income Tax Treatments"	January 1, 2019
Amendments to various standards due to "Improvements to IFRSs (cycle 2015-2017)" resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording	January 1, 2019
Amendments to IFRS 9 "Financial Instruments" – Prepayment Features with Negative Compensation	January 1, 2019
Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded)	-
Amendments to IAS 19 "Employee Benefits" – Plan Amendment, Curtailment or Settlement	January 1, 2019
Amendments to IAS 28 "Investments in Associates and Joint Ventures" - Long-term Interests in Associates and Joint Ventures	January 1, 2019
Amendments to IFRS 3 "Business Combinations" - Definition of a Business	January 1, 2020
Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" - Definition of Materiality	January 1, 2020
Amendments to References to the Conceptual Framework in IFRS Standards	January 1, 2020

Management of the Company elected not to adopt these new and revised standards prior to their effective date.

Management of the Company analyzed the standard considered as having the most significant potential impact, i.e., IFRS 16 "Leases". IFRS 16 "Leases", which will be effective for annual periods beginning on or after January 1, 2019, introduces significant changes for lessees and will have a material impact on any entity with material amounts currently accounted for as operating leases. Contrarily, the accounting requirements pertaining to lessors mostly remain unaltered in comparison to IAS 17. The Company will apply the modified retrospective transition to the implementation of this standard, i.e., the cumulative catch-up approach, to its leases, with the adjustment of the opening balance of retained earnings as of the first-time adoption date, in accordance with IFRS 16. C5(b).

In preparation for implementation of IFRS 16, the Company performed the analysis of its impact on the financial statements and found that the newly introduced requirement for recognition of the right-of-use (ROU) assets and the relating lease liabilities will have significant effects on the Company's financial statements in the period of the standard's initial application.

Upon first-time adoption of IFRS 16, the Company will recognize:

- the right-of-use assets along with the relating lease liabilities measured at the present value of the future lease payments;
- depreciation charge for the right-of-use assets and interest on lease liabilities in the statement of profit or loss; and
- separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the cash flow statement.

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

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

For all the short-term leases (with the remaining lease periods of 12 months or less) and leases of low-value assets, the Company has opted to recognize lease expenses on a straight-line basis over the lease term as permitted by IFRS 16. According to the preliminary IFRS 16 impact analysis results, as of January 1, 2019, the Company should recognize ROU assets and the corresponding lease liabilities in the amount ranging from BAM 59 million to BAM 62 million.

Moreover, the impact of the standard adoption would lead to decrease in other expenses by about BAM 12 million, while the depreciation/amortization charge would increase by BAM 11 million and interest expenses would rise by about BAM 1.5 million.

In line with IAS 17, all operating lease payments are presented within the operating cash flows in the statement of cash flows. The adoption of IFRS 16 would result in decreased operating cash outflows by BAM 11 million, while the financing activity cash outflows would increase by the same amount.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Revenues

Revenue Recognition

The Company recognizes revenues when the performance obligations to transfer the promised goods or services to the customers are satisfied. The performance obligations are satisfied when the customer acquires control over the goods or services transferred.

The transaction price is determined based on the defined prices for individual items, if any, or on the estimated price the Company expects to realize under the prevailing market conditions.

The Company makes estimates affecting the determination of the amount and timing for recognition of revenues from contracts with customers, which involves determining the time of performance obligation fulfillment and the transaction price allocated to the performance obligations. For performance obligations satisfied over time, the Company uses the output method based on the passage of time and the revenue is recognized on a straight-line monthly basis, as the transaction price, allocated to those services, is recognized as at the time of the initial sales transaction and realized during the period of service rendering (up to two years from the date of ordering services along with goods). For performance obligations satisfied at a point in time, the Company performs one-off revenue recognition at a specific point in time, i.e., the time of fulfillment of the performance obligation when the goods are delivered and services are performed.

As per contracts falling within the scope of IFRS 15, revenues are recognized based on the sales invoiced. The Company is entitled to request from the customer the amount directly corresponding to the value of the service rendered in the agreed period in which the Company invoiced a certain amount for the particular service rendered. Revenue consists mainly from charges to customers for calls from the fixed line and mobile networks, monthly subscription fees charged for providing access services, sale of combined services – service packages, interconnections, Internet, integrated services and other similar services.

3.1.1. Revenues from Fixed Line Telephony

The Company recognizes usage (fixed-line telephony) revenue based upon minutes of traffic processed. The telecommunication subscription to fixed-line telephony is invoiced on a monthly basis, one month in arrears.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.1. Revenues (Continued)

3.1.2. 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. Income and expenses from interconnection are stated in gross amounts.

3.1.3. 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 minutes, data transfer, income from the connection of new subscribers, text messages, as well as other additional services.

Revenue from the telephony traffic is recognized on the basis of traffic minutes. 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.

3.1.4. Income from the Sale of Combined Services

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

If these services are sold under multiple element arrangements, the total transaction price is allocated to the individual performance obligations. As a result, income from the delivered hardware is recognized on commensurately to the transaction price as an item within income from the sales of combined services. The transaction price is determined based on the defined prices for individual items, if any, or on the estimated price the Company expects to realize under the prevailing market conditions.

3.1.5. Income and Expenses from International Settlements and Roaming

Income and expenses from the services of the public fixed and mobile telecommunication networks rendered in the international telephony traffic are recognized based on the traffic realized and calculated as per the contractually agreed tariffs of the foreign operators via whose network the traffic is realized.

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 and expenses 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 (receivable) only when it can be measured with reasonable certainty. Where evidence exists that an expense (payable) may be incurred, a full provision is recognized, in instances where such an estimate is possible. When it is not possible to estimate the extent of a liability, an appropriate disclosure is made in these financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.1. Revenues (Continued)

3.1.5. Income and Expenses from International Settlements and Roaming (continued)

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 amounts based on the traffic realized throughout the period.

3.1.6. Internet Income

Internet income comprises income from services of direct access to the Internet provided over the fixed telephony network using ADSL, VDSL or GPON technologies and income from direct Internet access 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.

3.1.7. Integrated services

Income from the integrated services refers to the income from integrated services of fixed telephony, mobile telephony, Internet access and IPTV services organized in appropriate sets of services, i.e., packages, which may yet need not include all of the aforesaid services.

3.1.8. 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. Finance and Operating Leases

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

The Company as Lessor

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

The Company as a Lessee

Assets held under finance leases are initially recognized as assets of the Company at their present value of the minimum lease payments determined at the inception of the lease. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Company's general policy on borrowing costs.

Lease payments under an operating lease are recognized as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit.

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 effective at that date.

Non-monetary assets and liabilities denominated in foreign currencies, which are measured at historical cost, are translated into BAM at foreign exchange rates prevailing at the transaction date. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at fair value, are translated into BAM at foreign exchange rates effective as of the fair value assessment 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 profit or loss within finance income or finance expenses (Note 11).

3.4. Corporate Income Taxes

Income taxes comprise current income tax expenses and deferred income taxes. Both current and deferred income taxes are recognized in the statement of profit or loss unless arising from business combinations of items recognized directly within equity or other comprehensive income.

Current income tax relates to the amount payable in accordance with the Corporate Income Tax Law. Current income tax is payable at the rate of 10% applied to the taxable income 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 statement of financial position 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 and tax credits available for carryforwards, to the extent that it is probable that taxable profit will be available against which the tax loss and tax credits carryforwards can be utilized.

The prescribed model for calculation of depreciation/amortization costs within the tax statement entails grouping of fixed assets into four classes with defined respective depreciation / amortization rates, with prescribed individual and group calculation of depreciation/amortization expenses.

The prescribed depreciation / amortization rates are presented below:

	Tax statement rates (%)
Individual calculation of depreciation/amortization charge – straight-line method	
Property and plant	3%
Intangible assets other than software	10%
Group calculation of depreciation/amortization charge – degressive 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 arising between the carrying value of an asset and its tax-purpose amount is recognized as a deferred tax liability when the tax depreciation/amortization is accelerated, and as a deferred tax asset when the tax depreciation / amortization is slower that the accounting depreciation / amortization.

3.5. Intangible Assets

Intangible assets include telecommunication licenses, software and other licenses and capitalized contract costs.

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 billed by suppliers, increased by import duties and non-refundable purchase taxes and any costs directly attributable to bringing the asset to the location and condition for its intended use. 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

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 billed by suppliers, increased by import duties and non-refundable purchase taxes and any costs directly attributable to bringing the asset to the location and condition for its intended use. Cost is reduced by all received discounts and/or rebates. Cost of the constructed property and equipment represents cost thereof as of the date of construction or development completion.

Property and equipment represent assets with an expected useful economic life of over one year. Gains or losses on the retirement or disposal or sale of property and equipment are credited or charged, as appropriate, directly to the statement of profit and loss within other operating income or 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

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

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

The estimated useful lives of particular classes of property and equipment, as well as intangible assets used in the calculation of depreciation and amortization, and prescribed depreciation and amortization rates in use for the year ended December 31, 2018 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	25	4
Distribution network and channeling	16.7 – 33.3	3 - 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, and not through further use. This condition is deemed fulfilled only if the sale of an asset (or a disposal group) is highly probable and if the asset (or the disposal group) is available for immediate sale in its present condition. Management must be committed to a plan to sell such assets, and the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9. Impairment of Non-Financial Assets

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

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

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

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

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

As of December 31, 2018, in the management's opinion, there were no indications that the value of the Company's intangible assets, property and equipment had suffered impairment.

3.10. Investments in Subsidiaries

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11. Investments in Associates

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

Investments in associated were stated in these unconsolidated financial statements at cost, less any impairment.

3.12. Financial Instruments

The classification of financial instruments depends on their nature and purpose and is determined at the time of initial recognition, entailing:

1) financial assets,
2) financial liabilities and
3) equity instruments.

Financial Assets

Financial assets are recognized at the moment when the Company has become a party to the contractual provisions of a particular financial instrument.

Financial assets are initially recognized at fair value of the consideration given or received. Transaction costs directly attributable to the acquisition of financial assets are included in the initial measurement of all financial assets except for financial assets at fair value through profit and loss. Following the initial recognition, financial assets are measured at:

1) amortized cost,
2) fair value through other comprehensive income (FVtOCI), and
3) fair value through profit or loss (FVtPL)

Financial assets are measured at amortized cost if held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and if the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, unless they are initially irrevocably recognized at fair value through profit or loss (if this results in significant decrease/elimination of the accounting mismatch).

Financial assets are measured at amortized cost using the effective interest method.

The effective interest rate is calculated based on the estimated future cash flows, not including the expected credit losses. Once calculated upon initial recognition, the effective interest rate is used upon subsequent calculation of interest income (applied to the gross carrying amount or amortized cost, depending on the impairment of the asset). Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial. Financial assets are impaired via an impairment allowance account.

Upon calculation of the impairment allowance of its financial assets, the Company applies the expected credit loss model by considering the probability of default of the counterparty during the expected life (contractual term) of the financial asset. The Company assesses loans and receivables for impairment grouped per different customer characteristics and historical loss trends.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.12. Financial Instruments (Continued)

Financial Assets (Continued)

Financial assets are measured at fair value through other comprehensive income (FVTOCI) if held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and for sale, and if the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, unless they are initially irrevocably recognized at fair value through profit or loss (if this results in significant decrease/elimination of the accounting mismatch).

Upon initial recognition, an entity may irrevocably elect to present within its other comprehensive income subsequent changes in the fair value of an investment in an equity instrument, which is not an investment held for trading or an unforeseen amount recognized within business combinations, to which IFRS 3 is applied.

Such an election is made for each individual instrument (or share). The amounts recognized within the other comprehensive income cannot subsequently be reclassified to the profit or loss statement. However, the entity may reclassify the cumulative gains or losses within equity. Dividend on such investments is recognized with the profit or loss statement in accordance with IFRS 9 unless it is clear that the dividend represents partial recovery of the investment costs.

Financial assets cease to be recognized when settled, canceled, expired, written-off or transferred. Transfers are treated as derecognition of assets if all the risks and rewards associated with the assets have been transferred. Otherwise, the Company continues to recognize financial assets.

If the risks and rewards are neither transferred nor retained, the assets are not derecognized unless the control over those assets has been transferred.

Subsequently realized or collected financial investments, advances paid and receivables are recognized as income in the current accounting period.

Financial assets are measured at fair value through profit or loss (FVTPL) only if not measured at amortized cost or at FVTOCI.

Financial Liabilities

Financial liabilities comprise non-current liabilities (long-term borrowings), current trade payables and other liabilities. Financial liabilities are recognized at the moment when the Company has become a party to the contractual provisions of a particular financial instrument. The financial liabilities are initially measured at cost, being the fair value of the consideration given or received.

Transaction costs are included in the initial measurement of all financial liabilities other than financial liabilities at FVTPL.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.12. Financial Instruments (Continued)

Financial Liabilities (continued)

Financial liabilities are subsequently stated at amortized cost using the effective interest rate except for those initially recognized at fair value through profit or loss other than financial liabilities held for trading.

Interest payable on the financial liabilities is calculated using the effective interest method and recorded within the finance expenses of the period. It relates to and is presented within other current liabilities. Financial liabilities cease to be recognized when the Company fulfills the obligations, or when the contractual repayment obligation has either been cancelled or has expired, including the financial liabilities for dividend payment, if the shareholders have not registered for dividend payment for over three years from the shareholder record date (cut-off) date.

3.13. Inventories

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

Materials for combined services mostly relate to the hardware 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.

3.14. Provisions

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

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

3.15. Employee Benefits

a) Employee Taxes and Contributions for Social Security

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

b) Liabilities for Retirement Benefits and Jubilee Awards

The Company has an obligation to pay to its employee's retirement benefits upon retirement in the amount of three previous monthly net 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 times the average monthly salary paid by the Company.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.15. Employee Benefits (continued)

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

IAS 19 “Employee Benefits” requires the calculation and accrual of present value of accumulated rights to retirement benefits and jubilee awards.

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, which is monitored on a quarterly or annual basis and recorded within staff costs, as well as the provision made in this respect when estimated that a vesting employee will become entitled to the bonus payment.

3.16. 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 analyzing their results. Segment information is analyzed based on the type of services provided by the operating components of the Company (Note 38).

4. KEY ACCOUNTING ESTIMATES

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

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

Estimated Useful Life of Property, Equipment and Intangible Assets

The estimates of useful lives of property, equipment and intangible assets are founded on the historical experience with similar assets, as well as foreseen technical advancement and changes in economic and industrial factors. 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/prolong the average useful life of assets by 10%, this would have resulted in an increased/decreased depreciation and amortization charge of BAM 9,873,728 for the year Ended December 31, 2018 (comparative data for 2017: BAM 10,075,945).

4. KEY ACCOUNTING ESTIMATES (Continued)

Impairment Allowance of Trade Receivables

Upon calculation of impairment allowance, the Company uses the expected credit loss model by considering the probability of the counterparty default over the expected contractually defined life cycle of the financial asset. The Company assesses receivables for impairment grouped based on certain customer characteristics and historical loss trends (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 (Note 29).

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 financial statements and are associated with the income and expenses generated on all incoming and outgoing international calls realized with the countries maintaining direct international traffic calculation and settlement.

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 (Notes 23 and 31). Management believes that the internal calculations/accounts of international traffic are adequate and that they reflect the actually realized international traffic in the relevant 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 and Bosnia and Herzegovina sufficient market experience, stability and liquidity do not presently exist for the purchase and sale of financial assets or liabilities for which quoted prices on an active market are not readily available. Hence, the fair value cannot be reliably determined in the absence of an active market. If a quoted price in an active market is unavailable as evidence of the instrument's fair value, the fair value for the same asset or liability is assessed by applying valuation techniques that use available market inputs.

5. SALES OF GOODS AND SERVICES

	Year Ended December 31, 2018	2017
Sales in domestic market:		
- fixed line telephony	69,434,971	77,522,927
- mobile line telephony	192,886,749	196,649,011
- integrated services	59,687,528	52,244,573
- Internet services	20,918,259	21,370,876
- combined services	39,457,220	38,375,136
- goods	1,089,938	452,663
Total sales in domestic market	**383,474,665**	**386,615,186**
International market (international settlement) sales	**30,759,785**	**32,837,431**
Total sales of goods and services	**414,234,450**	**419,452,617**

International market sales mostly refer to the sales made in the Republic of Serbia.

6. OTHER OPERATING INCOME

	Year Ended December 31, 2018	2017
Rental income	2,296,874	2,113,290
Reversal of deferred income (from grants) (Note 27)	12,367	93,658
Other income	13,378,989	2,467,759
	15,688,230	**4,674,707**

Other income for the major part relates to the write-off of expired liabilities from the prior periods.

7. COST OF MATERIALS, GOODS AND COMBINED SERVICES

	Year Ended December 31, 2018	2017
Materials for combined services	48,975,471	48,354,777
Cost of commercial goods sold	1,044,971	446,450
Electricity	5,384,209	5,141,252
Fuel and lubricants	1,358,756	1,271,877
Other costs of materials	2,207,531	2,426,024
	58,970,938	**57,640,380**

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

8. STAFF COSTS

	Year Ended December 31, 2018	2017
Net employee salaries and benefits	33,224,048	33,023,773
Payroll taxes and contributions	28,094,381	27,412,433
Remunerations to Management Board and Audit Committee	278,920	303,436
Employee retirement benefits	840,573	750,116
Other staff costs	10,183,629	9,368,984
	72,621,551	**70,858,742**

9. COST OF PRODUCTION SERVICES

	Year Ended December 31, 2018	2017
International settlement costs	29,415,992	29,996,233
Maintenance costs	19,796,818	17,697,118
Rental costs – lease of land and business premises	14,350,687	17,009,074
Marketing and advertising costs	11,459,488	11,832,826
Fees for media content transmission	13,580,075	9,933,705
Cost of other production services	17,577,771	19,594,710
	106,180,831	**106,063,666**

10. OTHER OPERATING EXPENSES

	Year Ended December 31, 2018	2017
Indirect taxes and contributions payable	3,731,572	3,586,690
Fees payable to the Communications Regulatory Agency	7,049,909	7,269,151
Losses on retirement and disposal of property, equipment and intangible assets	630,835	527,499
Shortages	18,276	34,471
Provisioning charge (Notes 28 and 29)	759,790	508,320
Other expenses	9,703,788	9,588,981
	21,894,170	**21,515,112**

Other expenses mostly pertain to the other non-production services, administrative fees and considerations payable to youth and student employment agencies.

11. FINANCE INCOME AND EXPENSES

	Year Ended December 31, 2018	2017
Interest income:		
- interest on deposits	671,711	1,115,721
- other interest income	897,914	1,146,320
	1,569,625	2,262,041
Other finance income	129,596	247,472
Foreign exchange gains	255,285	584,458
Total finance income	1,954,506	3,093,971
Interest expenses:		
- arising from loan agreements	(1,274,095)	(309,714)
- other interest expenses	(24,420)	(21,609)
	(1,298,515)	(331,323)
Foreign exchange losses	(427,006)	(210,118)
Total finance expenses	(1,725,521)	(541,441)
Finance income, net	**228,985**	**2,552,530**

12. INTANGIBLE ASSETS

December 31, 2018 and 2017

	GSM License	UMTS License	Other Licenses	Other Intangible Assets	Contract Costs Capitalized	Investments in Progress	Total Intangible Assets
Cost							
Balance, January 1, 2017	117,182,447	23,296,086	8,013,963	64,764,476	-	26,142,522	239,399,494
Additions	-	-	207,299	1,259,228	-	2,062,969	3,529,496
Transfers	-	-	1,319,686	4,690,265	-	(6,009,951)	-
Activations	-	-	-	614,221	-	(614,221)	-
Transfers from property and equipment	-	-	-	-	-	100,454	100,454
Other	-	-	-	390,396	-	-	390,396
Balance, December 31, 2017	**117,182,447**	**23,296,086**	**9,540,948**	**71,718,586**	**-**	**21,681,773**	**243,419,840**
Balance, January 1, 2018	117,182,447	23,296,086	9,540,948	71,718,586	-	21,681,773	243,419,840
Additions	-	-	296,817	2,230,987	4,749,388	3,570,500	10,847,692
Activations and transfers	-	-	993,635	1,545,678	-	(2,539,313)	-
Transfers from property and equipment	-	-	-	-	-	47,163	47,163
Retirement and disposal	-	-	(153,200)	(3,130,269)	-	-	(3,283,469)
Balance, December 31, 2018	**117,182,447**	**23,296,086**	**10,678,200**	**72,364,982**	**4,749,388**	**22,760,123**	**251,031,226**
Accumulated Amortization							
Balance, January 1, 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
Transfers from property and equipment	-	-	-	88,969	-	-	88,969
Other	-	-	-	181,043	-	-	181,043
Balance, December 31, 2017	**103,197,378**	**13,466,691**	**7,378,424**	**53,549,346**	**-**	**-**	**177,591,839**
Balance, January 1, 2018	103,197,378	13,466,691	7,378,424	53,549,346	-	-	177,591,839
Charge for the year	7,816,069	1,553,849	1,007,170	7,796,200	1,348,858	-	19,522,146
Retirement and disposal	-	-	(153,200)	(3,124,772)	-	-	(3,277,972)
Other	-	-	-	-	114,619	-	114,619
Balance, December 31, 2018	**111,013,447**	**15,020,540**	**8,232,394**	**58,220,774**	**1,463,477**	**-**	**193,950,632**
Net Book Value							
as at December 31, 2018	**6,169,000**	**8,275,546**	**2,445,806**	**14,144,208**	**3,285,911**	**22,760,123**	**57,080,594**
as at December 31, 2017	**13,985,069**	**9,829,395**	**2,162,524**	**18,169,240**	**-**	**21,681,773**	**65,828,001**

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

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

Other intangible assets predominantly refer to the software in use.

Capitalized contract costs pertain to the assets arising from the costs of implementing or obtaining contracts, which are capitalized under IFRS 15 and recognized over the average customer contract term. Capitalized contract costs are amortized on a straight-line basis over the duration of a particular subscriber contract (generally up to two years), which is the period in which contractually agreed services are rendered to the customer. For the year ended December 31, 2018 amortization charge incurred in this respect amounted to BAM 1,348,858. No impairment losses were identified in these assets.

Investments in progress predominantly refer to the software in progress.

13. PROPERTY AND EQUIPMENT

December 31, 2018 and 2017

	Land	Infrastructure	Leasehold Improvements	Equipment	Investments in Progress	Total Property and Equipment
Cost						
Balance, January 1, 2017	1,538,276	661,951,543	3,623,090	668,021,737	98,523,487	1,433,658,133
Additions	-	1,347,149	162,174	4,629,635	67,704,001	73,842,959
Activations	171,738	22,657,298	204,390	68,011,306	(91,044,732)	-
Transfers	-	920	-	(5,255)	-	(4,335)
Transfer to intangible assets	-	-	-	(88,969)	(11,485)	(100,454)
Retirement and 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 of equipment	-	-	-	(351,830)	193,763	(158,067)
Sales	-	(309,158)	-	-	-	(309,158)
Transfer to assets held for sale	-	-	-	(415,772)	(28,562)	(444,334)
Balance, December 31, 2017	**1,710,014**	**686,375,185**	**2,874,935**	**709,598,856**	**75,163,674**	**1,475,722,664**
Balance, January 1, 2018	1,710,014	686,375,185	2,874,935	709,598,856	75,163,674	1,475,722,664
Additions	10,296	66,568,358	107,339	3,048,441	72,228,443	141,962,877
Activations	14,270	17,463,297	340,721	47,881,067	(65,699,355)	-
Transfers	-	-	-	(6,777)	-	(6,777)
Transfer from/to intangible assets	-	-	-	93,832	(140,995)	(47,163)
Retirement and disposal	-	(30,622)	(230,829)	(29,580,481)	(169,311)	(30,011,243)
Shortages	-	-	-	(9,165)	-	(9,165)
Surpluses	-	786,951	-	-	-	786,951
Dismantlement of equipment	-	-	-	(702,857)	282,751	(420,106)
Sales	-	(50,398)	-	-	-	(50,398)
Transfer to assets held for sale	-	-	-	(589,008)	(36,519)	(625,527)
Donation of equipment	-	-	-	(45,000)	-	(45,000)
Other	-	2,450	(3,390)	7,875	-	6,935
Balance, December 31, 2018	**1,734,580**	**771,115,221**	**3,088,776**	**729,696,783**	**81,628,688**	**1,587,264,048**
Accumulated Depreciation						
Balance, January 1, 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
Retirement and disposal	-	(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 of equipment	-	-	-	(158,067)	-	(158,067)
Sales	-	(169,432)	-	-	-	(169,432)
Transfer to assets held for sale	-	-	-	(346,170)	-	(346,170)
Transfer to intangible assets	-	-	-	(88,969)	-	(88,969)
Transfers	-	48	-	(2,710)	-	(2,662)
Balance, December 31, 2017	**-**	**495,452,855**	**2,102,203**	**486,759,806**	**-**	**984,314,864**
Balance, January 1, 2018	-	495,452,855	2,102,203	486,759,806	-	984,314,864
Charge for the year	-	18,303,439	302,284	60,609,409	-	79,215,132
Retirement and disposal	-	(14,040)	(230,829)	(29,156,752)	-	(29,401,621)
Shortages	-	-	-	(3,188)	-	(3,188)
Surpluses	-	786,951	-	-	-	786,951
Dismantlement of equipment	-	-	-	(420,106)	-	(420,106)
Sales	-	(15,709)	-	-	-	(15,709)
Transfer to assets held for sale	-	-	-	(487,008)	-	(487,008)
Donation of equipment	-	-	-	(45,000)	-	(45,000)
Other	-	-	(1,032)	2,521	-	1,489
Balance, December 31, 2018	**-**	**514,513,496**	**2,172,626**	**517,259,682**	**-**	**1,033,945,804**
Net Book Value						
as at December 31, 2018	**1,734,580**	**256,601,725**	**916,150**	**212,437,101**	**81,628,688**	**553,318,244**
as at December 31, 2017	**1,710,014**	**190,922,330**	**772,732**	**222,839,050**	**75,163,674**	**491,407,800**

13. PROPERTY AND EQUIPMENT (Continued)

As at December 31, 2018, investments in progress mainly related to the purchased telecommunication equipment not yet placed into use.
As at December 31, 2018, 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 totaled BAM 58,150,603 (December 31, 2017: BAM 41,020,686).

14. INVESTMENTS IN SUBSIDIARIES

	Equity Interest	December 31, 2018	December 31, 2017
Investments in the subsidiaries:			
- Logosoft d.o.o. Sarajevo	100%	27,357,514	27,357,514
- Mtel Austria GmbH, Vienna	100%	17,670,924	14,737,179
		45,028,438	**42,094,693**

Logosoft* d.o.o. *Sarajevo

In 2014 the Company acquired a 65% equity interest in Logosoft d.o.o Sarajevo. In 2017, the Company purchased the remaining 35% equity interest and became the sole (100%) owner of this subsidiary.

As at December 31, 2018, the Company's management assessed the aforesaid investment in the subsidiary for potential impairment based on the analyses of the discounted cash flows, the sales volume realized through the current activities and the new activities, savings and investments as well as other operating activities of the subsidiary planned for the forthcoming periods. As of theses unconsolidated financial statements' preparation date, there were no indications that the assumptions used in the impairment assessment were not feasible.

Mtel Austria GmbH*, *Vienna, Austria

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

From the incorporation date up to December 31, 2017, the initial capital of Mtel Austria was increased as well as equity reserves by the total of EUR 7,500,000 (equivalent to BAM 14,668,725).

On April 20, 2018, the Company's Management Board enacted a decision to approve of additional monetary contribution to *Mtel Austria GmbH* of EUR 1,500,000 (equivalent to BAM 2,933,745). Until the preparation date of these unconsolidated financial statements, the aforesaid amount was paid in two tranches, which *Mtel Austria GmbH* recorded as monetary contributions to equity reserves.

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

15. INVESTMENTS IN THE ASSOCIATE

	Equity Interest	December 31, 2018	December 31, 2017
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 December 31, 2018, the Company held a 49% equity interest in MTEL d.o.o. Podgorica, Republic of Montenegro, which is also involved in provision of telecommunication services in the territory of Montenegro.

The total contributions made to MTEL d.o.o. Podgorica, after the initially agreed consideration for the purchase of the 49% equity interest paid on February 1, 2010, capital increases and other costs arising in connection with the transaction, and non-monetary contribution made amounted to BAM 74,563,739.

MTEL d.o.o. Podgorica prepared its separate financial statements for the year ended December 31, 2018.

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

	December 31, 2018	December 31, 2017
Non-current assets	362,176,357	288,078,382
Current assets	135,264,227	138,589,009
Current liabilities	181,916,548	148,100,458
Non-current liabilities	158,508,455	188,833,305

	Year Ended December 31,	
	2018	2017
Income	143,178,466	135,112,587
Profit from continuing operations	18,538,137	15,403,669
Net profit for the year	**13,141,926**	**10,917,404**
Other comprehensive income for the year	-	-
Total comprehensive income of the associate	**13,141,926**	**10,917,404**
Dividends received from the associate	-	-

16. OTHER INVESTMENTS

	Equity Interest	December 31, 2018	December 31, 2017
Financial assets measured at fair value through OCI:			
- Nova banka a.d. Banja Luka	0.02%	5,788	6,431
		5,788	6,431
Financial assets measured at amortized cost:			
- Long-term bonds issued by the Republic of Srpska		54,157	64,815
- Center for International Law and International Business Cooperation Banja Luka	22.97%	400	400
		54,557	65,215
		60,345	**71,646**

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) within the statement of other comprehensive income. Financial assets measured at amortized cost relate to the bonds of the Republic of Srpska issued by the RS Ministry of Finance in order to pay for the debt of budget beneficiaries towards to the Company. The bonds were issued with maturities of up to 15 years, starting from December 31, 2007, with the grace period of 5 years and an interest rate of 1.5% annually. The bonds are measured at amortized cost applying the effective interest rate.

17. LONG-TERM LOANS AND RECEIVABLES

	December 31, 2018	December 31, 2017
Long-term loans to employees	99,440	120,823
Less: Current portion of long-term loans (Note 22)	(82,264)	(84,864)
Total non-current portion of long-term loans to employees	17,176	35,959
Long-term loans to related parties	2,495,626	-
Less: Current portion of long-term loans (Note 22)	(1,046,698)	-
Total non-current portion of long-term loans to related parties	1,448,928	-
Other long-term deposits and investments	6,000,000	27,000,000
Total long-term loans and receivables	**7,466,104**	**27,035,959**
Less: Accumulated impairment losses:		
- impairment allowance of long-term loans	(6,159)	(8,733)
	7,459,945	**27,027,226**

Other long-term investments refer to the Company's long-term deposits placed with commercial banks in Bosnia and Herzegovina under market-prevailing terms.

18. INVENTORIES

	December 31, 2018	December 31, 2017
Materials	3,921,807	4,220,037
Goods	142,426	168,165
Materials for combined services	9,020,068	11,286,237
Advances paid to suppliers	660,232	2,568,232
	13,744,533	**18,242,671**

Write-off of inventories in 2018 amounted to BAM 153,054 (2017: BAM 87,144).

19. TRADE RECEIVABLES

	December 31, 2018	December 31, 2017
Trade receivables:		
- related parties (Note 34 a)	6,873,126	6,042,160
- domestic	112,118,213	110,445,434
- foreign	1,504,349	1,824,240
Total gross trade receivables	**120,495,688**	**118,311,834**
Less: Impairment allowance of trade receivables for expected credit losses	(56,490,222)	(54,292,527)
	64,005,466	**64,019,307**

The Company's total gross trade receivables as of December 31, 2018 amounted to BAM 120,495,688. The Company used a simplified approach in recognition of the lifetime expected credit losses for trade receivables and other receivables not containing a significant financing component, by grouping those per different customer characteristics and historical loss trends.

The total amount of allowance for impairment thereof as of December 31, 2018 amounted to BAM 56,490,222 representing 46.88% the total gross value of trade receivables. The movements in the allowance for impairment of receivables are shown in Note 21 to the unconsolidated financial statements.

20. OTHER RECEIVABLES

	December 31, 2018	December 31, 2017
Other receivables	1,669,934	1,724,316
Less: Impairment allowance of other receivables for expected credit losses	(594,797)	(735,819)
	1,075,137	**988,497**

21. IMAPIRMENT ALLOWANCE OF CURRENT RECEIVABLES

			2018 and 2017
	Trade receivables (Note 19)	Other receivables (Note 20)	Total
Balance, January 1, 2017	52,772,304	723,773	53,496,077
Charge for the year	2,899,005	121,408	3,020,413
Write-off of receivables	(1,487,393)	(751)	(1,488,144)
Other	108,611	(108,611)	-
Balance, December 31, 2017	**54,292,527**	**735,819**	**55,028,346**
Balance, January 1, 2018	54,292,527	735,819	55,028,346
Charge for the period (Note 10)	3,506,417	40,225	3,546,642
Write-off of receivables	(1,387,566)	(102,403)	(1,489,969)
Other	78,844	(78,844)	-
Balance, December 31, 2018	**56,490,222**	**594,797**	**57,085,019**

22. DEPOSITS AND LOAN RECEIVABLES

	December 31, 2018	December 31, 2017
Short-term deposits	62,009,168	8,000,000
Current portion of long-term loans (Note 17)	1,128,963	84,864
Other short-term investments	90,000	3,325,626
	63,228,131	**11,410,490**

23. PREPAYMENTS

	December 31, 2018	December 31, 2017
Accrued receivables	3,209,640	6,121,985
Contractual assets	13,493,992	13,642,876
Prepaid expenses	248,479	1,149,157
Deferred input and output advance invoices for the purpose of VAT accrual	1,899,712	1,691,455
	18,851,823	**22,605,473**

Accrued receivables mostly, in the amount of BAM 1,669,508, relate to the estimates of the international traffic and roaming made in accordance with the internal calculation of the traffic realized and calculation received from the clearing house, while BAM 1,446,694 pertains to the accrued receivables per the estimated roaming discounts to be received based on the international traffic agreed with other operators.

Contractual assets represent the Company's entitlement to considerations in exchange for goods or services the Company transferred to the customers, when the entitlement is dependent on factors other than the passage of time (e.g., delivery of other elements of the contract). The Company recognizes contractual assets mainly from the contract under which the devices are delivered at a specific time as part of the package with services rendered over time.

24. CASH AND CASH EQUIVALENTS

	December 31, 2018	December 31, 2017
Gyro accounts	63,533,298	18,289,162
Foreign currency accounts	6,116,275	5,596,149
Cash on hand	18,755	33,603
Cash equivalents	100,000	100,000
	69,768,328	**24,018,914**

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 December 31, 2018 and 2017 was as provided in the following table:

	December 31, 2018	%	December 31, 2017	%
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	15,624,294	3.23	16,215,283	3.30
Other shareholders	87,775,560	17.81	87,184,571	17.74
	491,383,755	**100.00**	**491,383,755**	**100.00**

25. EQUITY

Share Capital (Continued)

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

The Company's shares are listed on Banja Luka Stock Exchange (active but insufficiently developed financial market). The market value of one share as of December 31, 2018 was BAM 0.83 (December 31, 2017: BAM 1.06). Earnings and dividend per share are disclosed in Note 35 to the unconsolidated financial statements.

Legal Reserves

Legal reserves in the amount of BAM 49,141,766 at December 31, 2018 represent allocations from profit made pursuant to Article 231 of the Law on Companies in the amount of no less than 5% of the net profit for the year less prior year losses until such reserves, together with capital reserves, attained a level equivalent to 10% of the Company's total share capital or the legally defined greater portion of the share capital.

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

Other Reserves - Reserves Arising on the Investment Commitment

As of December 31, 2018, other reserves in the amount of BAM 97,791,500 entirely related to 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 BORROWINGS AND CURRENT PORTION OF LONG TERM BORROWINGS

	December 31, 2018	**December 31, 2017**
a) Long-term borrowings:		
- cash loans	140,244,955	-
- borrowings for purchases of equipment	47,537,130	54,903,237
	187,782,085	54,903,237
Total long-term liabilities	**187,782,085**	**54,903,237**
Less: Current portion of long-term borrowings	(28,773,808)	(23,559,751)
Total current portion of long-term liabilities	**(28,773,808)**	**(23,559,751)**
	159,008,277	**31,343,486**

26. INTEREST-BEARING BORROWINGS AND CURRENT PORTION OF LONG TERM BORROWINGS (Continued)

The average interest rate accrued on long-term borrowings (loans for purchase of equipment) equals six-month EURIBOR as increased by the margin ranging from 0.5% to 1.0% annually (2017: six-month EURIBOR as increased by the margin ranging from 0.5% to 1.0% annually). The interest rates applied to the cash loans ranged from 1.92% to 2.2%.

All the borrowings save for those approved by the Government of the Kingdom of Spain and domestic suppliers were denominated in EUR.

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

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

	December 31, 2018	December 31, 2017
Current portion	28,773,808	23,559,751
From 1 to 2 years	36,146,194	18,336,676
From 2 to 3 years	30,627,249	6,252,775
From 3 to 4 years	26,153,910	2,500,122
From 4 to 5 years	25,799,436	1,628,815
After 5 years	40,281,488	2,625,098
Total non-current portion	159,008,277	31,343,486
	187,782,085	**54,903,237**

27. DEFERRED INCOME

	December 31, 2018	December 31, 2017
Grants received	74,202	86,569
Less: Current portion of deferred income	(12,367)	(12,367)
	61,835	**74,202**

Movements on deferred income in FY 2018 and FY 2017 were as follows:

	December 31, 2018	December 31, 2017
Balance, January 1	86,569	56,558
Grants received	-	123,669
Reversal credited to other income	(12,367)	(93,658)
Balance, end of period/year	**74,202**	**86,569**

28. EMPLOYEE BENEFITS

	December 31, 2018	December 31, 2017
Employee benefits		
- non-current portion	6,144,678	6,005,986
- current portion	660,996	744,451
	6,805,674	**6,750,437**

Provisions for employee benefits as of December 31, 2018 in the amount of BAM 6,805,674 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 costs associated with the retirement benefits and jubilee awards are determined using the projected unit credit method, with actuarial calculation performed as of the date of the financial position statement.

Accordingly, the Company has hired a certified actuary to perform the calculation of the present value of accumulated rights to retirement benefits and jubilee awards as at December 31, 2018 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 1.3% annually, projected years of service for retirement - 40 years for men and 35 years for women, the projected staff turnover based on the historical data on the movement of employees in the prior periods, 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 FY 2018 and FY 2017 were as follows:

	Current Portion		Non-Current Portion	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Balance, January 1	744,451	646,188	6,005,986	6,072,848
Charge for the period/year (Note 10)	(83,455)	98,263	743,869	394,866
Transfer from/to the current portion	605,177	461,728	(605,177)	(461,728)
Release of provisions	(605,177)	(461,728)	-	-
Balance, end of year	**660,996**	**744,451**	**6,144,678**	**6,005,986**

29. PROVISIONS

	Year Ended December 31, 2018	2017
Balance, January 1	57,161	207,434
Provisions for litigations	99,376	15,192
Reversal of provisions for litigations	(8,675)	(165,465)
Balance, end of year	**147,862**	**57,161**

30. TRADE PAYABLES

	December 31, 2018	December 31, 2017
Trade payables:		
- related parties (Note 34 a)	4,028,127	5,535,664
- domestic	35,381,134	39,005,122
- foreign	6,821,498	8,362,621
- receivables for uninvoiced investments and services	13,286,810	4,827,397
	59,517,569	**57,730,804**

Trade payables are non-interest bearing. The Company regularly settles its liabilities to suppliers and has financial risk management policies in place which ensure that the liabilities are settled within the agreed time lines. The average days payable outstanding in the year ended December 31, 2018 counted 69 days (year ended December 31, 2017: 80 days).

The ageing structure of trade payables for the years ended December 31, 2018 and 2017 was as follows:

	December 31, 2018	December 31, 2017
From 0 to 30 days	45,464,168	42,156,078
From 31 to 60 days	5,429,502	7,163,584
From 61 to 120 days	6,170,420	5,681,281
From 121 to 180 days	1,893,430	2,309,133
From 181 to 270 days	-	198,806
From 271 to 360 days	560,049	221,922
	59,517,569	**57,730,804**

31. ACCRUALS

	December 31, 2018	December 31, 2017
Deferred income – sales of prepaid top-ups	1,964,756	1,069,259
Accrued liabilities - international traffic	7,251,538	15,352,780
Accrued liabilities for media content distribution	2,209,435	1,578,855
Accrued liabilities per other expenses of the period	7,754,503	6,526,194
Accrued VAT liabilities per advance payment invoices for VAT calculation purposes	1,673,499	1,564,655
Other accruals	160,286	217,338
	21,014,017	**26,309,081**

Accrued liabilities for international traffic amounting to BAM 7,251,538 as of December 31, 2018 mostly refer to the estimated roaming discounts the Company was to approve based on the international traffic realized with the other operators, for which invoices were not yet issued nor were the calculations received from the clearing house (Note 3.1.5.).

Accrued liabilities per other expenses of the period totaling BAM 7,754,503 as of December 31, 2018 represent expenses of the period, for which there was awareness of their occurrence and existence, but the Company had not received the final invoices for goods or services received until the preparation date of these unconsolidated financial statements.

32. OTHER LIABILITIES

	December 31, 2018	December 31, 2017
Advances and prepayments received	2,048,081	1,603,955
Taxes and customs duties charged to expenses	245,799	246,104
Value added tax payable	3,174,755	1,261,223
Liabilities to employees	303	1,493
Other liabilities	354,327	167,521
	5,823,265	**3,280,296**

33. INCOME TAXES

(a) Components of Income Taxes

	Year Ended December 31, 2018	2017
Current income tax expense	6,529,928	6,638,402
Deferred tax expenses – decrease in deferred tax assets	237,656	129,063
Deferred tax expenses – increase in deferred tax liabilities	415,159	-
	7,182,743	**6,767,465**

33. INCOME TAXES (continued)

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

	Year Ended December 31, 2018	2017
Profit before taxes	68,200,255	66,822,089
Income taxes calculated at the rate of 10%	6,820,026	6,682,209
Adjustments for:		
- Non-taxable income effects	(18,373)	10,118
- Non-deductible costs effects	(271,725)	(53,925)
- Temporary difference effects	652,815	129,063
Income tax expense	7,182,743	6,767,465
Effective tax rate for the period	10.53%	10.13%

(c) Deferred Tax Assets

	Year Ended December 31, 2018	2017
Temporary differences:		
Balance, January 1	506,297	635,360
Deferred tax assets in respect of property and equipment measurement for tax purposes	(237,656)	(129,063)
Balance, end of the year	**268,641**	**506,297**

(d) Deferred Tax Liabilities

	Year Ended December 31, 2018	2017
Temporary differences:		
Balance, January 1	-	-
Deferred tax liabilities in respect of property and equipment measurement for tax purposes	(415,159)	-
Balance, end of the year	**(415,159)**	**-**

(e) Current Tax Liabilities/Receivables

	December 31, 2018	December 31, 2017
Receivables for prepaid income taxes	-	780,876
Current tax liabilities	227,089	-
	227,089	**780,876**

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

	December 31, 2018	December 31, 2017
ASSETS		
a) Trade receivables:		
- Telekom Srbija a.d. Beograd	1,742,380	3,519,097
- MTEL d.o.o. Podgorica	2,947,772	1,641,454
- Mtel Austria GmbH Vienna	1,885,259	565,426
- Logosoft d.o.o. Sarajevo	297,715	316,183
	6,873,126	6,042,160
b) Calculated, but uninvoiced income from international traffic:		
- Telekom Srbija a.d. Beograd	1,003,714	1,828,231
- MTEL d.o.o. Podgorica	187,709	188,632
- Mtel Austria GmbH Vienna	5,820	8,632
- Logosoft d.o.o. Sarajevo	24,620	11,000
	1,221,863	2,036,495
c) Long-term loan receivables:		
- Logosoft d.o.o. Sarajevo	2,495,626	-
d) Short-term loan receivables:		
- Logosoft d.o.o. Sarajevo	90,000	3,325,626
e) Other current receivables:		
- HD - WIN d.o.o. Beograd	-	352
Total receivables	**10,680,616**	**11,404,633**
LIABILITIES		
a) Trade payables:		
- Telekom Srbija a.d. Beograd	(2,102,555)	(3,779,697)
- MTEL d.o.o. Podgorica	(1,175,865)	(499,685)
- Mtel Austria GmbH Vienna	(1,379)	(122)
- HD - WIN d.o.o. Beograd	-	(114,416)
- Logosoft d.o.o. Sarajevo	(638,410)	(1,018,036)
- GO4YU d.o.o. Beograd	(12,126)	-
- MTEL d.o.o. Podgorica – purchases uninvoiced	(97,792)	-
- Telekom Srbija a.d. Beograd – purchases uninvoiced	-	(123,708)
	(4,028,127)	(5,535,664)
b) Estimated costs:		
- Telekom Srbija a.d. Beograd	(1,986,987)	(678,366)
- MTEL d.o.o. Podgorica	(613,428)	(283,375)
- HD - WIN d.o.o. Beograd	(122,044)	(228,832)
- Mtel Austria GmbH Vienna	(226,421)	(129)
- Logosoft d.o.o. Sarajevo	(25,918)	(25,531)
- GO4YU d.o.o. Beograd	(12,126)	(10,757)
	(2,986,924)	(1,226,990)
Total liabilities	**(7,015,052)**	**(6,762,654)**
Receivables, net	**3,665,564**	**4,641,979**

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. As of the reporting date, the Company had no expected credit losses in respect of which impairment allowance of receivables due from related parties would have been made.

34. RELATED PARTY TRANSACTIONS (Continued)

b) STATEMENT OF COMPREHENSIVE INCOME

	Year Ended December 31, 2018	2017
INCOME		
a) Sales of services:		
- Telekom Srbija a.d. Beograd	18,284,970	15,663,918
- MTEL d.o.o. Podgorica	2,986,616	2,986,606
- Mtel Austria GmbH Vienna	540,388	308,913
- Logosoft d.o.o. Sarajevo	1,890,749	1,338,425
	23,702,723	20,297,862
b) Sales of goods:		
- Mtel Austria GmbH Vienna	577,959	-
- Logosoft d.o.o. Sarajevo	132,086	143,356
	710,045	143,356
c) Other income:		
- Telekom Srbija a.d. Beograd	26,990	52,268
- Mtel Austria GmbH Vienna	66,752	-
- Logosoft d.o.o. Sarajevo	26,502	25,785
	120,244	78,053
Total income	**24,533,012**	**20,519,271**
EXPENSES		
a) Costs of international operator settlement:		
- Telekom Srbija a.d. Beograd	(15,262,661)	(14,279,226)
- MTEL d.o.o. Podgorica	(1,597,913)	(1,597,913)
- Mtel Austria GmbH Vienna	(2,815)	(966)
- Logosoft d.o.o. Sarajevo	(1,008,973)	(991,561)
	(17,872,362)	(16,869,666)
b) Maintenance costs:		
- Telekom Srbija a.d. Beograd	(8,821)	(18,108)
- MTEL d.o.o. Podgorica	(113,028)	(78,038)
- Logosoft d.o.o. Sarajevo	(237,650)	(152,476)
	(359,499)	(248,622)
c) Fees for media contents transmission:		
- Telekom Srbija a.d. Beograd	(1,298,830)	(681,228)
- HD - WIN d.o.o. Beograd	(1,464,525)	(1,372,993)
- GO4YU d.o.o. Beograd	(145,514)	(73,344)
	(2,908,869)	(2,127,565)
d) Cost of other production services:		
- Telekom Srbija a.d. Beograd	(1,444,238)	(1,358,140)
- HD - WIN d.o.o. Beograd	-	(12,850)
- MTEL d.o.o. Podgorica	(2,474)	(3,535)
- Logosoft d.o.o. Sarajevo	(870,602)	(783,497)
	(2,317,314)	(2,158,022)
e) Cost of goods sold/combined services		
- Logosoft d.o.o. Sarajevo	(132,086)	(143,356)
- MTEL d.o.o. Podgorica	(550,241)	-
	(682,327)	(143,356)
Total expenses	**(24,140,371)**	**(21,547,231)**
Income/(expenses), net	**392,641**	**(1,027,960)**

34. RELATED PARTY TRANSACTIONS (Continued)

b) STATEMENT OF COMPREHENSIVE INCOME (Continued)

	Year Ended December 31, 2018	2017
Short-term remunerations to the key management personnel:		
- Executive Board	(674,094)	(677,965)
- Management Board	(268,288)	(296,064)
- Audit Committee	(76,235)	(88,816)
	(1,018,617)	**(1,062,845)**

The key management personnel are not entitled to the additional long-term employee benefits or termination benefits other than those disclosed in Note i 3.15.

35. EARNINGS AND DIVIDENDS PER SHARE

	Year Ended December 31, 2018	2017
Profit for the period	61,017,512	60,054,624
Weighted average number of shares outstanding	491,383,755	491,383,755
Earnings per share (basic and diluted)	0.1242	0.1222

On June 6, 2018, the Company's Assembly enacted Decision on the Distribution of Profit Earned in 2017, whereby the profit was distributed to the shareholders in accordance with the Company's Statute, in the amount of BAM 34,630,328 (BAM 0.07047 per share). In addition, on December 7, 2018, the Company's Assembly enacted Decision on Interim Dividend Payment in accordance with the Company's Statute, in the amount of BAM 22,571,691 (BAM 0.04593 per share).

Liabilities for the remaining unpaid dividends to the shareholders totaled BAM 9,884,812 as of December 31, 2018 (December 31, 2017: BAM: 21,564,115).

36. CONTINGENT LIABILITIES

Litigation

The Company appears at times as a defendant in legal suits filed against it by legal entities and private individuals. The estimated contingent liabilities arising from lawsuits filed against the Company as at December 31, 2018 totaled BAM 117,634,655 not including effects of penalty interest and court expenses. The most significant court proceedings are those involving the following plaintiffs: Blicnet d.o.o. Banja Luka claiming BAM 41.5 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 most of these lawsuits are lacking in merit.

As of the issuance date of these unconsolidated financial statements, the legal proceeding instigated by Blicnet d.o.o. Banja Luka was ended without financial consequences to the Company.

36. CONTINGENT LIABILITIES (Continued)

The aforesaid belief that the outcome of the pending lawsuits will be favorable for the Company 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 unlawfulness on the part of the Company. Management further expects that the final outcome of these disputes will not materially hinder the financial operations of the Company. Based on the aforesaid facts, the Company has not recorded a provision for the said legal suits nor does it consider any further disclosures in respect thereof necessary.

As disclosed in Note 29 to the unconsolidated financial statements, as of December 31, 2018, the Company made provisions for contingent losses that might arise from the ongoing lawsuits in the total amount of BAM 147,862. Management estimated that no material losses will be incurred on the outcomes of the remaining pending lawsuits in excess of the amount of the provisions made.

37. FINANCIAL INSTRUMENTS

37.1. Capital Risk Management

The Company manages capital risk in order to ensure the continuity of its business operations for an indefinite period in the foreseeable future and preserve optimal capital structure with a view to decrease the capital-related expenses and provide return on equity to its owners. The Company monitors capital based on the debt to equity ratio.

Management 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.

37.1.1. Debt to Equity Ratio

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

	December 31, 2018	December 31, 2017
Debt (a)	187,782,085	54,903,237
Cash and cash equivalents	(69,768,328)	(24,018,914)
Net debt	**118,013,757**	**30,884,323**
Equity (b)	676,761,630	672,946,780
Debt to equity ratio	17.44%	4.59%

(a) Debt relates to long-term borrowings and current portion of long-term liabilities.
(b) Equity includes share capital, reserves, retained earnings and losses on the financial assets at FVTOCI.

37.1.2. Significant Accounting Policies Regarding Financial Instruments

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

37. FINANCIAL INSTRUMENTS (Continued)

37.2. Categories of Financial Instruments

As disclosed in Note 2 to these unconsolidated financial statements, as from January 1, 2018 the Company has been applying IFRS 9 “Financial Instruments”, which superseded IAS 39 “Financial Instruments: Recognition and Measurement”.

The table below presents categories of financial instruments under IFRS 9 in comparison to the categorization under IAS 39:

Financial instruments	***Categories of financial instruments***		**At December 31, 2018**		**At January 1, 2018**	
	IAS 39	*IFRS 9*	*IAS 39*	*IFRS 9*	*IAS 39*	*IFRS 9*
Financial assets						
Cash and cash equivalents	Loans and receivables	Financial assets subsequently measured at amortized cost	24,018,914			24,018,914
Loans and receivables	Loans and receivables	Financial assets subsequently measured at amortized cost	103,413,241			103,413,241
Other investments						
Financial assets subsequently measured at amortized cost	Financial assets held to maturity	Financial assets subsequently measured at amortized cost	64,815			64,815
Fair value through OCI	Financial assets available for sale	Fair value through OCI	6,831			6,831
			127,503,801			127,503,801
Financial liabilities at amortized costs	*Financial liabilities at amortized costs*	*Financial liabilities at amortized costs*	112,707,510			112,707,510

Categories of financial instruments as of December 31, 2018 and January 1, 2018 are presented in the table below:

	December 31, 2018	**January 1, 2018**
Financial assets		
Financial assets subsequently measured at amortized cost	205,591,563	127,496,970
Financial assets measured at fair value through other comprehensive income	5,788	6,831
	205,597,351	**127,503,801**
Financial liabilities at amortized cost	**257,249,425**	**134,271,625**

37. FINANCIAL INSTRUMENTS (Continued)

37.3. 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.

Over the year ended December 31, 2018, the Company did not enter into transactions with derivative instruments, such as interest rate swaps or forwards.

(1) Market Risk

(a) Foreign Exchange Risk

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

Accordingly, the Company did not perform analysis of the sensitivity to the changes of the foreign exchange rates, except for the USD currency as it had 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	
	December 31, 2018	**December 31, 2017**	**December 31, 2018**	**December 31, 2017**
EUR	12,800,772	12,452,479	137,843,439	59,136,842
USD	566,435	467,308	3,306,165	3,290,178
CHF	2,075	1,419	1,476	-
GBP	2,186	1,484	-	1,082
HRK	1,028	-	6,550	913
RSD	4,311	1,155	3,674	-
	13,376,807	**12,923,845**	**141,161,304**	**62,429,015**

Sensitivity Analysis

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

If the USD to BAM exchange rate were 10% higher / lower on an annual basis, the Company's net profit for the year ended December 31, 2018 would have decreased / increased by the amount of BAM 17,172 (FY 2017: by BAM 37,434).

(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, its income is to a great extent independent of interest rate risk.

37. FINANCIAL INSTRUMENTS (Continued)

37.3. Financial Risk Management (Continued)

(1) Market Risk (Continued)

(b) Interest Rate Risk (Continued)

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

During the year ended December 31, 2018 the largest portion of the Company's liabilities arising from borrowings had a variable interest rate which was linked to EURIBOR. Borrowings at variable interest rates were mostly denominated in foreign currency (EUR).

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

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

Sensitivity Analysis

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

Had interest rates applied to cash loans and loans in kind during the reporting period been higher /lower by 10% annually where other variables remained unaltered, the Company's net profit for FY 2018 would have decreased / increased by BAM 127,410 (FY 2017: by BAM 30,971) as a result of higher/lower interest expenses.

(c) Equity Price Risk

During the reporting period (year ended December 31, 2018), 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.

(2) Liquidity Risk

The liquidity management is centralized within the Company. The ultimate responsibility for liquidity risk management rests with the Company's management, which has established an appropriate liquidity risk management framework for the management of the Company's short-term and long-term funding and liquidity management requirements.

The Company manages its assets and liabilities in such a manner that it is able to meet all of its obligations at any time.

The Company has a sufficient amount of highly liquid assets (cash and cash equivalents), and continuous cash flows from service rendering which enable 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.

37. FINANCIAL INSTRUMENTS (Continued)

37.2. Financial Risk Management (Continued)

(2) Liquidity Risk (Continued)

Maturities of Financial Assets and Liabilities as of December 31, 2018 and December 31, 2017:

Financial assets

December 31, 2018	**Within 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)	134,937,696	1,046,698	1,448,928	-	-	137,433,322
	134,937,696	1,046,698	1,448,928	-	-	137,433,322
At fixed interest rates						
Assets at amortized cost	208,839	62,533,774	157,882	6,288,771	-	69,189,266
Total	135,146,535	63,580,472	1,606,810	6,288,771	-	206,622,588
December 31, 2017						
Non-interest bearing						
Loans and receivables (including cash and cash equivalents)	92,299,896	-	-	-	-	92,299,896
	92,299,896	-	-	-	-	92,299,896
At fixed interest rates						
Assets at amortized cost	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

Financial liabilities

December 31, 2018	**Within 3 months**	**3 - 12 months**	**1 - 2 years**	**2 - 5 years**	**Over 5 years**	**Total**
Other liabilities at amortized cost						
Non-interest bearing	64,288,779	5,178,561	-	-	-	69,467,340
At variable interest rates	7,475,855	21,395,733	36,344,220	83,033,011	40,502,170	188,750,989
Total	71,764,633	26,574,294	36,344,220	83,033,011	40,502,170	258,218,329
December 31, 2017						
Other liabilities at amortized cost						
Non-interest bearing	74,419,670	4,948,718	-	-	-	79,368,388
At variable interest rates	6,719,784	16,935,158	18,458,604	10,450,745	2,642,551	55,206,842
Total	81,139,454	21,883,876	18,458,604	10,450,745	2,642,551	134,575,230

37. FINANCIAL INSTRUMENTS (Continued)

37.2. 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 installments, whereas the employees leaving the Company enter agreements to regulate the manner of repayment of the outstanding loan portion upon leaving the Company.

For credit risk minimization purposes, the Company has developed and maintained credit risk assessment in order to categorize its exposures according to the default risk. Information on the credit rating is obtained from the independent credit rating agencies. In case such information is not available, the Company uses other publicly available financial information and its own data on the trading activity in order to assess its major customers and other debtors. The Company's credit risk exposure and the counterparty credit risk are constantly monitored and the aggregate value of the contractually agreed transactions is diversified among eligible (approved of) parties.

37. FINANCIAL INSTRUMENTS (Continued)

37.2. Financial Risk Management (Continued)

(3) Credit Risk (Continued)

The Company's current framework for credit risk assessment is comprised of the following categories:

Category	Description	Basis for ECL recognition
Performing	Low-level default risk of the counterparty; no outstanding amounts past due	12-month ECL
Doubtful	Amounts outstanding over 30 days past due or a significant increase in credit risk has occurred since the initial recognition	Lifetime ECL – no impairment allowance
Non-performing – Default	Amounts outstanding over 60 days past due or there is objective evidence of impairment	Lifetime ECL – with impairment allowance
Write -off	Evidence of the debtor's severe financial difficulties and there is no realistic likelihood of recovery of the Company's receivables	Written-off amount

The following table present the credit quality of the Company's financial assets, contractual assets and financial guarantees, as well as the Company's maximum credit risk exposure per credit risk assessment.

December 31, 2018	Note	External classification	Internal classification	12-month ECL or lifetime ECL?	Gross exposure	Impairment allowance	Net exposure
Loans and receivables	17	N/P	Performing and non-performing	Lifetime ECL	70,694,234	6,159	70,688,075
Trade receivables	19	N/P	Performing and non-performing	Lifetime ECL	120,495,688	56,490,222	64,005,466
Other receivables	20	N/P	Performing and non-performing i		1,669,934	594,797	1,075,137
Cash and cash equivalents	24	N/P	Performing		69,768,328	-	69,768,328
Financial assets measured at amortized cost	16	N/P	Performing		54,557	-	54,557
Financial assets measured at FVtOCI	16	N/P	Performing		26,600	20,812	5,788
					262,709,341	**57,111,990**	**205,597,351**

37. FINANCIAL INSTRUMENTS (Continued)

37.2. Financial Risk Management (Continued)

(4) Fair Value

Fair Value of Financial Assets Other than Measured at Fair Value

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

	December 31, 2018		December 31, 2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:				
Financial assets measured at amortized cost	54,157	50,003	64,815	51,268
Total	**54,157**	**50,003**	**64,815**	**51,268**

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

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

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

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

				December 31, 2018
	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets at fair value through OCI (Note 16)	5,788	-	-	5,788
Total	**5,788**	**-**	**-**	**5,788**

Total gains presented in the other comprehensive income relate to the financial assets at fair value through other comprehensive income (Nova banka a.d., Banja Luka, Note 16).

38. SEGMENT REPORTING

38.1. Segment information

As of December 31, 2018, under IFRS 8, the Company's reporting segments were as follows:

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

38.2. Segment Revenues and Results

The segment results for the year ended December 31, 2018 are presented in the following table:

	Fixed-Line Telephony and Internet	Mobile Telephony	Total
December 31, 2018			
Sales of goods and services	176,089,484	238,144,966	414,234,450
Other operating income	5,562,475	10,125,755	15,688,230
Inter-segment settlement	62,026,019	30,960,937	92,986,956
Total operating income	**243,677,978**	**279,231,658**	**522,909,636**
Cost of materials, goods and combined services	(12,737,962)	(46,232,976)	(58,970,938)
Staff costs	(31,966,097)	(40,655,454)	(72,621,551)
Depreciation and amortization charge	(46,161,494)	(52,575,784)	(98,737,278)
Cost of production services	(54,313,887)	(51,866,944)	(106,180,831)
Other operating expenses	(8,218,411)	(17,222,401)	(25,440,812)
Inter-segment settlement	(30,960,937)	(62,026,019)	(92,986,956)
Total operating expenses	**(184,358,788)**	**(270,579,578)**	**(454,938,366)**
Profit from operations	**59,319,190**	**8,652,080**	**67,971,270**
Finance income	765,827	1,188,679	1,954,506
Finance expenses	(708,034)	(1,017,487)	(1,725,521)
Finance income, net	**57,793**	**171,192**	**228,985**
Profit before taxes	**59,376,983**	**8,823,272**	**68,200,255**
Income taxes	(2,981,765)	(4,200,978)	(7,182,743)
Net profit for the year	**56,395,218**	**4,622,294**	**61,017,512**

38. SEGMENT REPORTING (Continued)

38.2. Segment Revenues and Results (Continued)

The segment results for the year ended December 31, 2017 are presented in the following table:

	Fixed-Line Telephony and Internet	Mobile Telephony	Total
December 31, 2017			
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	54,250,476	32,706,349	86,956,825
Total operating income	**232,091,891**	**278,992,258**	**511,084,149**
Cost of materials, goods and combined services	(11,011,107)	(46,629,273)	(57,640,380)
Staff costs	(29,881,716)	(40,977,026)	(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	(8,055,667)	(16,479,858)	(24,535,525)
Inter-segment settlement	(32,706,349)	(54,250,476)	(86,956,825)
Total operating expenses	**(181,473,707)**	**(265,340,883)**	**(446,814,590)**
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 taxes	(3,052,492)	(3,714,973)	(6,767,465)
Net profit for the year	**48,632,009**	**11,422,615**	**60,054,624**

Segment revenues and results reported above (FY 2018 and FY 2017) represent revenue generated from external customers. Inter-segment sales during the period have been eliminated.

The accounting policies applicable to the reporting segments are the same as the Company's accounting policies described in Note 3 to the unconsolidated financial statements.

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

The Company's revenue from its major services is presented in detail in Note 5 to the unconsolidated financial statements.

38. SEGMENT REPORTING (Continued)

38.3. Segment Capital Expenditures

Capital expenditures of the segments were as follows:

	Fixed-Line Telephony and Internet	Mobile Telephony	Total
December 31, 2018			
Capital expenditures (Notes 12 and 13)	94,459,080	58,351,489	**152,810,569**
December 31, 2017			
Capital expenditures (Notes 12 and 13)	55,765,358	21,618,869	**77,384,227**

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

39. OPERATING LEASE ARRANGEMENTS

The minimum amount of rent recognized as expenses during the year ended December 31, 2018 amounted to BAM 14,350,687 (the year ended December 31, 2017: BAM 17,009,074).

IFRS 16 “Leases”, which will be effective for annual periods beginning on or after January 1, 2019, introduces significant changes for lessees and will have a material impact on any entity with material amounts currently accounted for as operating leases. Adoption of this standard will have material effects on the Company’s financial statements in the period of its initial application (disclosed in Note 2.4 – Application and Impact of the New and Revised IAS/IFRS).

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: value added tax, corporate income tax, and payroll (social) taxes, among others. Following their introduction, the regulations governing these taxes were not enforced for substantial periods of time; in contrast to similar legislation in more developed market economies. Moreover, the regulations defining the implementation of these laws are often unclear or non-existent.

Hence, few precedents with regard to tax issues have been established in the Republic of Srpska. Often, contrary opinions pertaining to legal interpretations exist both among, and within, governmental ministries and organizations, thus creating uncertainties and areas of legal contention. Tax returns, along with other legal compliance matters (e.g., customs and currency control matters) are subject to review and investigation by a number of authorities that are legally enabled to impose extremely severe fines, penalties and interest charges.

40. TAXATION RISKS (Continued)

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 the 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, the statute of limitation on the tax liabilities is five years. This virtually means that the 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 may differ from those of the management. The Company's management believes that no varying interpretations could have a material impact on the Company's unconsolidated financial statements on the whole.

41. EVENTS AFTER THE REPORTING PERIOD

On January 31, 2019, the Agreement on the Sale and Transfer of the Entire (100%) Equity Interest Held in Blicnet d.o.o. Banja Luka was executed by and between the Seller and Mtel a.d. Banja Luka as the Buyer. In addition, on February 6, 2019, the Agreement on the Sale and Transfer of the Entire (100%) Equity Interest Held in Telrad Net d.o.o. Bijeljina was executed, resulting in the Company becoming the sole owner of Telrad Net d.o.o. Bijeljina.

The transfer of equity interest gave rise to a change in the ownership structure since the ownership of the entire equity interest was transferred to the Buyer, whereby the Buyer was assigned all the rights, obligations and authorizations arising from the equity interest holding. Under the said Agreement, the Buyer, i.e., the Company, became the legal and actual owner of the respective equity interests and acquired all the rights of the owner of the aforesaid entities, among them, the right to be registered with the competent court register as their sole owner.

On January 31, 2019, the District Court of Banja Luka issued a Decision on the Change of Equity Ownership of Blicnet d.o.o. Banja Luka, whereby the Company was registered as the sole owner of Blicnet d.o.o. Banja Luka, whereas on February 6, 2019, the District Court of Bijeljina issued a Decision whereby the Company was registered as the sole owner of Telrad Net d.o.o. Bijeljina.

The total assets of acquired entities amounted to BAM 71,399,870 as of December 31, 2018, while the assumed liabilities totaled BAM 11,325,110 as of that date.

Given that, up to the date of approval of the accompanying financial statements for issue, the company has not fully accounted for the said transactions in accordance with the provisions of IFRS 3 "Business Combinations", the Company was unable to make the following disclosures:

- Qualitative description of the factors comprising the recognized goodwill;
- Fair value of the total consideration transferred as of the acquisition date and the fair value of each major class of assets as of the acquisition date;
- Disclosures on agreement on the contingent compensations and indemnification asset; and
- Disclosures of the acquired receivables.

42. CURRENT ECONOMIC SITUATION AND ITS IMPACT ON THE COMPANY

As expected, throughout the reporting period, the Company's operations were 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 domestic economic activities 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.

43. 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
	December 31, 2018	**December 31, 2017**
Euro (EUR)	1.95583	1.95583
Serbian Dinar (RSD)	0.01654	0.01651
American Dollar (USD)	1.70755	1.63081
Swiss Franc (CHF)	1.74208	1.67136