“MTEL” a.d. BANJA LUKA

Consolidated Financial Statements for the year ended 31 December 2019

and

Independent Auditor’s Report

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

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the consolidated financial statements of "Mtel" a.d. Banja Luka and its subsidiaries (hereinafter collectively referred to as the "Group"), which comprise the consolidated statement of financial position as of 31 December 2019, and the consolidated statement of profit and loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

Key Audit Matters

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

INDEPENDENT AUDITOR'S REPORT

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

Key Audit Matters (Continued)

Key Audit Matter	Audit Procedures Applied
1. **Revenue recognition** (accuracy of recording revenues due to the complexity of the information systems for generating income from services rendered), Note 5 to the consolidated financial statements	
There are inherent risks associated with the accuracy of recognized revenues arising from the complexity of information systems (IT) of the Group, through which the realised traffic, billing, approved free traffic and other discounts in the revenue generation process are measured. Based on the procedures performed, we have not identified significant findings in relation to the accuracy of the revenue recorded in 2019.	We assessed the Group's most important IT systems for recording the realised traffic, billing and invoicing services to customers and conducted tests of relevant controls over these systems, tested the relevant control over the transfer of data from the respective information systems to the general ledger, as well as controls over the process of payments of bills by the customers and the process of customer complaints resolution. We tested the compliance of prices and discount terms on customers' invoices with the current pricelist and discount terms on a sample basis.

Key Audit Matter	Audit Procedures Applied
2. **Accrual of income and expenses due to the assessment of contracted and realised roaming discounts in the international traffic, Notes** 23 and 32 to the consolidated financial statements	
Accrued income of the Group from the roaming discounts contracted with other operators in the international traffic, as well as accrued expenses for roaming discounts granted to other operators by the Group were selected as key audit matters due to the fact that they include a significant scope of management estimates relating to meeting the requirements from individual contracts with specific operators. Based on the procedures performed, we have not identified significant findings in relation to the accrued discounts based on the roaming traffic realised in 2019.	We reviewed contracts with major operators per income generated/expenses incurred from the roaming discount, tested sales/purchase invoices to/from operators on a sample basis and checked their accuracy, as well as their compliance with the terms defined in the agreements on roaming discounts. We have verified the billing of the amount of roaming with clearings and settlements received from clearing houses in 2019. In addition, we have checked the consistency in the application of the group's accounting policies when recording the roaming discount.

INDEPENDENT AUDITOR'S REPORT

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

Key Audit Matters (Continued)

Key Audit Matter	Audit procedures applied
3. IFRS 16 - Leases (Disclosures), Notes 2.4,13 and 27 to the consolidated financial statements	
FRS 16 Disclosures - Leases are selected as a key audit issue because they include a significant level of judgement in determining the quantitative impact of the first application of this standard, as well as a significant number of audit procedures required to assess the adequacy of the disclosures required in accordance with the requirements of that standard. When applying the standard for the first time, the Group selected a modified retrospective approach where the effect is presented cumulatively as an adjustment to the opening balance at the date of first application of the standard without correction of prior year comparative data. Based on the procedures performed, we have not identified significant findings with respect to disclosure of the effects of the first application of IFRS 16 - Leases. The disclosures regarding IFRS 16 are relevant and appropriate.	We have assessed the design and implementation of key controls pertaining to the determination of the IFRS 16 transition impact disclosures. In addition, we have assessed the appropriateness of the discount rates applied in determining lease liabilities. We have verified the accuracy of the underlying lease data by agreeing a representative sample of leases to original contract or other supporting information. We have also checked the integrity and mechanical accuracy of the IFRS 16 calculations for each lease sampled through recalculation of the expected adjustment to the opening balance. We have assessed whether the disclosures within the financial statements are appropriate and in light of the requirements of the modified retrospective approach selected in accordance with paragraph C5 (b) of IFRS 16 – Leases.

INDEPENDENT AUDITOR'S REPORT

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

Key Audit Matters (Continued)

Key Audit Matter	Audit procedures applied
4. **The allocation of the purchase price for the acquired subsidiaries in 2019 in accordance with requirements of IFRS 3 “Business Combinations”**, Note 38 **to the consolidated financial statements**	
The aforementioned key audit matter is chosen due to the fact that it includes significant Group management estimates during the identification of intangible assets, a value assessment of tangible and intangible assets (including goodwill) and determination of the useful life of identified intangible assets. The Group management, together with independent external appraisers, determined the total acquisition costs, allocated the purchase and selling price, determined the fair value of the identifiable acquired assets and liabilities and recognised goodwill as a difference between the purchase price and the net amount of the identifiable acquired assets and commitments. Based on the procedures performed, we have not identified significant findings in relation to the allocation of the purchase price to the Group’s consolidated financial statements for the year ended 31 December 2019.	We have applied the following audit procedures with regard to the allocation of the purchase price: • we adjusted the acquisition fee to the paid amounts listed on bank statements and the liability stated in the consolidated financial statements; • we estimated the completeness and adequacy of the identified acquired assets and liabilities on the acquisition date; • with the assistance of in-house experts, we tested the methodology and assumptions used in the statements with regard to the allocation of the purchase price, prepared by external appraisers; and • we tested the allocation of the purchase price and recalculated goodwill. Moreover, we have estimated the completeness and adequacy of disclosures in the consolidated financial statements in accordance with IFRS 3 “Business Combinations”.

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

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

Banja Luka, 9 April 2020

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

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

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME
For the Year ended 31 December 2019
(In BAM)

	Notes	For the Year ended as of 31 December 2019	For the Year ended as of 31 December 2018
Sales of goods and services	5	471,303,403	436,149,974
Other operating income	6	38,599,101	15,927,928
Cost of materials, combined services and merchandise	7	(65,595,879)	(65,854,275)
Staff costs	8	(83,327,785)	(78,707,834)
Depreciation and amortization charge	12,13,14	(130,855,729)	(101,451,362)
Cost of production services	9	(110,863,740)	(116,467,947)
Other operating expenses	10	(29,786,642)	(23,990,823)
Finance income – interest income	11	924,764	1,573,825
Finance income – other finance income	11	196,952	448,208
Losses on impairment of financial assets	21	(1,885,432)	(3,896,413)
Finance expenses	11	(7,035,798)	(1,921,581)
Share in the profit of associates	15	4,901,678	6,439,544
Profit before taxes		**86,574,893**	**68,249,244**
Income tax expense	34 (a)	(6,308,773)	(7,368,364)
Net profit		**80,266,120**	**60,880,880**
Other comprehensive income, net of income tax:			
(a) Items that may be subsequently reclassified to profit or loss:			
Gains/(losses)/ on the financial statements at fair value through other comprehensive income	16	536	(643)
Total other comprehensive income, net of income tax		536	(643)
Total comprehensive income for the period		**80,266,656**	**60,880,237**
Net profit for the year attributable to:			
Owners of the Group		80,266,120	60,880,880
Non-controlling interests		-	-
		80,266,120	60,880,880
Total comprehensive income for the year attributable to:			
Owners of the Group		80,266,656	60,880,237
Non-controlling interests		-	-
		80,266,656	**60,880,237**
Earnings per share:			
Basic and diluted earnings per share	36	0.1633	0.1239

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

The accompanying consolidated financial statements of the Group were approved for issuance by the Management Board of Mtel a.d., Banja Luka on 28 February 2020.

Signed on behalf of the Company and the Group by:

Marko Lopicic
General Manager

L.S.

Jasmina Lopicic
Chief Financial Officer

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
For the Year ended 31 December 2019
(In BAM)

	Notes	31 December 2019	31 December 2018
ASSETS			
Non-current assets			
Intangible assets and goodwill	12	269,644,315	69,196,427
Right-of-use assets	13	61,191,025	-
Property and equipment	14	634,139,171	569,098,220
Investments in associates	15	168,846,628	88,772,757
Other investments	16	40,864	60,345
Long-term receivables and loans	17	159,277	6,233,640
Deferred tax assets	34 (c)	951,520	268,641
		1,134,972,800	733,630,030
Current assets			
Inventories	18	17,467,216	14,393,458
Assets held for sale		28,361	47,786
Trade receivables	19	82,830,703	71,300,168
Other receivables	20	2,177,940	1,081,590
Deposits and loan receivables	22	10,209,845	62,108,774
Prepayments	23	20,564,314	19,546,848
Cash and cash equivalents	24	47,934,287	71,465,331
		181,212,666	239,943,955
Total assets		**1,316,185,466**	**973,573,985**
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		(676)	(1,212)
Other reserves – arising on commitment to invest	25	97,791,500	97,791,500
Retained earnings		47,769,162	23,398,811
		686,085,507	661,714,620
Non-current liabilities and provisions			
Interest bearing loans and borrowings	26	253,083,336	165,845,532
Lease liabilities	27	50,437,945	-
Other non-current liabilities		23,548,693	-
Deferred income	28	49,468	61,835
Deferred tax liabilities	34 (d)	9,455,034	1,091,147
Employee benefits	29	6,538,326	6,178,375
Provisions	30	1,856,061	147,862
		344,968,863	173,324,751
Current liabilities			
Interest bearing loans and borrowings	26	85,287,127	32,113,243
Lease liabilities	27	11,933,251	-
Trade payables	31	63,389,928	67,430,378
Accruals	32	26,703,308	21,040,620
Employee benefits	29	604,280	660,996
Deferred income	28	12,367	12,367
Dividend payable	36	15,289,409	9,884,812
Income tax liabilities	34 (f)	196,182	366,094
Provisions	30	557,768	-
Other liabilities	33	81,157,476	7,026,104
		285,131,096	138,534,614
Total equity and liabilities		**1,316,185,466**	**973,573,985**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the Year ended 31 December 2019
(In BAM)

	Share Capital	Legal Reserves	Unrealised (losses)/gains from financial assets at fair value measured through other comprehensive income	Other Reserves Arising on the Commitment to Invest	Retained Earnings	Total
Balance as of 1 January 2018	**491,383,755**	**49,141,766**	**(569)**	**97,791,500**	**22,517,048**	**660,833,500**
Effects of the first-time adoption of IFRS by the associate MTEL d.o.o. Podgorica	-	-	-	-	(2,797,098)	(2,797,098)
Net profit for the year	-	-	-	-	60,880,880	60,880,880
Total other comprehensive income	-	-	(643)	-	-	(643)
Total comprehensive income	**-**	**-**	**(643)**	**-**	**58,083,782**	**58,083,139**
Profit distribution:	-	-	-	-	(34,630,328)	(34,630,328)
Dividends paid to shareholders	-	-	-	-	(22,571,691)	(22,571,691)
Balance as of 31 December 2018	**491,383,755**	**49,141,766**	**(1,212)**	**97,791,500**	**23,398,811**	**661,714,620**
Net profit for the year	-	-	-	-	80,266,120	80,266,120
Total other comprehensive income	-	-	536	-	-	536
Total comprehensive income for the year	**-**	**-**	**536**	**-**	**80,266,120**	**80,266,656**
Profit distribution (Note 36):						
Dividends paid to shareholders	-	-	-	-	(38,445,821)	(38,445,821)
Interim dividends paid to shareholders	-	-	-	-	(17,449,948)	(17,449,948)
Balance as of 31 December 2019	**491,383,755**	**49,141,766**	**(676)**	**97,791,500**	**47,769,162**	**686,085,507**

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

CONSOLIDATED STATEMENT OF CASH FLOWS
For the Year ended 31 December 2019
(In BAM)

	For the year ended 31 December 2019	For the year ended 31 December 2018
Cash flows from operating activities		
Cash receipts from customers and prepayments	466,263,990	435,698,494
Other cash receipts from regular operations	4,515,869	2,220,823
Cash paid to suppliers – purchases of materials, fuel, energy and other expenses	(192,890,940)	(191,573,129)
Cash paid to and on behalf of employees	(82,099,566)	(79,217,740)
Interest paid	(6,513,798)	(1,206,443)
Income taxes paid	(7,523,101)	(5,552,748)
Other taxes and duties paid	(6,169,047)	(5,887,408)
Net cash generated by operating activities	**175,583,407**	**154,481,849**
Cash flows from investing activities		
Purchases of property, equipment and intangible assets	(72,206,415)	(136,471,990)
Proceeds from sale of property, equipment and intangible assets	347,949	316,539
Interest received	1,084,956	1,627,096
Inflows per long-term financial investments	6,019,267	21,001,975
Inflows from short-term financial investments	54,832,674	(54,007,297)
Outflows from investments into subsidiaries and associates	(197,786,678)	-
Net cash used in investing activities	**(207,708,247)**	**(167,533,677)**
Cash flows from financing activities		
Long-term borrowings, inflows	124,122,775	144,034,376
Short-term borrowings, inflows	20,508,954	804,353
Long-term financial liabilities, outflows	(48,171,018)	(29,164,862)
Short-term borrowings, outflows	(7,000,000)	
Dividend and interim dividend payments to the shareholders	(56,073,936)	(56,206,057)
Lease liabilities payable	(12,815,302)	-
Other current liabilities, outflows	(11,977,677)	-
Net cash generated/(used) by/in financing activities	**8,593,796**	**59,467,810**
Net decrease in cash and cash equivalents	**(23,531,044)**	**46,415,982**
Cash and cash equivalents at the beginning of the period	71,465,331	25,049,349
Cash and cash equivalents at the end of the period	**47,934,287**	**71,465,331**

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

1. CORPORATE INFORMATION

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

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

As of 31 December 2019, the Company had equity investments in subsidiaries according to the following structure (hereinafter collectively referred to as the" Group"):

SUBSIDIARIES	Interest	
Logosoft d.o.o. Sarajevo, Bosnia and Herzegovina	100%	Company
Blicnet d.o.o. Banja Luka, Bosnia and Herzegovina	100%	Company
Telrad Net d.o.o. Bijeljina, Bosnia and Herzegovina	100%	Company
Elta-Kabel d.o.o. Doboj, Bosnia and Herzegovina	100%	Company

As of 31 December 2019, the Company had equity investments in associates according to the following structure:

ASSOCIATES	Interest	
MTEL d.o.o. Podgorica, Montenegro	49%	Company
	51%	Telekom Srbija a.d. Beograd
GO4YU d.o.o. Belgrade, Serbia	41%	Company
	59%	Telekom Srbija a.d. Beograd

As of 31 December 2019, the Group had 2,552 employees (31 December 2018: 2,259 employees).

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

As of 31 December 2019, the Group provided telecommunication services for the total number of 1,804,746 users (31 December 2018: 1,657,221 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 2019 is Mr Marko Lopicic.

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

Mr. Predrag Ćulibrk
Ms. Danijela Maletic
Mr. Dejan Carevic
Mr. Slavko Mitrovic
Mr. Drasko Markovic
Mr. Branko Malovic
Mr. Nenad Tomovic

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

Mr. Marko Lopicic
Ms. Jasmina Lopicic
Ms. Radmila Bojanic
Mr. Miodrag Vojinovic
Mr. Vladimor Cetrovic
Mr. Nikola Rudovic

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

2.1. Statement of Compliance

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

2.2. Basis of Measurement

The consolidated financial statements of the Group have been prepared on the historical cost basis, except for the revaluation of certain financial instruments, available-for-sale financial assets, which are measured at fair value, as further explained in accounting policies for financial instruments. Historical cost is generally based on the fair value of consideration paid in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between the market participants at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Upon estimating the fair value of assets or liabilities, the Company takes into account characteristics of assets or liabilities that other market participants would also consider upon determining the price of assets or liabilities at the measurement date. Assets acquired in the acquisition of a subsidiary that are individually identifiable as well as actual and contingent liabilities in the business combination are initially measured at fair value as at the acquisition date.

2.3. Functional and Presentation Currency

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

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

The following amendments to the existing standards issued by the International Accounting Standards Board ("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
New standards and/or amendments to the existing standards effective in the current financial period	
IFRS 16 "Leases"	1 January 2019
IFRIC 23 "Uncertainty over Income Tax Treatments"	1 January 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)	1 January 2019
Amendments to IFRS 9 "Financial Instruments" – Prepayment Features with Negative Compensation	1 January 2019
Amendments to IAS 19 "Employee Benefits" – Plan Amendment, Curtailment or Settlement.	1 January 2019
Amendments to IAS 28 "Investments in Associates and Joint Ventures" - Long-term Interests in Associates and Joint Ventures.	1 January 2019

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

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

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

	Effective for annual periods beginning on or after
New standards and/or amendments to the existing standards in issue but not yet effective	
IFRS 17 "Insurance Contracts"	1 January 2021
IFRS 3 "Business Combinations" - Definition of a Business	1 January 2020
IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" - Definition of Material	1 January 2020
Conceptual Framework in IFRS Standards	1 January 2020

Management of the Group has decided not to adopt these standards, amendments and interpretations before they become effective.

The application of IFRS 16 resulted in changes in the accounting policies of the Group and had an effect on the accompanying consolidated financial statements of the Group.

IFRS 16 "Leases" introduces significant changes for lessees and will have a material impact on any entity that has a material amount of lease that have been included as an operating lease by 1 January 2019. In contrast, for lessors, the accounting requirements have largely been carried forward unchanged from IAS 17.

IFRS 16 specifies how an entity will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset have a low value. The key headline for lessees is that in most cases a lease will result in an asset being capitalized (a "right of use" asset) together with the recognition of a liability for the corresponding lease payments.

As at beginning of the lease, lessee recognizes a lease liability and an asset representing right to use that asset during the period of lease (a "right of use" asset). Interest expense on lease liability and depreciation of right of use asset should be separately recognized, as required.

It is necessary to remeasure lease liability upon certain events occurred (changes in lease term, future payments due to change in index or rate applied to calculate those payments). Lessor recognizes the amount of remeasured lease liability as adjustment of value of a right of use asset.

With the implementation of IFRS 16, the Group retroactively recognized, with the cumulative effect of the original application of the standard as a reconciliation of the opening balance at the date of initial application of the standard in accordance with paragraph C5(b) of the standard, the right-of use assets, together with the liabilities measured at the present value of future lease payments, depreciation and amortization for the right-of use assets, as well as interest expense on lease liabilities, total amount of principal paid under cash flows from financing activities, and interest under cash flows from operating activities in cash flows of the Group (*Notes 11, 13 and 27*).

The Group identified the following significant contract categories, which previously were recognized as operating lease, to be qualified to standard application: business premises, land and technical premises for accommodating telecommunication equipment.

The Standard requires certain estimates primarily related to duration of the lease agreement.

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

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

First-time adoption effects of IFRS 16 to the statement of financial position as of 1 January 2019

STATEMENT OF FINANCIAL POSITION

	Notes	In accordance with IAS 17 31 December 2018	Change in valuation	In accordance IFRS 16 1 January 2019
ASSETS				
Non-current assets				
Intangible assets and goodwill	**12**	69,196,427	-	69,196,427
Right-of-use asset	**13**	-	55,352,364	55,352,364
Property and equipment	**14**	569,098,220	-	569,098,220
Investments in an associate	**15**	88,772,757	-	88,772,757
Other investments	**16**	60,345	-	60,345
Long-term loans and receivables	**17**	6,233,640	-	6,233,640
Deferred tax assets	**34 (c)**	268,641	-	268,641
		733,630,030	55,352,364	788,982,394
Current assets				
Inventories	**18**	14,393,458	-	14,393,458
Assets held for sale		47,786	-	47,786
Trade receivables	**19**	71,300,168	-	71,300,168
Other receivables	**20**	1,081,590	-	1,081,590
Deposits and loan receivables	**22**	62,108,774	-	62,108,774
Prepayments	**23**	19,546,848	-	19,546,848
Cash and cash equivalents	**24**	71,465,331	-	71,465,331
		239,943,955	-	239,943,955
Total assets		**973,573,985**	**55,352,364**	**1,028,926,349**
EQUITY AND LIABILITIES				
Equity				
Share capital	**25**	491,383,755	-	491,383,755
Legal reserves	**25**	49,141,766	-	49,141,766
Unrealised losses on the financial assets at fair value through other comprehensive income		(1,212)	-	(1,212)
Other reserves – arising on commitment to invest	**25**	97,791,500	-	97,791,500
Retained earnings		23,398,811	-	23,398,811
		661,714,620	-	661,714,620
Non-current liabilities and provisions				
Interest bearing loans and borrowings	**26**	165,845,532	-	165,845,532
Lease liabilities	**27**	-	44,895,578	44,895,578
Deferred income	**28**	61,835	-	61,835
Deferred tax liabilities	**34 (d)**	1,091,147	-	1,091,147
Employee benefits	**29**	6,178,375	-	6,178,375
Provisions	**30**	147,862	-	147,862
		173,324,751	44,895,578	218,220,329
Current liabilities				
Interest bearing loans and borrowings	**26**	32,113,243	-	32,113,243
Lease liabilities	**27**	-	10,456,786	10,456,786
Trade payables	**31**	67,430,378	-	67,430,378
Accruals	**32**	21,040,620	-	21,040,620
Employee benefits	**29**	660,996	-	660,996
Deferred income	**28**	12,367	-	12,367
Dividend payable	**36**	9,884,812	-	9,884,812
Income tax liabilities	**34 (f)**	366,094	-	366,094
Other liabilities	**33**	7,026,104	-	7,026,104
		138,534,614	10,456,786	148,991,400
Total equity and liabilities		**973,573,985**	**55,352,364**	**1,028,926,349**

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

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

First-time adoption effects of IFRS 16 to the statement of financial position as of 31 December 2019

STATEMENT OF FINANCIAL POSITION

	Notes	In accordance with IAS 17 31 December 2019	In accordance with IFRS 16 31 December 2019	Change
ASSETS				
Non-current assets				
Intangible assets and goodwill	12	269,644,315	269,644,315	-
Right-of-use asset	13	-	61,191,025	(61,191,025)
Property and equipment	14	634,139,171	634,139,171	-
Investments in an associate	15	168,846,628	168,846,628	-
Other investments	16	40,864	40,864	-
Long-term loans and receivables	17	159,277	159,277	-
Deferred tax assets	34 (c)	951,520	951,520	-
		1,073,781,775	1,134,972,800	(61,191,025)
Current assets				
Inventories	18	17,467,216	17,467,216	-
Held-for-sale assets		28,361	28,361	-
Trade receivables	19	82,830,703	82,830,703	-
Other receivables	20	2,177,940	2,177,940	-
Deposits and loan receivables	22	10,209,845	10,209,845	-
Prepayments	23	20,564,314	20,564,314	-
Cash and cash equivalents	24	47,934,287	47,934,287	-
		181,212,666	181,212,666	-
Total assets		**1,254,994,441**	**1,316,185,466**	**(61,191,025)**
EQUITY AND LIABILITIES				
Equity				
Share capital	25	491,383,755	491,383,755	-
Legal reserves	25	49,141,766	49,141,766	-
Unrealised losses on the financial assets at fair value through other comprehensive income		(676)	(676)	-
Other reserves – arising on commitment to invest	25	97,791,500	97,791,500	-
Retained earnings		48,409,301	47,769,162	640,139
		686,725,646	686,085,507	640,139
Non-current liabilities and provisions				
Interest bearing loans and borrowings	26	253,083,336	253,083,336	-
Lease liabilities	27	-	50,437,945	(50,437,945)
Other non-current liabilities		23,548,693	23,548,693	-
Deferred income	28	49,468	49,468	-
Deferred tax liabilities	34 (d)	9,455,034	9,455,034	-
Employee benefits	29	6,538,326	6,538,326	-
Provisions	30	1,856,061	1,856,061	-
		294,530,918	344,968,863	(50,437,945)
Current liabilities				
Interest bearing loans and borrowings	26	85,287,127	85,287,127	-
Lease liabilities	27	-	11,933,251	(11,933,251)
Trade payables	31	63,389,928	63,389,928	-
Accruals and deferred income	32	26,703,308	26,703,308	-
Employee benefits	29	604,280	604,280	-
Deferred income	28	12,367	12,367	-
Dividend payable	36	15,289,409	15,289,409	-
Income tax liabilities	34 (f)	196,182	196,182	-
Provisions	30	557,768	557,768	-
Other liabilities	33	81,697,508	81,157,476	540,032
		273,737,877	285,131,096	(11,393,219)
Total equity and liabilities		**1,254,994,441**	**1,316,185,466**	**(61,191,025)**

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

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

First-time adoption effects of IFRS 16 to the total comprehensive income for the period from 1 January to 31 December 2019.

STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	In compliance with IAS 17 31 December 2019	In compliance with IFRS 16 31 December 2019	Change
Sales of goods and services	5	471,303,403	471,303,403	-
Other operating income	6	38,599,101	38,599,101	-
Cost of materials, merchandise and combined services	7	(65,595,879)	(65,595,879)	-
Staff costs	8	(83,327,785)	(83,327,785)	-
Depreciation and amortization charges	12,13,14	(117,533,432)	(130,855,729)	13,322,297
Productive services	9	(125,025,819)	(110,863,740)	(14,162,079)
Other operating expenses	10	(29,786,642)	(29,786,642)	-
Financial income – interest-bearing	11	924,764	924,764	-
Financial income - other		196,952	196,952	-
Impairment of financial assets	21	(1,885,432)	(1,885,432)	-
Financial expenses	11	(5,555,877)	(7,035,798)	1,479,921
Share in the profit of associates	15	4,901,678	4,901,678	-
Profit before taxes		**87,215,032**	**86,574,893**	**640,139**
Income tax expense	34 (a)	(6,308,773)	(6,308,773)	-
Net profit for the year		**80,906,259**	**80,266,120**	**640,139**
Other comprehensive income, net of income tax:				
(a) Items that may be subsequently reclassified to profit or loss:				
(Losses)/Gains on the financial statements at fair value through other comprehensive income	16	536	536	-
Total other comprehensive income, net of income tax		536	536	-
Total comprehensive income for the year		**80,906,795**	**80,906,795**	**640,139**
Net profit for the year attributable to:				
Owners of the Group		80,906,259	80,906,259	640,139
Non-controlling interests		-	-	-
		80,906,259	80,906,259	640,139
Total comprehensive income for the year attributable to:				
Owners of the Group		80,906,795	80,906,795	640,139
Non-controlling interests		-	-	-
		80,906,795	**80,906,795**	**640,139**
Earnings per share:				
Basic and diluted earnings per share	36	0.1646	0.1633	0.0013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Basis of Consolidation

a) Investments in Subsidiaries

The accompanying consolidated financial statements for the year ended 31 December 2019 include the financial statements of the Company ("Mtel" a.d. Banja Luka), the financial statements of subsidiaries *Blicnet d.o.o.* Banja Luka, *Telrad Net d.o.o.* Bijeljina, *Elta-Kabel* d.o.o. Doboj and the consolidated financial statements of the subsidiary *Logosoft* d.o.o. Sarajevo. Under the provisions of IFRS 10 *"Consolidated Financial Statements"* control over consolidated subsidiaries is achieved if the Company has:

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

The Company reassesses whether it truly exercises control over its subsidiaries in instances of certain facts and circumstances indicating that any of the above listed three elements of control has changed. When the Company has less than half of the voting power, control is achieved if these voting rights are sufficient to practically allow the Company to unilaterally direct the business activities of the subsidiary.

Consolidation of the subsidiary commences from the date when the Company acquires control and ceases when control is lost. Income and expenses of the subsidiary are included in the consolidated statement of profit or loss and other comprehensive income from the effective date of control acquisition and up to the effective date of disposal. All balances of assets, liabilities, equity, income, expenses and cash flows arising from intra-Group transaction are eliminated in full on consolidation.

Logosoft d.o.o. Sarajevo

The Group is the sole (100%) owner of the equity of Logosoft d.o.o. Sarajevo.

The subsidiary Logosoft was founded in 1995 as a company involved in informatics engineering. The subsidiary's first business activities included ICT system integration; two years after foundation, it became the first Internet service provider in Bosnia and Herzegovina. Nowadays the subsidiary provides services of internet access, telephony and television, computer equipment sales and service in system integration and IT training and consulting services.

Blicnet d.o.o. Banja Luka

On 31 January 2019, the Agreement on the Sales and Purchase and Transfer of Equity Interest in the company Blicnet d.o.o. Banja Luka was executed so that 100% of interest in Blicnet d.o.o. Banja Luka was transferred to the Company.

On 31 January 2019, the District Commercial Court in Banja Luka issued a Decision based on which the Company was registered as the owner of 100% of equity interest in Blicnet d.o.o. Banja Luka.

The subsidiary Blicnet d.o.o. Banja Luka was incorporated in 1992. It is one of the leading cable operators in Bosnia and Herzegovina that provides cable TV, Internet, fixed and mobile telephony services, as well as system integration services. The effects of the business combination of the acquisition of Blicnet d.o.o. Banja Luka are presented in the consolidated financial statements of the Company.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.1. Basis of Consolidation (Continued)

Telrad Net d.o.o. Bijeljina

On 6 February 2019 the Agreement on the Sales and Purchase and Transfer of Equity Interest in the company Telrad Net d.o.o. Bijeljina was executed so that 100% of interest in Telrad Net d.o.o. Bijeljina was transferred to the Company.

On 6 February 2019 the District Commercial Court in Bijeljina issued a Decision based on which the Company was registered as the owner of 100% of equity interest in Telrad Net d.o.o. Bijeljina.

The subsidiary Telrad Net d.o.o. Bijeljina was incorporated in 1990. The company provides services related to public fixed telephony, VoIP and IP telephony, cable TV, Internet and mobile telephony. The effects of the business combination of the acquisition of *Telrad Net d.o.o. Bijeljina* are presented in the consolidated financial statements of the Company.

Elta-Kabel d.o.o. Doboj

On 30 August 2019 the Agreement on the Sales and Purchase and Transfer of Equity Interest in the company *Elta-Kabel* d.o.o. Doboj was executed so that 100% of interest in *Elta-Kabel* d.o.o. Doboj was transferred to the Company.

On 4 September 2019 the District Commercial Court in Doboj issued a Decision based on which the Company was registered as the owner of 100% of equity interest in *Elta-Kabel* d.o.o. Doboj.

The subsidiary *Elta-Kabel* d.o.o. Doboj was incorporated in 2001 and is one of the leading cable operators in Bosnia and Herzegovina that provides cable TV, Internet and fixed-line telephony services.

b) Business Combinations

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

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

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

c) Goodwill

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.1. Basis of Consolidation (Continued)

c) Goodwill (Continued)

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

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

d) Investments in Associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policies and decisions of the investee but is not control or joint control over those policies and decisions.

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

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

The requirements of IFRS 9 are applied to determine whether it is necessary to recognize any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 "Impairment of Assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

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

As of 31 December 2019 the Group had a 49% of equity interest in the associate MTEL d.o.o. Podgorica (Montenegro) and a 51% in the Group's parent company – Telekom Srbija a.d. Belgrade, also a 41% of interest in GO4YU d.o.o. Belgrade (Republic of Serbia) and the remaining 59% in the Group's parent company – Telekom Srbija a.d. Belgrade.

On 20 June 2019 the Company's Board of Directors passed a decision on a contribution in kind in GO4YU d.o.o. o. Belgrade, Serbia, which is owned by Preduzeće za telekomunikacije "Telekom Srbija" a.d. Belgrade, Serbia, in the form of a right to a 100% of equity interest in the company *Mtel Austria GmbH.* On 22 August 2019 the Company became the owner of GO4YU d.o.o. Belgrade, Serbia on the basis of the ownership registration.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2. Revenues

Revenue Recognition

The Group 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 Group expects to realize under the prevailing market conditions.

The Group 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 fulfilment and the transaction price allocated to the performance obligations. For performance obligations satisfied over time, the Group 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 at the moment 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 Group performs one-off revenue recognition at a specific point in time, i.e., the time of fulfilment 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 Group 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 Group 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.

3.2.1. Revenues from Fixed Line Telephony

The Group 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.

3.2.2. 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.

3.2.3. Income from Mobile Telephony

Mobile telephony income is associated with the income earned from mobile telephony users who use prepaid and post-paid 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2. Revenues (Continued)

3.2.3. Income from Mobile Telephony (Continued)

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.

3.2.4. 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 Group expects to realize under the prevailing market conditions.

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

The Group recognizes income (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.

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.

3.2.6. 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.

3.2.7. 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 above-mentioned services.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2. Revenues (Continued)

3.2.8. 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.

3.3. Leases

The Group as Lessee

At the beginning of the lease term, the Lessee estimates whether it is a lease agreement or if it contains lease elements. An agreement is a lease agreement and/or contains lease elements if it cedes the right of control of using certain assets during the given period for a fee.

According to IFRS 16, the Group recognises right-of use-assets and the present value of the lease agreement liability taking into consideration the contracted payments, lease term and the discount rate. Initial measurement of the right of use assets is performed as per the cost, including the amount of the initially measured lease liability, all initial direct costs, estimated costs of dismantling, location reinstating or bringing the assets into the original state, unless such costs are non-material.

When estimating the lease term period, the following is taken into consideration: a period without the cancellation option, an optional period for a lease renewal and the likelihood that the Group will or will not use this option.

The lease liability is measured at the present value of all lease payments which were not made on the recognition date. These payments are discounted at an interest rate contained in the lease and/or at the incremental borrowing rate.

A short-term lease is a lease whose lease period on the lease commencement date is 12 months at most and which does not include the purchase option of the said assets. All lease related payments are recognised as an expense on a straight-line basis during the lease term *(Note 9)*.

The Group as a Lessor

The Lessor classifies each lease as either an operating or a finance lease. A lease is classified as a finance lease if it essentially transfers all risks and benefits related to the ownership over the said assets, whereas an operating lease does not transfer all risks and benefits related to the ownership over the said assets.

The Group recognises operating lease payments as income on a straight-line basis during the lease term. Initial direct costs incurred in connection with obtaining an operating lease are added a carrying value of the said assets and are recognised as an expense during the lease term on the same basis as the lease income.

3.4. Foreign Currencies

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to BAM at the foreign exchange rate 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5. 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 or 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 credit carryforwards can be reduced.

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 rate (%)
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 – degression method	
Computers, information systems, software and servers	40%
Equipment and other assets	20%

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 than the accounting depreciation/ amortization.

3.6. Intangible Assets

Intangible assets include goodwill, customer relations, trademark, 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6. Intangible Assets (Continued)

Customer relations, which represent contractual arrangements with the users, and trademark are recognized at appraised value after business combination of the acquisition of a subsidiary, less accumulated amortization and aggregate impairment losses, if any.

Capitalised contract expenses are related to assets arising from performance costs or contract award, which are capitalised and recognised in line with IFRS 15 during the average customer contract validity period.

3.7. Property and Equipment

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

Cost is comprised of the purchase price 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.

3.8. Depreciation and Amortization

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

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

The estimated useful lives of particular classes of property and equipment, as well as intangible assets used in the calculation of depreciation and amortization, and prescribed depreciation and amortization rates in use for the year ended 31 December 2019 are as follows:

	Estimated Useful Life (in years)
GSM/UMTS/LTE licenses	15
Licenses and application software	5
Buildings	8 - 55.5
Antenna masts	25
Distribution network and channelling	16.7 – 33.3
Switching systems and service platforms	3 - 11
Transmission network	4 - 12.5
Wireless access network	5 - 12.5
Equipment within the access network and terminal equipment	4 - 11
Computer equipment	4 - 5
Office furniture and other equipment	5 - 8

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9. Non-Current Assets Held 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.

3.10. Impairment of Non-Financial Assets

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

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

If the estimate of the 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.

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 31 December 2019, in the management's opinion, there were no indications that the value of the Group's intangible assets, property and equipment had suffered impairment.

3.11. Financial 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 Group has become a party to the contractual provisions of a particular financial instrument. Financial assets are initially recognized at fair value. Transaction costs are included in the initial measurement of all financial assets except for financial assets at fair value through profit and loss. Exceptionally, the initial recognition of trade receivables that do not have a significant financial component is made at their transaction price.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11. Financial Instruments (Continued)

Financial Assets (Continued)

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 Group 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 Group assesses loans and receivables for impairment grouped per different customer characteristics and historical loss trends.

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 decide 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11. Financial Instruments (Continued)

Financial Assets (Continued)

Financial assets cease to be recognized when settled, cancelled, 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 Group 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 Group 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.

Financial liabilities are subsequently stated at amortized cost using the effective interest rate except for those initially recognised at fair value through profit or loss, unforeseen fees recognised by the acquirer in a business combination or financial liabilities held for trading.

Interest payable on the financial liabilities is calculated using the effective interest method. It relates to and is presented within other current liabilities.

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

3.12. 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13. Provisions

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

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

3.14. Employee Benefits

a) Employee Taxes and Contributions for Social Security

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

b) Liabilities for Retirement Benefits and Jubilee Awards

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

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

The relevant Decision enacted by the Group'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.

3.15. Segment Reporting

The Group applies IFRS 8 "Operating Segments", which requires the identification of operating segments based on internal reports about components of the Group that are regularly reviewed by managers responsible for making key decisions for the purpose of allocating adequate resources to these segments, as well as analysing their results. Segment information is analysed based on the type of services provided by the operating components of the Group (*Note 40*).

4. SIGNIFICANT ACCOUNTING ESTIMATES

Presentation of the consolidated financial statements requires the Group'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 consolidated financial statements, as well as the income and expenses arising during the accounting period. These estimations and assumptions are based on historical experience and other information available as of the date of preparation of the consolidated financial statements. However, actual results may vary from these estimates.

4. SIGNIFICANT ACCOUNTING ESTIMATES (Continued)

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

Estimated Useful Life of Property, Equipment and Intangible Assets

The 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 Group's total assets, any change in the above-mentioned assumptions may lead to material effects on the Group's financial position, as well as on its financial performance. For example, if the Group were to shorten/prolong the average useful life of assets by 10%, this would have resulted in an increased/decreased depreciation and amortization charge of BAM 13,085,573 for the year ended 31 December 2019 (comparative data for 2018: BAM 10,145,136).

Impairment Allowance of Trade Receivables

Upon calculation of impairment allowance, the Group 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 Group 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 Group assesses the probability of an adverse event as a result of a past event and if the probability is evaluated to higher than 50%, the Group fully provides for the total amount of the liability. The Group is rather prudent in these assessments but, due to the high level of uncertainty, in certain cases the estimates may not prove to be in line with the actual outcomes (*Note 30).*

Income and Expenses from International Traffic

Income (expenses) and receivables (payables) that have originated under agreements executed with international operators are presented in the accompanying consolidated financial statements and are associated with the income 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 32*). 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 Group to disclose the fair values of those assets and liabilities for which published market information is readily available, and for which their fair value is materially different from the recorded amounts. However, in the Republic of Srpska and Bosnia and Herzegovina, there is not enough market experience, as well as stability and liquidity in buying and selling receivables and other financial assets and liabilities, since official market information is not available at all time. 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

	2019	In BAM Year ended 31 December 2018
Sales on domestic market:		
Fixed line telephony	52,579,147	70,474,518
Mobile line telephony	194,306,435	195,796,578
Integrated services	94,783,853	61,622,705
Internet services	32,287,212	23,018,416
Combined services	39,671,744	41,163,224
Goods	4,667,096	4,621,228
ICT and other services	3,998,701	2,354,914
Total sales on domestic market	**422,294,188**	**399,051,583**
International market sales:		
Income from international settlements	39,349,279	31,971,046
Income from ICT and other services	9,659,936	5,127,345
Total international market sales	**49,009,215**	**37,098,391**
Total sales of goods and services	**471,303,403**	**436,149,974**

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

6. OTHER OPERATING INCOME

	2019	In BAM Year ended 31 December 2018
Rental income	2,378,236	2,270,399
Reversal of deferred income (grants) (*Note 28)*	12,367	12,367
Other income	36,208,498	13,645,162
	38,599,101	**15,927,928**

Other income is mainly related to the income from the recognition of assets and liabilities of the former subsidiary *Mtel Austria GmbH*. As disclosed in *Note* 15*,* the right to a 100% of equity interest in *Mtel Austria GmbH* was transferred as a contribution in kind in the company GO4YU d.o.o. Belgrade, Serbia. The derecognition of the investment in the former subsidiary *Mtel Austria GmbH* was performed in accordance with requirements of IFRS 10 "*Consolidated Financial Statements*".

7. COST OF MATERIALS, COMBINED SERVICES AND GOODS

		In BAM Year ended 31 December
	2019	2018
Materials for combined services	49,265,315	50,778,026
Cost of commercial goods sold	5,939,017	5,758,618
Electricity	6,104,384	5,506,245
Fuel and lubricants	1,529,597	1,432,803
Other material costs	2,757,566	2,378,583
	65,595,879	**65,854,275**

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

8. STAFF COSTS

		In BAM Year ended 31 December
	2019	2018
Gross salaries	70,925,809	66,831,827
Remunerations to Management Board and Audit Committee	348,926	353,234
Retirement benefits	853,314	867,117
Other staff costs	11,199,736	10,655,656
	83,327,785	**78,707,834**

9. COST OF PRODUCTION SERVICES

		In BAM Year ended 31 December
	2019	2018
International settlement costs	31,714,871	32,673,513
Maintenance costs	19,988,410	20,631,846
Rental costs – lease of land and business premises	1,608,089	15,234,958
Marketing and advertising costs	12,378,301	13,101,487
Fees for media content transmission	18,391,551	14,201,854
Cost of other production services	26,782,518	20,624,289
	110,863,740	**116,467,947**

10. OTHER OPERATING EXPENSES

	2019	In BAM Year ended 31 December 2018
Indirect taxes and contributions	4,379,334	4,112,931
Communications Regulatory Agency fee	10,133,297	7,125,738
Losses on disposal of property, equipment and intangible assets	904,461	658,997
Shortages	554,470	20,215
Provisioning charge (*Note 30)*	1,243,946	763,947
Other expenses	12,571,134	11,308,995
	29,786,642	**23,990,823**

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

	2019	In BAM Year ended 31 December 2018
Interest income		
- interest on deposits	320,734	671,716
- other interest income	604,030	902,109
	924,764	1,573,825
Foreign exchange gains	195,500	268,856
Other finance income	1,452	179,352
Total finance income	1,121,716	2,022,033
Interest expenses		
- arising from loan agreements	(4,850,806)	(1,433,799)
- arising from lease liabilities	(1,479,921)	-
- other interest expenses	(311,150)	(24,454)
	(6,641,877)	(1,458,253)
Foreign exchange losses	(393,921)	(463,328)
Total finance expenses	(7,035,798)	(1,921,581)
Net finance (expenses)/income	**(5,914,082)**	**100,452**

12. INTANGIBLE ASSETS AND GOODWILL

In BAM
31 December 2019 and 31 December 2018

	Goodwill	Customer Relations	Trademark	GSM Licenses	Other Licenses	Other Intangible Assets	Contract Costs Capitalized	Investments in Progress	Total Intangible Assets
Cost									
Balance as of 1 January 2018	10,339,849	390,723	-	140,478,533	9,592,311	78,125,360	-	21,681,773	260,608,549
Additions during the year	-	-	-	-	297,727	2,230,988	4,769,538	3,570,500	10,868,753
Activations and transfers	-	-	-	-	993,635	1,545,678	-	(2,539,313)	-
Transfers from property and equipment	-	-	-	-	-	-	-	47,163	47,163
Disposals	-	-	-	-	(155,547)	(3,130,269)	-	-	(3,285,816)
Balance as of 31 December 2018	**10,339,849**	**390,723**	**-**	**140,478,533**	**10,728,126**	**78,771,757**	**4,769,538**	**22,760,123**	**268,238,649**
Balance as of 1 January 2019	10,339,849	390,723	-	140,478,533	10,728,126	78,771,757	4,769,538	22,760,123	268,238,649
Additions during the year	-	-	-	16,709,944	109,845	49,452,136	2,056,747	3,880,833	72,209,505
Funds acquired through a business combination	66,552,654	84,726,556	4,091,596	-	788,304	3,909,646	-	61,697	160,130,453
Activations and transfers	-	-	-	-	174,500	2,991,639	246,091	(3,412,230)	-
Disposals	-	-	-	-	(22,411)	(871,645)	-	(4,577)	(898,633)
Transfer of contribution in kind (*Note 15*)	-	-	-	-	-	(550,038)	(40,096)	-	(590,134)
Transfers from property and equipment	-	-	-	-	-	118,683	-	(1,103,407)	(984,724)
Other	-	-	-	-	-	(159,274)	(1,116,690)	35,657	(1,240,307)
Balance as of 31 December 2019	**76,892,503**	**85,117,279**	**4,091,596**	**157,188,477**	**11,778,364**	**133,662,904**	**5,915,590**	**22,218,096**	**496,864,809**
Accumulated Amortization									
Balance as of 1 January 2018	-	79,781	-	116,664,069	7,406,307	58,038,546	-	-	182,188,703
Charge for the year	-	24,548	-	9,369,918	1,015,526	8,257,625	1,351,351	-	20,018,968
Disposals	-	-	-	-	(155,296)	(3,124,772)	-	-	(3,280,068)
Other	-	-	-	-	-	-	114,619	-	114,619
Balance as of 31 December 2018	**-**	**104,329**	**-**	**126,033,987**	**8,266,537**	**63,171,399**	**1,465,970**	**-**	**199,042,222**
Balance as of 1 January 2019	-	104,329	-	126,033,987	8,266,537	63,171,399	1,465,970	-	199,042,222
Charge for the year	-	2,898,197	136,387	4,370,309	1,004,119	19,115,242	2,809,210	-	30,333,464
Disposals	-	-	-	-	(19,225)	(755,630)	-	-	(774,855)
Transfer of contribution in kind (*Note 15*)	-	-	-	-	-	(285,867)	(11,459)	-	(297,326)
Other	-	-	-	-	56,739	(22,789)	(1,116,961)	-	(1,083,011)
Balance as of 31 December 2019	**-**	**3,002,526**	**136,387**	**130,404,296**	**9,308,170**	**81,222,355**	**3,146,760**	**-**	**227,220,494**
Net book value as of									
31 December 2019	**76,892,503**	**82,114,753**	**3,955,209**	**26,784,181**	**2,470,194**	**52,440,549**	**2,768,830**	**22,218,096**	**269,644,315**
31 December 2018	**10,339,849**	**286,394**	**-**	**14,444,546**	**2,461,589**	**15,600,358**	**3,303,568**	**22,760,123**	**69,196,427**

12. INTANGIBLE ASSETS AND GOODWILL (Continued)

Goodwill represents surplus assets upon acquisition through a business combination in excess of Mtel a.d. Banja Luka's share in the net fair value of the identifiable assets, recognized liabilities and contingent liabilities of the acquired subsidiaries.

Customer relations represent contractual relations with the users, which are recognised at the estimated cost after the business combinations of acquiring the subsidiaries.

Licences for the use of radio frequency spectrum constitute radio spectrum licences for the provision of services via mobile access systems. These licences are issued by the Communication Regulatory Agency of Bosnia and Herzegovina (RAK) and they enable the provision of GSM/UMTS/LTE services in the territory of Bosnia and Herzegovina.

Other intangible assets mainly consist of the software in use in the net amount of BAM 14,222,275 and capitalized TV broadcasting rights in the net amount of BAM 36,583,596.

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 31 December 2019, amortization charge incurred in this respect amounted to BAM 2,809,210.
No impairment losses were identified in these assets.

Investments in progress predominantly refer to the software in progress.

13. RIGHT OF USE ASSETS

	Land and buildings	Vehicles	Total
Balance as of 1 January 2019	55,208,799	143,564	55,352,363
Additions	11,563,203	94,999	11,658,202
Funds acquired through a business combination	7,121,548	-	7,121,548
Depreciation/amortisation	(13,254,243)	(68,054)	(13,322,297)
Modification of the lease period	381,209	-	381,209
Balance as of 31 December 2019	**61,020,516**	**170,509**	**61,191,025**

As part of its regular business activities, the Group leases various lease items, the most important of which are: commercial premises for retail outlets, land and facilities for accommodiation of telecommunication equipment. In assessing lease obligations, the Group also considered the potential exposure to variable lease payments, extension options, termination leases, residual value guarantees and leases that have not yet commenced, but the lessee has committed to them. Most leases are contracted with a fixed lease fee. The Group has no significant lease agreements that have specific limitations or contractual obligations.

14. PROPERTY AND EQUIPMENT

In BAM
31 December 2019 and 31 December 2018

	Land	Property and infrastructure	Leasehold Improvements	Equipment	Investments in Progress	Total Property and Equipment
Cost						
Balance as of 1 January 2018	1,710,014	695,057,982	2,967,046	723,596,278	75,461,498	1,498,792,818
Additions	10,296	66,568,357	107,340	4,856,768	72,647,141	144,189,902
Activations and transfers	14,270	17,463,297	340,721	48,414,491	(66,232,779)	-
Transfer from/to intangible assets	-	-	-	93,832	(140,995)	(47,163)
Other transfers	-	-	-	(6,777)	-	(6,777)
Disposals	-	(30,622)	(230,829)	(29,848,911)	(169,311)	(30,279,673)
Shortages	-	-	-	(17,344)	-	(17,344)
Surpluses	-	786,951	-	-	-	786,951
Dismantlement	-	-	-	(702,857)	282,751	(420,106)
Sales	-	(50,398)	-	(595)	-	(50,993)
Transfer to assets held for sale	-	-	-	(589,008)	-	(589,008)
Donated equipment	-	-	-	(45,000)	-	(45,000)
Other	-	2,450	(3,390)	7,875	-	6,935
Balance as of 31 December 2018	**1,734,580**	**779,798,017**	**3,180,888**	**745,758,752**	**81,848,305**	**1,612,320,542**
Balance as of 1 January 2019	1,734,580	779,798,017	3,180,888	745,758,752	81,848,305	1,612,320,542
Additions	-	5,576,833	71,157	5,218,252	82,472,004	93,338,246
Funds acquired through a business combination	4,440	48,777,410	54,571	13,383,854	2,186,732	64,407,007
Activations and transfers	1,560	45,953,640	280,824	44,993,405	(91,229,429)	-
Transfer from/to intangible assets	-	-	-	-	984,724	984,724
Disposals	-	(417,511)	(87,121)	(80,586,386)	(114,569)	(81,205,587)
Shortages	-	-	-	(52,839)	(1,306)	(54,145)
Surpluses	-	171,930	-	-	397	172,327
Dismantlement	-	(436)	-	(934,541)	45,706	(889,271)
Sales	-	(118,000)	-	(72,208)	-	(190,208)
Transfer to assets held for sale	-	(19,300)	-	(228,664)	-	(247,964)
Transfer of contribution in kind (*Note 15*)	-	-	(92,112)	(9,524,172)	(442,983)	(10,059,267)
Other	-	12,916	-	(237,519)	(89,223	(313,826)
Balance as of 31 December 2019	**1,740,580**	**879,735,499**	**3,408,207**	**717,717,934**	**75,660,358**	**1,678,262,578**
Accumulated depreciation						
Balance as of 1 January 2018	-	496,231,128	2,139,782	493,251,579	-	991,622,489
Charge for the year	-	18,558,597	320,765	62,553,032	-	81,432,394
Disposals	-	(14,040)	(230,830)	(29,397,270)	-	(29,642,140)
Shortages	-	-	-	(11,028)	-	(11,028)
Surpluses	-	786,951	-	-	-	786,951
Dismantlement	-	-	-	(420,106)	-	(420,106)
Sales	-	(15,709)	-	(10)	-	(15,719)
Transfer to assets held for sale	-	-	-	(487,008)	-	(487,008)
Donated equipment	-	-	-	(45,000)	-	(45,000)
Transfers	-	-	(1,032)	2,521	-	1,489
Balance as of 31 December 2018	**-**	**515,546,927**	**2,228,685**	**525,446,710**	**-**	**1,043,222,322**
Balance as of 1 January 2019	-	515,546,927	2,228,685	525,446,710	-	1,043,222,322
Charge for the year	-	22,174,931	374,657	64,650,379	-	87,199,967
Disposals	-	(338,421)	(62,023)	(80,024,511)	-	(80,424,955)
Shortages	-	-	-	(33,734)	-	(33,734)
Surpluses	-	171,930	-	-	-	171,930
Dismantlement	-	-	-	(889,271)	-	(889,271)
Sales	-	(24,463)	-	(56,667)	-	(81,130)
Transfer to assets held for sale	-	(6,392)	-	(236,173)	-	(242,565)
Transfer of contribution in kind (*Note 15*)	-	-	(66,839)	(4,600,980)	-	(4,667,819)
Other	-	(7,319)	-	(124,019)	-	(131,338)
Balance as of 31 December 2019	**-**	**537,517,193**	**2,474,480**	**504,131,734**	**-**	**1,044,123,407**
Net book value as of						
31 December 2019	**1,740,580**	**342,218,306**	**933,727**	**213,586,200**	**75,660,358**	**634,139,171**
31 December 2018	**1,734,580**	**264,251,090**	**952,203**	**220,312,042**	**81,848,305**	**569,098,220**

14. PROPERTY AND EQUIPMENT (Continued)

As at 31 December 2019, investments in progress mainly related to the purchased telecommunication equipment not yet placed into use. As at 31 December 2019 there were no encumbrances on and restrictions to the Group's titles and ownership rights over property and equipment. Contractually agreed but not yet realized liabilities of the Group for capital expenditures totalled BAM 42,810,737 ((31 December 2018: BAM 58,995,216).

15. EQUITY INVESTMENTS IN ASSOCIATES

In BAM

	Interest	31 December 2019	31 December 2018
a) Investment in Mtel d.o.o. Podgorica (Montenegro):	49%		
- Cost of the investment in Mtel d.o.o. Podgorica		132,065,141	74,563,739
- Effect of the associate's first-time adoption of IFRS		-	(2,797,098)
- Adjustment of the cost of investment based on recognition of portion of profit/(loss) using the equity method		22,357,438	17,006,116
Investment in MTEL d.o.o. Podgorica, net		154,422,579	88,772,757
b) Investment in GO4YU d.o.o. Belgrade (Serbia):	41%		
- Cost of the investment in GO4YU d.o.o. Belgrade		17,670,924	-
- Adjustment of the cost of investment based on recognition of portion of profit/(loss) using the equity method		(3,246,875)	-
Investment in GO4YU d.o.o. Belgrade, net		14,424,049	-
Total investment in associates		**168,846,628**	**88,772,757**

Equity investments in associates amounting to BAM 149,736,065 relate to the cost of equity investments in the companies MTEL d.o.o. Podgorica and GO4YU d.o.o. Belgrade.

As of 31 December 2019, the Group held a 49% of equity interest in Mtel d.o.o. Podgorica, the Republic of Montenegro, and a 41% of equity interest in GO4YU d.o.o. Belgrade, the Republic of Serbia, which are involved in the provision of telecommunication services in the territories of Montenegro and the Republic of Serbia.

The value of the total equity investment in Mtel d.o.o. Podgorica, after the originally agreed amount for the purchase made on 1 February 2010, of the initial 49% equity interest, additional capital increases and other costs directly related to this transaction, and finally, non-monetary contribution made, amounted to BAM 132,065,141.

According to a Decision on an Increase in Stake Capital of MTEL d.o.o. Podgorica in 2019, an amount of BAM 57,501,402 was paid to the associate, which increased the stake capital of the company MTEL d.o.o. Podgorica. The stake capital increase did not affect the existing interest percentage in the ownership structure.

On 20 June 2019, the Board of Directors of the Company made a decision to enter a contribution in kind into the company GO4YU d.o.o. Beograd, Serbia, which is owned by the Telecommunication Company "Telekom Srbija" a.d. Beograd, Serbia, in the form of the right to a 100% stake in the company *Mtel Austria GmbH.* By registering its ownership on 22 August 2019, the Company became the owner of a 41% stake in the company GO4YU d.o.o. Beograd, Serbia.

15. EQUITY INVESTMENTS IN ASSOCIATES (Continued)

Investment in the associates MTEL d.o.o. Podgorica and GO4YU d.o.o. Belgrade are accounted for using the equity method. The Group's share in the profit of MTEL d.o.o. Podgorica for the year ended 31 December 2019 amounted to BAM 8,148,420, whereas the Group's share in the loss of GO4YU d.o.o. Belgrade for the year ended 31 December 2019 amounted to BAM 3,246,742.

Movements on investments in the associates MTEL d.o.o. Podgorica and GO4YU d.o.o. Belgrade were as follows:

In BAM

	Year ended 31 December 2019	Year ended 31 December 2018
Balance, 1 January	88,772,757	85,130,311
Recapitalisation of MTEL d.o.o. Podgorica	57,501,402	-
Investment in GO4YU d.o.o. Belgrade	17,670,924	
- First-time adoption effects of IFRS 15 and IFRS 9 on the associate MTEL d.o.o. Podgorica	-	(2,797,098)
The share in (loss)/profit of the associates that is accounted for using the equity method (Note 3.1.e)	4,901,545	6,439,544
Balance, end of year	**168,846,628**	**88,772,757**

Upon the first-time adoption of IFRS 9 and IFRS 15, the associate MTEL d.o.o. Podgorica used the cumulative effect method, where the cumulative effect of the standards' first-time adoption is recognized as an adjustment to the retained earnings as of 1 January 2018.

16. OTHER INVESTMENTS

In BAM

	Interest	31 December 2019	31 December 2018
Financial assets measured at fair value through OCI			
- Nova banka a.d. Banja Luka	0.02%	6,324	5,788
		6,324	5,788
Financial assets measured at amortized cost:			
- Long-term bonds issued by the Republic of Srpska		34,140	54,157
- Centre for International Law and International Business Cooperation Ltd. Banja Luka	22.97%	400	400
		34,540	54,557
		40,864	**60,345**

Shares of Nova banka a.d., Banja Luka (comprising 0.02% of the Bank's share 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 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 Group. The bonds were issued with maturities of up to 15 years, starting from 31 December 2007, with the grace period of 5 years and an interest rate of 1.5% annually. The bonds are measured at amortized cost applying the effective interest rate.

17. LONG-TERM LOANS AND RECEIVABLES

In BAM

	31 December 2019	31 December 2018
Long-term loans to employees	84,901	99,440
Less: Current portion of long-term loans due within one year *(Note 22)*	(78,436)	(82,265)
Total non-current portion of long-term loans to employees	6,465	17,175
- Other long-term deposits	176,025	6,176,025
- Other long-term investments	10,134	79,500
Total other long-term deposits and investments	186,159	6,255,525
Total long-term receivables and loans	**192,624**	**6,272,700**
Less: Impairment allowance:		
- impairment allowance of long-term loans	(4,740)	(6,159)
- impairment allowance of long-term investments	(28,607)	(32,901)
	(33,347)	**(39,060)**
	159,277	**6,233,640**

Other long-term deposits pertain to the long-term deposits the Group placed with commercial banks in Bosnia and Herzegovina under market terms.

18. INVENTORIES

In BAM

	31 December 2019	31 December 2018
Materials	4,631,315	4,147,439
Goods	284,464	292,841
Materials for combined services	11,793,726	9,020,068
Advances paid to suppliers	757,711	933,110
	17,467,216	**14,393,458**

19. TRADE RECEIVABLES

In BAM

	31 December 2019	31 December 2018
Trade receivables:		
- related parties (Note 35 *(a)*)	14,256,905	9,319,811
- domestic	127,514,372	117,652,826
- foreign	3,061,269	1,607,481
Total gross trade receivables	**144,832,546**	**128,580,118**
Less: Impairment allowance of trade receivables for expected credit losses	(62,001,843)	(57,279,950)
	82,830,703	**71,300,168**

19. TRADE RECEIVABLES (Continued)

The total gross trade receivables as of 31 December 2019 amounted to BAM 144,832,546. The Group 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 31 December 2019 amounted to BAM 62,001,843 representing 42.81% of the total gross value of trade receivables. The movements in the allowance for impairment of receivables are shown in *Note 21* to the consolidated financial statements.

20. OTHER RECEIVABLES

In BAM

	31 December 2019	31 December 2018
Other receivables	2,898,160	1,676,387
Less: Impairment allowance of other receivables	(720,220)	(594,797)
	2,177,940	**1,081,590**

21. IMPAIRMENT ALLOWANCE OF CURRENT RECEIVABLES

In BAM
FY 2019 and FY 2018

	Trade Receivables (Note 19)	Other Receivables (Note 20)	Total
Balance, 1 January 2018	54,732,484	735,819	55,468,303
Charge for the year	3,856,188	40,225	3,896,413
Write-off of receivables	(1,387,566)	(102,403)	(1,489,969)
Other	78,844	(78,844)	-
Balance, 31 December 2018	**57,279,950**	**594,797**	**57,874,747**
Balance, 1 January 2019	57,279,950	594,797	57,874,747
Charge for the year	1,732,244	153,187	1,885,431
Write-off of receivables	(1,785,952)	(73,807)	(1,859,759)
Increases arising from business combinations	5,071,799	46,043	5,117,842
Other	(296,198)	-	(296,198)
Balance, 31 December 2019	**62,001,843**	**720,220**	**62,722,063**

22. DEPOSITS AND LOAN RECEIVABLES

	31 December 2019	In BAM 31 December 2018
Short-term deposits	5,241,834	62,026,509
Current portion of long-term loans to employees (*Note 17*)	78,436	82,265
Short-term loans to related parties	4,889,575	-
	10,209,845	**62,108,774**

23. PREPAYMENTS

	31 December 2019	In BAM 31 December 2018
Accrued receivables	4,180,828	3,662,280
Contractual assets	13,317,946	13,499,079
Prepaid expenses	974,731	485,776
Deferred input and output advance invoices for the purpose of VAT accrual	2,090,809	1,899,713
	20,564,314	**19,546,848**

Accrued receivables mostly, in the amount of BAM 1,711,559, 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 1,910,820 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 Group's entitlement to considerations in exchange for goods or services the Group 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 Group 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

	31 December 2019	In BAM 31 December 2018
Gyro accounts	42,974,149	64,474,120
Foreign currency accounts	4,838,329	6,864,321
Cash on hand	20,240	26,890
Cash equivalents	101,569	100,000
	47,934,287	**71,465,331**

25. EQUITY

Share Capital

The Company's share capital structure (as per the Book of Shareholders maintained by the Republic of Srpska Central Registry of Securities, Banja Luka) as of 31 December 2019 and 31 December 2018 was as follows:

	31 December 2019	In %	31 December 2018	In %
Telekom Srbija a.d. Beograd, Serbia	319,428,193	65.01	319,428,193	65.01
RS Pension and Disability Insurance Fund, Banja Luka	43,840,269	8.92	43,840,269	8.92
RS Restitution Fund, Banja Luka	24,715,439	5.03	24,715,439	5.03
Duif Kristal invest a.d. – OMIF Future Fund	13,092,569	2.62	15,624,294	3.18
Other shareholders	90,307,285	18.42	87,775,560	17.86
	491,383,755	**100.00**	**491,383,755**	**100.00**

The Company's share capital in the amount of BAM 491,383,755 is fully paid in and divided into 491,383,755 ordinary shares, each with the par value of BAM 1. All shares are of the same class with equal rights comprising common stock (ordinary shares) and are registered in the name of the holder. Each share gives the right to one vote. The Company's shares are listed on Banja Luka Stock Exchange (active but insufficiently developed financial market). The market value of one share as of 31 December 2019 amounts to BAM 0.95 (31 December 2018: BAM 0.83). Earnings and dividend per share are disclosed in *Note 36* to the consolidated financial statements.

Legal Reserves

Legal reserves as of 31 December 2019 amounting to BAM 49,141,766 represent allocations from profit made pursuant to Article 231 of the Company Law in the amount of no less than 5% of the net profit for the year less prior year losses until such reserves, until together with equity reserves, attain a level equivalent to 10% of the Company's total core capital or the legally defined greater portion of the core capital.

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

Other Reserves - Reserves Arising on the Investment Commitment

Other reserves as of 31 December 2019 amounting BAM 97,791,500 entirely pertained to the reserves formed during 2008 based on the execution of the commitment to invest undertaken by the majority owner (Telekom Srbija a.d. Beograd), as the purchaser of the majority block of the Company's shares.

26. INTEREST-BEARING BORROWINGS, LONG-TERM LIABILITIES AND CURRENT PORTION OF LONG-TERM BORROWINGS

		In BAM
	31 December 2019	**31 December 2018**
a) Long-term borrowings:		
- cash loans	251,908,443	149,535,148
- borrowings for purchases of equipment	59,691,237	47,619,274
	311,599,680	197,154,422
b) Other long-term liabilities	13,261,829	-
Total long-term liabilities	**324,861,509**	**197,154,422**
Less: Current portion of:		
- long-term borrowings	(68,570,741)	(31,308,890)
- other long-term liabilities	(3,207,432)	-
Total current portion of long-term liabilities	**(71,778,173)**	**(31,308,890)**
	253,083,336	**165,845,532**
c) Short-term cash loans:		
- from related parties	248,670	-
- from banks	13,260,284	804,353
	13,508,954	**804,353**

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% annually (2018: six-month EURIBOR as increased by the margin ranging from 0.5% to 1% annually). The interest rate applied to the cash loan is in accordance with the current market conditions.

Other long-term liabilities are related to the obligations for the license for the use of radio frequency spectrum for the provision of services via mobile access systems issued by the Communication Regulatory Agency of Bosnia and Herzegovina.

The contractual currency for all loans, except for loans granted by the Government of the Kingdom of Spain, cash loans and domestic suppliers, is EUR.

The Group settles its liabilities arising from borrowings according to the contractually defined repayment schedules. The Group 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:

		In BAM
	31 December 2019	**31 December 2018**
Current portions	71,778,173	31,308,890
From 1 to 2 years	71,168,347	37,539,723
From 2 to 3 years	63,352,354	32,020,778
From 3 to 4 years	56,780,766	28,464,233
From 4 to 5 years	38,163,931	26,887,367
After 5 years	23,617,938	40,933,431
Total non-current portion of borrowings	253,083,336	165,845,532
	324,861,509	**197,154,422**

27. LEASE LIABILITIES

	Land and buildings	Vehicles	Total
Balance as of 1 January 2019	55,208,799	143,564	55,352,363
New additions	11,563,203	94,999	11,658,202
Liabilities incurred in a business combination	7,121,548	-	7,121,548
Interest expense (*Note 11*)	1,478,754	3,853	1,482,607
Modification of the lease period	723,646	-	723,646
Liability closing	(13,905,373)	(61,797)	(13,967,170)
Balance as of 31 December 2019	**62,190,577**	**180,619**	**62,371,196**

The Group recognised rental liabilities in accordance with IFRS 16, based on which a liability is measured at the present value of all rental payments that were not made on the recognition date.

The Group used the rate for the interest rate on rental liabilities that the Group would have paid as a lessee if it had borrowed funds, under a similar time and similar guarantees, necessary for the purchase of assets that have a similar value as the right-of-use assets in a similar economic environment.

28. DEFERRED INCOME

In BAM

	31 December 2019	31 December 2018
Grants received	61,835	74,202
Less: Current portion of deferred income	(12,367)	(12,367)
	49,468	**61,835**

Movements on deferred income in FY 2019 and FY 2018 were as follows:

In BAM

	Year ended 31 December 2019	Year ended 31 December 2018
Balance as of 1 January	74,202	86,569
Reversal credited to other income	(12,367)	(12,367)
Balance, end of year	**61,835**	**74,202**

29. EMPLOYEE BENEFITS

In BAM

	31 December 2019	31 December 2018
Employee benefits		
- non-current portion	6,538,326	6,178,375
- current portion	604,280	660,996
	7,142,606	**6,839,371**

29. EMPLOYEE BENEFITS (Continued)

Long-term provisions for employee benefits as of 31 December 2019 in the amount of BAM 7,142,606 relate to the non-current and current provisions formed based on the calculation of present value of accumulated employee entitlements to retirement benefits and jubilee awards in accordance with IAS 19 "*Employee Benefits*".

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

Accordingly, the Group has hired a certified actuary to perform the calculation of the present value of accumulated rights to retirement benefits and jubilee awards as at 31 December 2019 on behalf of the Group. When calculating the present value of these accumulated rights to retirement benefits and jubilee awards, the authorized actuary used the following assumptions: a discount rate from 3.2% to 3.5% per annum, projected salary growth rate ranging from 0.4% to 3.2% annually, projected years of service for retirement - 40 years for men and 35 to 40 years for women, the projected staff turnover on the basis of historical data on the movement of employees in the past, officially published mortality rates and other conditions necessary for exercising the right to retirement benefits and jubilee awards.

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

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

Movements on long-term provisions for employee benefits in FY 2019 and FY 2018 were as follows:

				In BAM
	Current portion		Non-current portion	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Balance as of 1 January	660,996	747,027	6,178,375	6,035,526
Increases based on business combinations	-	-	154,815	-
Charge for the year	(56,716)	(83,455)	742,894	748,026
Transfer from/to the current portion	537,758	605,177	(537,758)	(605,177)
Payments during the year	(537,758)	(607,753)	-	-
Balance, end of year	**604,280**	**660,996**	**6,538,326**	**6,178,375**

30. PROVISIONS

In BAM

	Year ended 31 December 2019	Year ended 31 December 2018
Balance, 1 January	147,862	57,161
Provisions for litigations	2,032,379	99,376
Reversal of provisions for litigations	(101,830)	(8,675)
Other provisions	335,418	-
Balance, end of year	**2,413,829**	**147,862**

31. TRADE PAYABLES

In BAM

	31 December 2019	31 December 2018
Trade payables:		
- related parties (Note *35(a)*)	3,248,314	4,280,855
- domestic	42,550,736	42,542,849
- foreign	10,280,489	6,878,584
- for uninvoiced investments and services	7,310,389	13,728,090
	63,389,928	**67,430,378**

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

The average days payable outstanding in FY 2019 were 77 days (year ended 31 December 2018: 72 days).

The ageing structure of trade payables within the year ended 31 December 2019 and 31 December 2018 was as follows:

In BAM

	31 December 2019	31 December 2018
From 0 to 30 days	39,844,756	53,190,980
From 31 to 60 days	8,558,624	5,459,449
From 61 to 120 days	8,402,696	6,174,576
From 121 to 180 days	2,822,101	1,930,932
From 181 to 270 days	1,087,129	78,246
From 271 to 360 days	2,674,622	596,195
	63,389,928	**67,430,378**

32. ACCRUALS

	31 December 2019	In BAM 31 December 2018
Deferred income – sales of prepaid top-ups	3,345,364	2,023,431
Accrued liabilities – international traffic	7,525,382	7,062,385
Accrued liabilities – media content distribution/broadcasting	3,903,755	2,212,349
Accrued liabilities per other expenses	9,752,376	7,898,879
Accrued VAT liabilities on advance invoices	1,871,137	1,673,499
Other accruals	305,294	170,077
	26,703,308	**21,040,620**

Accrued liabilities for international traffic totalling BAM 7,525,382 as of 31 December 2019, mostly relate to the estimates of roaming discounts that the Group needed to approve based on the international traffic realized with other operators, for which final invoices had not yet been issued or calculation received from the clearing house (Note 3.2.5.).

Accrued liabilities per other expenses that amount to BAM 9,752,376 as of 31 December 2019 represent current year's expenses for which there were sufficient information on their existence and inception yet the Group had not received the final invoices for services or goods received until these consolidated financial statements preparation date.

33. OTHER LIABILITIES

	31 December 2019	In BAM 31 December 2018
Advances and prepayments received	1,731,536	2,217,775
Taxes and customs duties charged to expenses	320,479	256,704
Value added tax payable	2,007,409	3,433,799
Liabilities to employees	660,208	479,220
Liabilities for acquiring equity shares	61,911,192	-
TV broadcasting rights	13,398,345	-
Other liabilities	1,128,307	638,606
	81,157,476	**7,026,104**

34. INCOME TAXES

(a) Components of Income Taxes

	2019	In BAM Year ended 31 December 2018
Current income tax expense	7,106,206	6,815,693
Deferred tax expense - decrease in deferred tax assets	9,387	237,656
Deferred tax expense - decrease in deferred tax liabilities	-	415,159
Deferred tax income – increase in deferred tax assets	(289,283)	-
Deferred tax income - decrease in deferred tax liabilities	(517,537)	(100,144)
	6,308,773	**7,368,364**

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

	2019	In BAM Year ended 31 December 2018
Current income tax expense	86.574.895	68.249.244
Income taxes calculated at the rate of 10%	8.657.490	6.824.924
Adjustments for:		
- non-taxable income effects	(1.388.312)	(666.918)
- non-taxable income effects arising from derecognition of assets and liabilities (Note 6)	(2.819.896)	-
- non-deductible costs effects	2.656.924	657.687
- temporary differences effects	(508.150)	552.671
- recognition of unused tax credits based on carry forwards effects	(289.283)	-
Income tax expense	6.308.773	7.368.364
Effective tax rate for the year	7.29%	10.80%

(c) Deferred Tax Assets

	Year ended 31 December 2019	In BAM Year ended 31 December 2018
Balance, 1 January	268.641	506.297
Decrease in deferred tax assets	(9.387)	(237.656)
Assumed tax assets acquired through a business combination	692.266	-
Balance, end of the period/year	**951.520**	**268.641**

34. INCOME TAXES (Continued)

(d) Deferred Tax Liabilities

	31 December 2019	In BAM 31 December 2018
Balance, 1 January	(1.091.147)	(776.132)
Increase/(decrease) in deferred tax liabilities during the year	517.537	(315.015)
Initial recognition of deferred taxes based on a business combination	(8.881.424)	-
Balance, end of the period/year	**(9.455.034)**	**(1.091.147)**

(e) Current Tax Liabilities

	31 December 2019	In BAM 31 December 2018
Current income tax expense	196,182	366,094
Balance, end of the year	**196,182**	**366,094**

35. RELATED PARTY TRANSACTIONS

The majority owner of the Group is Telekom Srbija a.d. Belgrade, whose majority shareholder is the Republic of Serbia. The following table presents the receivables and payables arising from the related party transactions:

a) STATEMENT OF FINANCIAL POSITION

31 December 2019

	ASSETS					LIABILITIES					
	Trade receivables	**Interest receivable**	**Accrued and uninvoiced income from international traffic**	**Short-term loans**	***Total receivables***	**Long-term liabilities**	**Short-term liabilities**	**Trade payables**	**Accrued (estimated) expenses**	***Total liabilities***	***Net receivables / payables***
- Telekom Srbija a.d. Beograd	6,849,837	-	1,026,434	-	7,876,271	-	-	(2,500,811)	(2,446,294)	(4,947,105)	2,929,166
- MTEL d.o.o. Podgorica	3,384,372	-	194,551	-	3,578,923	-	-	(495,047)	(513,422)	(1,008,469)	2,570,454
- Mtel Austria *GmbH* Vienna	3,964,037	42,019	74,098	2,933,745	7,013,899	-	-	(10,878)	(976,434)	(987,312)	6,026,587
- HD - WIN d.o.o. Beograd	10,249	-	-	-	10,249	-	-	(227,887)	(290,909)	(518,796)	(508,547)
- GO4YU d.o.o. Beograd	-	1,783	-	1,955,830	1,957,613	-	-	(13,691)	(13,691)	(27,382)	1,930,231
- MTS d.o.o. Kosovska Mitrovica	48,410	-	-	-	48,410	-	-	-	-	-	48,410
- mts banka d.o.o. Beograd	-	-	-	-	-	-	(248,669)	-	-	(248,669)	(248,669)
	14,256,905	**43,802**	**1,295,083**	**4,889,575**	**20,485,365**	**-**	**(248,669)**	**(3,248,314)**	**(4,240,750)**	**(7,737,733)**	**12,747,632**

31 December 2018

	ASSETS					LIABILITIES					
	Trade receivables	**Interest receivable**	**Accrued and uninvoiced income from international traffic**	**Short-term loans**	***Total receivables***	**Long-term liabilities**	**Short-term liabilities**	**Trade payables**	**Accrued (estimated) expenses**	***Total liabilities***	***Net receivables / payables***
- Telekom Srbija a.d. Beograd	6,334,457	-	1,478,650	-	7,813,107	-	-	(2,981,319)	(2,037,014)	(5,018,333)	2,794,774
- MTEL d.o.o. Podgorica	2,947,959	-	187,709	-	3,135,668	(82,145)	-	(1,287,410)	(613,917)	(1,983,472)	1,152,196
- HD - WIN d.o.o. Beograd	5,124	-	-	-	5,124	-	-	-	(122,787)	(122,787)	(117,663)
- GO4YU d.o.o. Beograd	-	-	-	-	-	-	-	(12,126)	(12,126)	(24,252)	(24,252)
- MTS d.o.o. Kosovska Mitrovica	32,271	-	-	-	32,271	-	-	-	-	-	32,271
	9,319,811	**-**	**1,666,359**	**-**	**10,986,170**	**(82,145)**	**-**	**(4,280,855)**	**(2,785,844)**	**(7,148,844)**	**3,837,326**

Related party transactions were performed under terms and conditions that are the same as or similar to those applying to the transactions with other legal entities. As of the preparation date of these consolidated financial statements, the Group had no expected credit losses in respect of which impairment allowance of receivables due from related parties would have been made.

35. RELATED PARTY TRANSACTIONS (Continued)

(b) STATEMENT OF TOTAL COMPREHENSIVE INCOME

31 December 2019

	INCOME					EXPENSES						
	Sales of services	Sales of goods	Financial income	Other income	*Total income*	International settlement	Maintenance	Fees for media contents transmission	Cost of other production services	Costs of goods sold	*Total expenses*	*Net income/ (expenses)*
- Telekom Srbija a.d. Beograd	30,166,681	2,739,118	-	-	32,905,799	(14,920,889)	(23)	(1,616,032)	(1,694,862)	(4,032,974)	(22,264,780)	10,641,019
- MTEL d.o.o. Podgorica	2,740,166	-	-	-	2,740,166	(1,615,911)	(117,350)	-	(3,061)	-	(1,736,322)	1,003,844
- Mtel Austria GmbH Vienna	143,367	590,080	42,019	-	775,466	(6,244)	-	-	(10,376)	(33,940)	(50,560)	724,906
- HD - WIN d.o.o. Beograd	61,491	-	-	-	61,491	-	-	(673,416)	(24,879)	-	(698,295)	(636,804)
- MTS d.o.o. Kosovska Mitrovica	129,399	-	-	-	129,399	-	-	-	-	-	-	129,399
- Yunet International d.o.o. Beograd	-	-	-	-	-	-	-	-	(52)	-	(52)	(52)
- GO4YU d.o.o. Beograd	-	-	1,783	-	1,783	-	-	(164,290)	-	-	(164,290)	(162,507)
- mts banka d.o.o. Beograd	-	-	-	-	-	-	-	-	(8,563)	-	(8,563)	(8,563)
	33,241,104	**3,329,198**	**43,802**	**-**	**36,614,104**	**(16,543,044)**	**(117,373)**	**(2,453,738)**	**(1,741,793)**	**(4,066,914)**	**(24,922,862)**	**11,691,242**

31 December 2018

	INCOME					EXPENSES						
	Sales of services	Sales of goods	Financial income	Other income	*Total income*	International settlement	Maintenance	Fees for media contents transmission	Cost of other production services	Costs of goods sold	*Total expenses*	*Net income/ (expenses)*
- Telekom Srbija a.d. Beograd	22,574,530	2,971,949	-	26,990	25,573,469	(15,765,953)	(8,821)	(1,312,497)	(1,502,287)	(2,740,745)	(21,330,303)	4,243,166
- MTEL d.o.o. Podgorica	2,986,616	-	-	-	2,986,616	(1,621,268)	(113,028)	-	(2,484)	-	(1,736,780)	1,249,836
- HD - WIN d.o.o. Beograd	61,491	-	-	-	61,491	-	-	(1,464,525)	(8,919)	-	(1,473,444)	(1,411,953)
- MTS d.o.o. Kosovska Mitrovica	1,401,747	-	-	-	1,401,747	-	-	-	-	(356,286)	(356,286)	1,045,461
- Yunet International d.o.o. Beograd	4,766	-	-	-	4,766	-	-	-	-	-	-	4,766
- GO4YU d.o.o. Beograd	-	-	-	-	-	-	-	(149,637)	-	-	(149,637)	(149,637)
- mts banka d.o.o. Beograd	-	-	-	-	-	-	-	-	(4,791)	-	(4,791)	(4,791)
	27,029,150	**2,971,949**	**-**	**26,990**	**30,028,089**	**(17,387,221)**	**(121,849)**	**(2,926,659)**	**(1,518,481)**	**(3,097,031)**	**(25,051,241)**	**4,976,848**

35. RELATED PARTY TRANSACTIONS (Continued)

(b) STATEMENT OF TOTAL COMPREHENSIVE INCOME (Continued)

	Year ended 31 December 2019	Year ended 31 December 2018
Short-term remunerations to the key management personnel:		
- Executive Board	(1,607,687)	(1,142,079)
- Management Board	(270,418)	(268,288)
- Audit Committee	(69,781)	(76,235)
- Supervisory Board	(74,443)	(74,313)
	(2,022,329)	**(1,560,915)**

The key management personnel are not entitled to the additional long-term employee benefits or termination benefits other than those disclosed in *Note 3.14*.

36. EARNINGS AND DIVIDENDS PER SHARE

	2019	In BAM Year ended 31 December 2018
Net profit for the period	80,266,120	60,880,880
Weighted average number of shares outstanding	491,383,755	491,383,755
Earnings per share (basic and diluted)	0.1633	0.1239

On 3 June 2019, the Company's Assembly enacted Decision on the Distribution of Profit Earned in 2018, whereby the profit was distributed to the shareholders in accordance with the Company's Statute, in the amount of BAM 38,445,821 (BAM 0.07824 per share), while on 5 December 2019, the Co Company's Assembly passed the Decision on the Payment of Dividends in the amount of BAM 17,449,948 (BAM 0.03551 per share).

Liabilities for the remaining unpaid dividends to the shareholders totalled BAM 15,289,409 as of 31 December 2019 (31 December 2018: BAM 9,884,812).

37. CONTINGENT LIABILITIES

Litigations

The Group 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 Group as of 31 December 2019 totalled BAM 57,168,703, not including effects of penalty (default) interest and court expenses.

The most significant court proceedings are those involving the following plaintiff *Crumb group* d.o.o. Bijeljina amounting to BAM 42 million. Management uses legal advisory services in these cases, based on which it believes that the probability of negative outcomes for the Group is very remote, given that most of these lawsuits are lacking in merit.

37. CONTINGENT LIABILITIES (Continued)

Litigations (Continued)

The aforementioned belief that the outcome of the pending lawsuits will be favourable for the Group is because 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 Group. Management further expects that the final outcome of these disputes will not materially hinder the financial operations of the Group. Based on the aforementioned facts, the Group 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 30* to the consolidated financial statements, as of 31 December 2019 the Group made provisions for contingent losses that might arise from the ongoing lawsuits in the total amount of BAM 2,078,411. The management estimated that no material losses would be incurred on the outcomes of the remaining pending lawsuits in excess of the amount of the provisions made.

38. BUSINESS COMBINATIONS

Blicnet d.o.o. Banja Luka

As disclosed in *Notes* 1 and 3 to the consolidated financial statements, on 31 January 2019 the Agreement on the Sales and Purchase and Transfer of Equity Interest in the company Blicnet d.o.o. Banja Luka was executed so that 100% of interest in Blicnet d.o.o. Banja Luka was transferred to the Company.

On 31 January 2019, the District Commercial Court in Banja Luka issued a Decision based on which the Company was registered as the owner of 100% of equity interest in Blicnet d.o.o. Banja Luka.

The subsidiary Blicnet d.o.o. Banja Luka was incorporated in 1992. It is one of the leading cable operators in Bosnia and Herzegovina that provides cable TV, Internet, fixed and mobile telephony services, as well as system integration service.

Acquired assets and liabilities of the subsidiary Blicnet as of the acquisition date on 31 January 2019 are presented as follows:

	Fair value
Assets	70,499,509
Liabilities	(14,770,084)
	55,729,425
Deferred tax liabilities	(2,765,152)
Net assets	**52,964,273**

Telrad Net d.o.o. Bijeljina

As disclosed in *Notes* 1 and 3 to the consolidated financial statements, on 6 February 2019 the Agreement on the Sales and Purchase and Transfer of Equity Interest in the company Telrad Net d.o.o. Bijeljina was executed so that 100% of interest in Telrad Net d.o.o. Bijeljina was transferred to the Company.

On 6 February 2019 the District Commercial Court in Bijeljina issued a Decision based on which the Company was registered as the owner of 100% of equity interest in Telrad Net d.o.o. Bijeljina.

The subsidiary Telrad Net d.o.o. Bijeljina was incorporated in 1990. The company provides services related to public fixed telephony, VoIP and IP telephony, cable TV, Internet and mobile telephony.

38. BUSINESS COMBINATIONS (Continued)

Telrad Net d.o.o. Bijeljina (Continued)

Acquired assets and liabilities of the subsidiary Telrad net, as of the acquisition date on 6 February 2019 are presented as follows:

	Fair value
Assets	53,945,505
Liabilities	(9,372,972)
	44,572,533
Deferred tax liabilities	(2,411,930)
Net assets	**42,160,603**

Elta-Kabel d.o.o. Doboj

On 30 August 2019 the Agreement on the Sales and Purchase and Transfer of Equity Interest in the company Elta-Kabel d.o.o. Doboj was executed so that 100% of interest in Elta-Kabel d.o.o. Doboj was transferred to the Company.

On 4 September 2019 the District Commercial Court in Doboj issued a Decision based on which the Company was registered as the owner of 100% of equity interest in Elta-Kabel d.o.o. Doboj.

The subsidiary Elta-Kabel d.o.o. Doboj was incorporated in 2001 and is one of the leading cable operators in Bosnia and Herzegovina that provides cable TV, Internet and fixed-line telephony services.

Acquired assets and liabilities of the subsidiary Elta-Kabel as of the acquisition date on 30 August 2019 were as follows:

	Fair value
Assets	62,544,216
Liabilities	(8,006,246)
Value of net assets	54,537,970
Deferred tax liabilities	(3,704,342)
Net assets	**50,833,628**

The total income of the acquired companies since the acquisition date, included in the Group's consolidated statement is 44,664,254 while the total profit is BAM 188,211.

If the acquisition of the above-mentioned companies had occurred on 1 January 2019, the Group's revenues would have been 535,555,821 while the Group's net profit would have been BAM 75,398,340. These amounts have been calculated by applying the Group's accounting policies and adjusting the consolidated subsidiary's operating results to reflect the additional depreciation amounts that would have been calculated assuming that the fair value adjustment to intangible assets has been applied as of 1 January 2019, together with the associated tax effects.

39. FINANCIAL INSTRUMENTS

39.1. Capital Risk Management

The Group 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 Group monitors capital based on the debt to equity ratio

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

39.1.1. Debt to Equity Ratio

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

	31 December 2019	In BAM 31 December 2019
Debt (a)	338,370,463	197,958,775
Cash and cash equivalents	(47,934,287)	(71,465,331)
Net debt	**290,436,176**	**126,493,444**
Equity (b)	686,085,507	661,714,620
Debt to equity ratio	42.33%	19.12%

(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.

39.1.2. 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 consolidated financial statements.

39.2. Categories of Financial Instruments

Categories of financial instruments as of 31 December 2019 and 31 December 2018 are presented in the table below:

	31 December 2019	In BAM 31 December 2018
Financial assets		
Financial assets subsequently measured at amortized cost	143,346,592	212,244,059
Financial assets measured at fair value through other comprehensive income	6,324	5,788
	143,352,916	212,249,847
Financial liabilities at amortized cost	**578,960,060**	**275,623,206**

39. FINANCIAL INSTRUMENTS (Continued)

39.3. Financial Risk Management

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

Over the year ended 31 December 2019, the Group did not enter into transactions with derivative instruments, such as interest rate swaps or forwards.

(1) Market Risk

(a) Foreign Exchange Risk

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

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

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

In BAM

	Assets		**Liabilities**	
	31 December 2019	**31 December 2018**	**31 December 2019**	**31 December 2018**
EUR	16,075,174	16,344,583	194,619,094	148,915,861
USD	108,336	587,231	3,466,394	3,358,659
CHF	1,744	2,075	225	1,476
GBP	1,168	2,186	1,405	-
HRK	102	1,028	-	6,550
RSD	712,309	4,311	-	3,674
SEK	160	-	-	-
	16,898,993	16,941,414	198,087,118	152,286,220

Sensitivity Analysis

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

If the foreign exchange rate were 10% higher/lower on an annual basis, the Group's net profit for FY 2019 would have decreased / increased by the amount of BAM 19,842 (FY 2018: BAM 19,447).

39. FINANCIAL INSTRUMENTS (Continued)

39.3. Financial Risk Management (Continued)

(1) Market Risk (Continued)

(b) Interest Rate Risk

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

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

During r the year ended 31 December 2019, the largest portion of the liabilities arising from borrowings had a variable interest rate which was linked to EURIBOR. Borrowings with variable interest rates were mostly denominated in foreign currency (EUR).

The Group analyses its exposure to interest rate risk on a dynamic basis taking into consideration the alternative sources for financing and refinancing, of long-term liabilities in the first place, as these represent the most important interest-bearing item. The Group still does not swap variable for fixed interest rates, and vice versa, but takes steps to securitize loans from banks at terms that are more favourable.

Sensitivity Analysis

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

Had interest rates applied to cash loans and loans in kind during the reporting period been higher/lower by 10% annually where other variables remained unaltered, the Group's net profit for FY 2019 would have decreased / increased by BAM 485,081 (FY 2018: BAM 143,380) as a result of higher/lower interest expenses.

(c) Equity Price Risk

During the reporting period ended 31 December 2019, the Group was exposed to a risk of price changes of equity securities. The aforementioned investments are held for strategic purposes rather than everyday trading, and they are not actively traded.

39. FINANCIAL INSTRUMENTS (Continued)

39.3. Financial Risk Management (Continued)

(2) Liquidity Risk

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

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

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

The Group does not make use of financial derivatives.

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

Maturities of the Group's financial assets and liabilities as of 31 December 2019 and 31 December 2018 were as follows:

Financial assets **In BAM**

31 December 2019	**Up to 3 months**	**3-12 months**	**1-2 years**	**2-5 years**	**over 5 years**	**Total**
Non-interest bearing						
- Loans and receivables (including cash and cash equivalents)	136,794,606	-	-	-	-	136,794,606
	136,794,606	-	-	-	-	136,794,606
Fixed interest rate						
- Fair value at amortised cost	5,227,024	114,951	12,353	11,233	157,553	5,523,113
Total	**142,021,629**	**114,951**	**12,353**	**11,233**	**157,553**	**142,317,719**
31 December 2018						
Non-interest bearing						
- Loans and receivables (including cash and cash equivalents)	143,845,855	-	-	-	-	143,845,855
	143,845,855	-	-	-	-	143,845,855
Fixed interest rate						
- Fair value at amortised cost	208,839	62,551,115	157,882	6,288,771	222,624	69,429,231
Total	**144,054,694**	**62,551,115**	**157,882**	**6,288,771**	**222,624**	**213,275,086**

39. FINANCIAL INSTRUMENTS (Continued)

39.3. Financial Risk Management (Continued)

(2) Liquidity Risk (Continued)

Financial liabilities In BAM

31 December 2019	**Up to 3 Months**	**3 - 12 Months**	**1 - 2 Years**	**2 - 5 Years**	**Over 5 Years**	**Total**
Other liabilities at amortized cost						
- Non-interest bearing	117,942,347	37,030,041	11,593,731	10,720,266	1,234,696	178,521,081
- Instruments at variable interest rate	9,379,698	72,582,057	71,505,356	156,628,515	24,261,332	334,356,958
- Instruments at fixed interest rate	7,036,975	13,320,159	16,829,190	34,949,947	9,584,479	81,720,750
Total	**134,359,020**	**122,932,257**	**99,928,277**	**202,298,728**	**35,080,507**	**594,598,788**
31 December 2018						
Other liabilities at amortized cost						
- Non-interest bearing	72,333,975	5,330,455	-	-	-	77,664,430
- Instruments at variable interest rate	8,279,659	23,942,887	37,745,384	87,851,046	41,157,684	198,976,660
Total	**80,613,634**	**29,273,342**	**37,745,384**	**87,851,046**	**41,157,684**	**276,641,090**

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

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

(3) Credit Risk

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

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

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

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

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

39. FINANCIAL INSTRUMENTS (Continued)

39.3. Financial Risk Management (Continued)

(3) Credit Risk (Continued)

For credit risk minimization purposes, the Group 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 Group 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 Group'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.

The Group'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 Group's receivables	Written-off amount

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

31 December 2019

	Note	External classification	Internal classification	12-month ECL or lifetime ECL?	Gross exposure	Impairment allowance	Net amount
Loans and receivables	16	N/P	Performing and non-performing	Lifetime ECL	10,402,469	33,347	10,369,122
Trade receivables	18	N/P	Performing and non-performing	Lifetime ECL	144,832,546	62,001,843	82,830,703
Other receivables	19	N/P	Performing and non-performing		2,898,160	720,220	2,177,940
Cash and cash equivalents	23	N/P	Performing		47,934,287		47,934,287
Financial assets measured at amortized cost	15	N/P	Performing		34,540		34,540
Financial assets measured at FVTOCI	15	N/P	Performing		26,600	20,276	6,324
					206,128,602	**62,775,686**	**143,352,916**

39. FINANCIAL INSTRUMENTS (Continued)

39.3. 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 consolidated financial statements approximate their fair values.

In BAM

	31 December 2019		31 December 2018	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Financial assets:				
Financial assets measured at amortized cost	34,140	31,414	54,157	50,003
Total	**34,140**	**31,414**	**54,157**	**50,003**

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

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

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

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

In BAM

			31 December 2019	
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets:				
Financial assets at fair value through OCI (*Note 16*)	6,324	-	-	6,324
Total	**6,324**	**-**	**-**	**6,324**

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*).

40. SEGMENT REPORTING

40.1. Segment information

As of 31 December 2019, the Group's reporting segments in accordance with IFRS 8 were as follows:

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

40.2. Segment Revenues and Results

The segment revenues and results for the year ended 31 December 2019 are presented in the following table:

31 December 2019	**Fixed-line telephony and Internet**	**Mobile telephony**	**Total**
Sales of goods and services	185,637,501	285,665,902	471,303,403
Other operating income	15,204,186	23,394,915	38,599,101
Inter-segment settlement	66,389,424	28,996,885	95,386,309
Cost of materials, merchandise and combined services	(13,092,515)	(52,503,364)	(65,595,879)
Staff costs	(32,822,815)	(50,504,970)	(83,327,785)
Depreciation and amortization charge	(76,007,322)	(54,848,407)	(130,855,729)
Productive services	(65,381,531)	(45,482,209)	(110,863,740)
Other operating expenses	(10,085,851)	(19,700,791)	(29,786,642)
Finance income – interest-bearing	364,264	560,500	924,764
Finance income - other	77,579	119,373	196,952
Impairment of financial assets	(742,671)	(1,142,761)	(1,885,432)
Financial expenses	(2,746,646)	(4,289,152)	(7,035,798)
Internal settlement between the segments	(28,996,885)	(66,389,424)	(95,386,309)
Share in the profit of the associate	1,930,771	2,970,907	4,901,678
Profit before taxes	**39,727,489**	**46,847,404**	**86,574,893**
Income tax expense	(2,485,026)	(3,823,747)	(6,308,773)
Net profit	**37,242,463**	**43,023,657**	**80,266,120**

40. SEGMENT REPORTING (Continued)

40.2. Segment Revenues and Results (Continued)

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

31 December 2018	**Fixed-line telephony and Internet**	**Mobile telephony**	**Total**
Sales of goods and services	194,220,063	241,929,911	436,149,974
Other operating income	5,582,730	10,345,198	15,927,928
Inter-segment settlement	62,026,019	30,960,937	92,986,956
Cost of materials, merchandise and combined services	(18,367,280)	(47,486,995)	(65,854,275)
Staff costs	(35,720,145)	(42,987,689)	(78,707,834)
Depreciation and amortization charge	(47,848,161)	(53,603,201)	(101,451,362)
Productive services	(59,004,455)	(57,463,492)	(116,467,947)
Other operating expenses	(9,589,609)	(14,401,214)	(23,990,823)
Finance income – interest-bearing	677,668	896,157	1,573,825
Finance income - other	155,681	292,527	448,208
Impairment of financial assets	(208,634)	(3,687,779)	(3,896,413)
Financial expenses	(744,390)	(1,177,191)	(1,921,581)
Internal settlement between the segments	(30,960,937)	(62,026,019)	(92,986,956)
Share in the profit of the associate	-	6,439,544	6,439,544
Profit before taxes	**60,218,550**	**8,030,694**	**68,249,244**
Income tax expense	(3,094,713)	(4,273,651)	(7,368,364)
Net profit	**57,123,837**	**3,757,043**	**60,880,880**

Segment revenues and results reported above (for the year ended 31 December 2019 and 31 December 2018) 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 Group's accounting policies described in *Note 3* to the consolidated 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 Group's revenue from its major services is presented in detail in *Note 5* to the consolidated financial statements.

40. SEGMENT REPORTING (Continued)

40.3. Segment Capital Expenditures

Capital expenditures of the segments during the period were as follows:

	Fixed-Line Telephony and Internet	Mobile Telephony	Total
			In BAM
31 December 2019			
Capital expenditures (*Notes 12, 13 and 14)*	121,853,460	55,352,493	**177,205,953**
31 December 2018			
Capital expenditures (*Notes 12, 13 and 14)*	94,585,314	60,473,341	**155,058,655**

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

41. TAX RISKS

The Republic of Srpska and Bosnia and Herzegovina currently have several tax laws in effect, as imposed by various governmental agencies. The applicable taxes include: a value added tax, corporate tax, and payroll (social) taxes, among others. Following their introduction, the regulations governing these taxes were not enforced for substantial periods of time; in contrast to similar legislation in more developed market economies. Moreover, the regulations defining the implementation of these laws are often unclear or non-existent.

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

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

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

42. CURRENT ECONOMIC SITUATION AND ITS IMPACT ON THE GROUP

As expected, throughout the reporting period, the Group's operations were also under a certain influence of the recent financial crisis and deteriorating economic conditions in the market of the Republic of Srpska and Bosnia and Herzegovina. The Group is likely to continue to operate in difficult and uncertain economic circumstances in the coming period, as a result of weakened economic activities in Republic of Srpska and Bosnia and Herzegovina.

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
	31 December 2019	**31 December 2018**
Euro (EUR)	1.95583	1.95583
Serbian dinar (RSD)	0.01663	0.01654
American dollar (USD)	1.74799	1.70755
Swiss franc (CHF)	1.79913	1.74208

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