

**COMPANY FOR TELECOMMUNICATIONS
ENGINEERING "TELEGROUP" d.o.o.
BELGRADE**

**Financial Statements as of and for
the Year Ended 31 December 2015
and
Independent Auditor's Report**

***This is an English translation of Independent Auditor's Report and
2015 Separate Financial Statements originally issued in the Serbian language***

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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 Owner of the Company for Telecommunications Engineering
"Telegroup" d.o.o. Belgrade

We have audited the accompanying financial statements of the limited liability company for telecommunications engineering "Telegroup" Belgrade (hereinafter: the "Company"), which comprise the balance sheet as of 31 December 2015, and the income statement, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting regulations prevailing in the Republic of Serbia, based on the Law on Accounting ("Official Gazette of the Republic of Serbia", no. 62/2013), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Law on Auditing and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

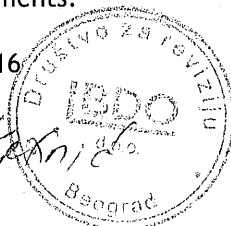
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with the accounting regulations prevailing in the Republic of Serbia, based on the Law on Accounting and accounting policies disclosed in Note 3 to the financial statements.

Belgrade, 25 April 2016


Danijela Krtnić
Certified Auditor



BDO d.o.o. Beograd; Matični broj 06203159; PIB 101672840

Poslovni računi: 240-69872101500-75 kod Findomestic banke a.d. Beograd

BDO d.o.o. Beograd, privredno društvo osnovano u Republici Srbiji, je članica BDO International Limited kompanije sa ograničenom odgovornošću sa sedištem u Velikoj Britaniji i deo je međunarodne BDO mreže firmi članica.

BDO je brend ime za BDO mrežu i za svaku BDO firmu članicu.

BDO d.o.o. Beograd, a limited liability company incorporated in the Republic of Serbia, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.


BDO is the brand name for the BDO network and for each of the BDO member firms.


BALANCE SHEET
As of 31 December 2015
In RSD thousand

	Note	31 December 2015	31 December 2014
ASSETS			
Non-current assets			
Intangible assets	6	984	1,606
Property, plant and equipment	7	157,401	147,952
Long-term financial investments	8	103,365	34,295
		261,750	183,853
Deferred tax assets	23	2,025	3,712
Current assets			
Inventories	9	58,481	127,702
Trade receivables	10	393,577	504,982
Other receivables	11	9,801	4,306
Short-term financial placements	12	104,045	35,887
Cash and cash equivalents	13	83,394	70,487
Value added tax		23,557	-
Prepayments and accrued income	14	28,868	3,547
		701,723	746,911
TOTAL ASSETS		965,498	934,476
OFF BALANCE SHEET ASSETS	15	395,639	322,436
EQUITY AND LIABILITIES			
Equity	16		
Capital		66,143	66,143
Reserves		9,665	9,665
Unrealised gains on securities and other components of other comprehensive income, net		4,351	384
Retained earnings		506,638	489,689
		586,797	565,881
Long-term provisions and liabilities			
Long-term provisions	17	1,611	1,239
Long-term liabilities	18	12,327	22,626
		13,938	23,865
Current liabilities			
Short-term financial liabilities	19	52,086	53,435
Advances and deposits received and retainers	20	49,855	38,032
Accounts payable	20	242,907	217,234
Other short term liabilities	21	8,473	6,280
Value added tax payable	22	-	26,288
Other tax liabilities	22	3,939	198
Accruals and deferred income	22	7,503	3,263
		364,763	344,730
TOTAL EQUITY AND LIABILITIES		965,498	934,476
OFF BALANCE SHEET LIABILITIES	15	395,639	322,436

The accompanying notes on pages 1 to 42
are an integral part of these financial statements.

The accompanying financial statements were approved for issue on 8 July 2016 and signed on behalf of the Company's management by:


Milan Stanić
Acting Director


Miladina Veljkovic
Head of Finance & Accounting Department

INCOME STATEMENT
For the Year Ended 31 December 2015
In RSD thousand

	Note	2015	2014
OPERATING INCOME	25		
Income from the sale of goods		816,921	624,438
Income from the sale of products and services		951,358	824,613
Other operating income		14,167	17,809
		<u>1,782,446</u>	<u>1,466,860</u>
OPERATING EXPENSES			
Costs of goods sold	26	(661,372)	(490,696)
Own-work and goods capitalised		2,906	5,537
Costs of material	27	(166,221)	(141,803)
Cost of fuel and energy	27	(21,854)	(20,860)
Wages, salaries and other personnel expenses	28	(182,652)	(145,712)
Productive services costs	29	(468,003)	(447,575)
Depreciation and amortisation	30	(18,433)	(21,933)
Long term provisions		(156)	-
Non-material costs	31	(247,449)	(94,944)
		<u>(1,763,234)</u>	<u>(1,357,986)</u>
OPERATING INCOME		<u>19,212</u>	<u>108,874</u>
Financial income	32	21,333	26,747
Financial expense	33	(22,330)	(18,996)
Net financial (loss)/income		<u>(997)</u>	<u>7,751</u>
Income from fair value adjustments of other assets at fair value through profit and loss		-	-
Losses from fair value adjustments of other assets at fair value through profit and loss	34	(6,021)	(99,439)
Other income	35	15,825	9,686
Other expenses	36	(2,246)	(4,814)
OPERATING PROFIT BEFORE TAX		<u>25,773</u>	<u>22,058</u>
Net profit from discontinued operations, effects of changes in accounting policies and prior year's error adjustment		-	536
PROFIT BEFORE TAX		<u>25,773</u>	<u>22,594</u>
INCOME TAXES	23		
Tax expense of the period		(7,137)	(6,070)
Deferred tax expenses of the period		(1,687)	(2,281)
NET PROFIT FOR THE YEAR		<u>16,949</u>	<u>14,243</u>

The accompanying notes on pages 1 to 42
are an integral part of these financial statements.

STATEMENT OF OTHER COMPREHENSIVE INCOME
For the Year Ended 31 December 2015
In RSD thousand

	<u>2015</u>	<u>2014</u>
NET PROFIT FOR THE YEAR	16,949	14,243
Other comprehensive income:		
Actuarial (losses)/gains on defined benefits plans	(216)	200
Gains/(losses) on financial asset held for sale	<u>4,183</u>	<u>(610)</u>
Total other comprehensive income/(loss), net of related taxes	<u>3,967</u>	<u>(410)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>20,916</u>	<u>13,833</u>

The accompanying notes on pages 1 to 42
are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
For the Year Ended 31 December 2015
In RSD thousand

	Capital	Statutory reserves	Other reserves	Actuarial gains/(Losses)	Unrealized gains/(losses) on financial asset held for sale, net	Retained earnings	Total equity
Balance as of 1 January 2014	66,143	6,695	2,970	2,438	(1,644)	475,446	552,048
Net profit for the year	-	-	-	-	-	14,243	14,243
<i>Other comprehensive income:</i>							
Actuarial gains arising from calculation of retirement benefits	-	-	-	200	-	-	200
Unrealized losses on financial asset held for sale	-	-	-	-	(610)	-	(610)
Balance as of 31 December 2014	66,143	6,695	2,970	2,638	(2,254)	489,689	565,881
Net profit for the year	-	-	-	-	-	16,949	16,949
<i>Other comprehensive income:</i>							
Actuarial losses arising from calculation of retirement benefits	-	-	-	(216)	-	-	(216)
Unrealized losses on financial asset held for sale	-	-	-	-	4,183	-	4,183
Balance as of 31 December 2015	66,143	6,695	2,970	2,422	1,929	506,638	586,797

The accompanying notes on pages 1 to 42 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS
For the Year Ended 31 December 2015
In RSD thousand

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Sales and advances received	2,208,171	1,678,538
Interest received from operating activities	289	1,241
Other cash inflows from operating activities	1,136	5,350
Payments to suppliers and advances paid	(1,801,723)	(1,489,413)
Wages, salaries and other personnel expenses	(151,394)	(145,041)
Interest paid	(4,465)	(2,664)
Income tax	(4,866)	(6,221)
Cash outflows for other taxes payable	(48,145)	(53,720)
Net cash flows from/used operating activities	199,003	(11,930)
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of intangible assets, property, plant, equipment and biological assets	5,755	11,493
Other financial placements (net inflows)	2,323	20,531
Purchase of shares and investments (net outflows)	(69,297)	-
Purchase of intangible assets, property, plant, equipment and biological assets	(20,466)	(8,608)
Other financial placements (outflows)	(91,840)	-
Net cash flows used/from investing activities	(173,525)	23,416
CASH FLOWS FROM FINANCING ACTIVITIES		
Long-term borrowings (net inflows)	36,160	50,000
Short-term borrowings (net inflows)	60,233	-
Short-term borrowings (net outflows)	-	(31,230)
Other liabilities (outflows)	(102,442)	-
Finance lease	(7,138)	(10,825)
Net cash flows used/from in financing activities	(13,187)	7,945
Total cash inflows	2,314,067	1,767,153
Total cash outflows	(2,301,776)	(1,747,722)
Net increase in cash and cash equivalents	12,291	19,431
Cash and cash equivalents, beginning of the year	70,487	50,491
Foreign currency gains on translation of cash and cash equivalents	919	571
Foreign currency losses on translation of cash and cash equivalents	(303)	(6)
Cash and cash equivalents, end of the year (Note 13)	83,394	70,487

The accompanying notes on pages 1 to 42
are an integral part of these financial statements.

“Telegroup” d.o.o. BELGRADE

**NOTES TO THE STANDALONE FINANCIAL
STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2015

Belgrade, 21 April 2016

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2015

All amounts are expressed in RSD thousand, unless otherwise stated

1. CORPORATE INFORMATION

Company for telecommunications engineering "Tele Group" d.o.o. Belgrade, 9a, Svetozara Miletica Street (hereinafter: the Company), was established on 16 January 2001. The Company was established by the company "Tele Group" Limited from London, Great Britain.

The primary activity of "Tele Group" d.o.o. Belgrade is telecommunications engineering. The Company's business includes installation and delivery of telecommunication systems and equipment, as well as services related to designing, construction and engineering. The Company has signed Contracts on partnership and cooperation with many renowned world companies.

As of 31 December 2015, the Company has 126 employees, and, as of 31 December 2014, 129. Tax identification number of the Company is 101733237.

As of 31 December 2015 has 3 subsidiaries (see Note 8).

These financial statements were adopted by the Founder of the Company on 21 April 2016. The adopted financial statements can be subsequently amended, based on the decisions of the Founder of the Company no later than the end of 2016.

2. BASIS OF PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS

The accompanying financial statements have been prepared in accordance with the Law on Accounting ("Official Gazette of RS", no. 62/2013 - hereinafter: the Law).

In accordance with the Law, for recognition, valuation, presentation and disclosure of items in the financial statements, medium legal entities are entitled to prepare financial statements applying International Financial Reporting Standards (hereinafter: IFRS). IFRS, for the purposes of the Law, are as follows: Framework for the Preparation and Presentation of the financial statements, International Accounting Standards - IAS, International Financial Reporting Standards - IFRS and related interpretations issued by the International Financial Reporting Interpretations Committee, subsequent amendments to these standards and related interpretations, approved by the International Accounting Standards Board, the translation of which was determined and published by the ministry responsible for finance (hereinafter: the Ministry).

The content and form of financial statements and the content of the positions in forms is prescribed by the Guidelines on the Content and Form of Financial Statements for Companies, Cooperatives and Entrepreneurs ("Official Gazette of RS", no. 95/2014 and 144/2014).

The chart of accounts and the content of accounts in the Chart of Accounts are prescribed by the Guidelines on the Chart of Accounts and the Contents of the Accounts in the Chart of Accounts for Companies, Cooperatives, Other Legal Entities and Entrepreneurs ("Official Gazette of RS", no. 95/2014 - hereinafter: Guidelines on the Chart of Accounts).

The principal accounting policies applied in the preparation of these financial statements are set out in Note 3. The policies have been consistently applied to all the years presented, unless otherwise stated.

The financial statements are presented in RSD, which is also the Company's functional currency. All amounts denominated in RSD are rounded to the nearest thousand, unless otherwise stated.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2015

All amounts are expressed in RSD thousand, unless otherwise stated

2. BASIS OF PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS (Continued)

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 5.

2.1. Basis of measurement

The accompanying financial statements have been prepared under the cost convention.

2.2. Impact and implementation of the new and revised IAS/IFRS

(a) *New Standards, Interpretations and Amendments effective as of 1 January 2015 not yet officially translated and adopted in the Republic of Serbia*

Until the date of preparation of the accompanying financial statements, the following IAS, IFRS and interpretations which are their integral parts, as well as their amendments, issued by the IASB and IFRIC, became effective as of 1 January 2015 and are, as such, applicable to the accompanying financial statements as of 31 December 2015, but have not been translated and published by the Ministry of Finance of the Republic of Serbia, and, therefore, have not been implemented by the Company:

- Amendments to IAS 32 "Financial Instruments: Presentation" - Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2014);
- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 and IAS 27 - Investment Entities (effective for annual periods beginning on or after 1 January 2014);
- Amendments to IAS 36 "Impairment of Assets" - Recoverable Amount Disclosures for Non-Financial Assets (effective for annual periods beginning on or after 1 January 2014);
- Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" - Novation of Derivatives and Continuation of Hedge Accounting (effective for annual periods beginning on or after 1 January 2014);
- IFRIC 21 "Levies" (effective for annual periods beginning on or after 1 January 2014);
- Amendments to various standards (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) resulting from the annual improvement of standards, "2010-2012 Cycle", published by the IASB in December 2013, primarily through removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 July 2014);
- Amendments to various standards (IFRS 1, IFRS 3, IFRS 13 and IAS 40) as a result of annual improvements project standards, "2011-2013 Cycle", published by the IASB in December 2013, primarily through removing inconsistencies and clarifying text (effective for annual periods beginning on or after 1 July 2014) and
- Amendments to IAS 19 "Employee Benefits" - Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after 1 July 2014).

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2015

*All amounts are expressed in RSD thousand, unless otherwise stated***2. BASIS OF PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS (Continued)****2.2. Impact and implementation of the new and revised IAS/IFRS (Continued)****(b) New standards, interpretations and amendments to the standards not yet effective**

Until the date of preparation of the accompanying financial statements, the following IAS, IFRS and interpretations which are their integral parts, as well as their amendments, issued by International Accounting Standards Board and International Financial Reporting Interpretations Committee, but have not been applicable or officially translated and published by the Ministry, and, therefore, have not been implemented by the Company:

- Amendments to various standards (IFRS 5, IFRS 7, IAS 19 and IAS 34) as a result of annual improvements project standards, "2012-2014 Cycle", published by the IASB in September 2014, primarily through removing inconsistencies and clarifying text (effective for annual periods beginning on or after 1 January 2016);
- Amendments to IFRS 11 "Joint Arrangements" - Joint Arrangements: Accounting for Acquisitions of Interests (effective for annual periods beginning on or after 1 January 2016);
- MSFI 14 "Regulatory Deferral Accounts" (effective for annual periods beginning on or after 1 January 2016);
- Amendments to IAS 1 "Presentation of Financial Statements" - Disclosure Initiative (effective for annual periods beginning on or after 1 January 2016);
- Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets" - Clarification of Acceptable Methods of Depreciation and Amortisation (effective for annual periods beginning on or after 1 January 2016);
- Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture" - Agriculture: Bearer Plants (effective for annual periods beginning on or after 1 January 2016);
- Amendments to IAS 27 "Separate Financial Statements" - Equity Method in Separate Financial Statements (effective for annual periods beginning on or after 1 January 2016);
- Amendments to IAS 28 "Investments in Associates and Joint Ventures" and IFRS 10 "Consolidated Financial Statements" - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective for annual periods beginning on or after 1 January 2016);
- Amendments to IAS 28 "Investments in Associates and Joint Ventures" and IFRS 10 "Consolidated Financial Statements" and IFRS 12 "Disclosure of Participation in Other Entities" - Applying the Consolidation Exception (effective for annual periods beginning on or after 1 January 2016);
- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2018) and
- IFRS 15 "Income from Contracts with Clients" (effective for annual periods beginning on or after 1 January 2018).

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2015

All amounts are expressed in RSD thousand, unless otherwise stated

2. BASIS OF PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.3. Departure of accounting regulations of the Republic of Serbia from IFRS

The accounting regulations of the Republic of Serbia depart from IFRS in the following:

- The employees' profit-sharing is recognised as retained earnings in accordance with the Guidelines on the Chart of Accounts rather than being recognised in the income statement of the period, as required under IAS 19 "Employee Benefits" i
- Off-balance sheet assets and liabilities are presented on the balance sheet form. These items, under the definition of IFRS, do not represent assets or liabilities.

Considering the matters referred to above, the accompanying financial statements have not been reconciled with all the requirements of IFRS and cannot be deemed to be financial statements prepared in accordance with IFRS.

2.4. Foreign Currency Translation

Assets and liabilities' components denominated in foreign currencies are translated into RSD at the official exchange rates published by the National Bank of Serbia, prevailing at the reporting date (Note 40). Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured.

Foreign exchange gains and losses arising upon the translation of assets, liabilities and transactions are credited or debited to the Income Statement, as financial income/expenses.

2.5. Comparative Figures

Comparative figures represent the data included in the audited financial statements as of and for the year ended 31 December 2014, prepared in accordance with the accounting regulations prevailing in the Republic of Serbia.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Intangible assets

Intangible assets are initially recognised at cost. After the initial recognition, intangible assets are stated at cost less accumulated amortisation and cumulative impairment losses, if any.

The useful life of intangible assets is estimated as definite and indefinite.

Intangible assets with definite useful lives are amortised over the useful lives of such assets and tested for impairment if there is any indication that such assets may be impaired. Amortisation of intangible assets is calculated using the straight-line method to allocate their cost over their estimated useful life ranging from 1 to 5 years.

Gains/losses from the disposal or sale of intangible assets are credited/debited to the Income statement of the period the asset was disposed or sold, in the amount of the difference between the net inflow and the carrying value of the asset.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2015

*All amounts are expressed in RSD thousand, unless otherwise stated***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.2. Property, Plant and Equipment**

Gains/losses from the disposal or sale of intangible assets are credited/debited to the Income statement of the period the asset was disposed or sold, in the amount of the difference between the net inflow and the carrying value of the asset.

Cost includes expenditure that is directly attributable to the acquisition of the items, comprising the purchase price (import duties and VAT), all directly attributable costs of bringing the assets to the location and condition necessary to function in accordance with the management's expectations, the estimated cost of dismantling and removing the asset and restoring the site, as well as capitalised borrowing costs.

Subsequent to the initial measurement, items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses, if any.

The cost of an item of property, plant and equipment is recognised as an asset if, and only if it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably. The net book value of a replaced asset is transferred out of the books. All other repair and maintenance costs are charged to the income statement of the period in which they are incurred.

Gains/losses from the disposal of property and equipment are credited/debited to the Income statement of the period the asset was disposed or sold, in the amount of the difference between the net inflow and the carrying value of the asset.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost /or revalued amounts/ over their estimated useful lives, as follows:

Buildings	76 years
Machinery and equipment	5-7 years
Motor vehicles	4-6.5 years
Furniture, fittings and equipment	5-8 years

The estimated useful life of assets is reviewed periodically, and adjusted if necessary at each balance sheet date.

3.3. Equity investments in subsidiaries

Subsidiaries are all entities over which the group has the power to govern the financial and operating policies, in order to generate benefits from their activities. It is considered that the control exists when the Company owns, directly or indirectly (through other subsidiaries) more than half of the voting rights. Equity investments in subsidiaries are stated at the original acquisition cost.

NOTES TO THE FINANCIAL STATEMENTS**For the Year Ended 31 December 2015***All amounts are expressed in RSD thousand, unless otherwise stated*

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**3.4. Impairment of Non-Financial Assets**

Assets that have an indefinite useful life and are not subject to amortisation are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the amount by which the asset's carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

3.5. Financial instruments***Financial assets***

Financial assets are recognised in the Company's balance sheet on the date upon which the Company becomes counterparty to the contractual provisions of a specific financial instrument.

Financial assets cease to be recognised when the Company loses control of the contractual rights governing such instruments; which occurs when the rights of use of such instruments have been realised, expired, abandoned, and/or ceded.

All financial instruments are initially recognised at fair value including any directly attributable incremental costs of acquisition or issue (except for financial assets and financial liabilities at fair value through profit and loss, when transaction costs are treated as the expenses of the period). Regular way purchases or sales of financial assets are recognised on the trade date (*or settlement date*) - on the date when the Company commits to purchase or sell the assets.

The Company's financial assets comprise cash, short-term deposits, securities held for trading, accounts receivable and other trade receivables, loans and advances.

Subsequent measurement of financial assets depends on their classification. The Company classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity assets and available-for-sale assets.

Classification of financial assets depends on the purposes for which they have been acquired. The Company's management determines the classification of its financial assets at the initial recognition.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2015

All amounts are expressed in RSD thousand, unless otherwise stated

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**3.5. Financial instruments (Continued)***Financial assets (Continued)***(a) Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Exceptionally to the general rule of initial recognition of financial assets, short-term interest-free receivables, where the discount effect is not material, are initially recognised at the original invoice value.

In the Company's balance sheet, this category of financial assets comprises trade and other receivables, short-term loans extended to related parties recorded in short-term financial placements and housing loans extended to employees, recorded in long-term financial placements.

Trade receivables are recorded at invoiced value net of allowance for impairment. The assessment of the amount of uncollectible receivables is based on the ageing structure analysis and historical experience, and when the collection of the total amount or a portion of the receivable is no longer probable. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within other expenses.

Other long-term financial placements include interest-free receivables from employees arising from housing loans provided.

(b) Financial assets available for sale

Available for sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. Financial assets available for sale are subsequently measured at fair value, whereas all unrealised gains and losses are recognised in other comprehensive income.

In the Company's balance sheet this category of financial assets includes equity investments in banks and legal entities recorded within long-term financial placements.

Financial liabilities

Financial liabilities are recognised in the Company's balance sheet on the date upon which the Company becomes counterparty to the contractual provisions of a specific financial instrument.

Financial liabilities cease to be recognised when the Company fulfils the obligations, or when the contractual repayment obligation has either been cancelled or has expired. In case the existing financial liability is replaced by another liability toward the same creditor, but under significantly different terms, or if the conditions of the existing liabilities change, such replacement or a change of conditions is treated as the cancellation of the initial liability with a concurrent recognition of a new liability, while the difference between the initial and new value of liability is recognised in the income statement.

Financial liabilities are initially recognised at fair value, increased by the directly attributable transaction costs. Exceptionally to the general rule of initial recognition of financial liabilities, short-term interest-free liabilities, whose discount is not material, are initially recognised at the original invoiced value.

NOTES TO THE FINANCIAL STATEMENTS**For the Year Ended 31 December 2015***All amounts are expressed in RSD thousand, unless otherwise stated*

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**3.5. Financial instruments (Continued)*****Financial liabilities (Continued)***

The Company's financial liabilities include accounts payable and other payables, as well as borrowings from banks.

For the purposes of IAS 39, the Company's financial liabilities are classified as borrowings and loans. The management performs the classification of its financial placements at initial recognition.

(a) Borrowings from banks

Borrowings from banks are initially recognised at the amount of the consideration received (nominal value). Borrowings are subsequently measured at the amortised cost that is computed based on the contractual interest rate. The effects of the application of the contractual interest rate instead of the effective interest rate, as required under IAS 39 Financial instruments: Recognition and Measurement, are deemed by the management not to have a material effect to the financial statements. Borrowings are approved with fixed interest rates.

A liability is classified as current if it is expected to be settled in an ordinary course of the business cycle of the Company, that is if it matures within the period of 12 months after the balance sheet date. All other liabilities are classified as non-current.

(b) Accounts payable

Accounts payable and other short-term payables are subsequently measured at nominal value.

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet if, and only if when there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Financial instruments not measured at fair value

Financial instruments not measured at fair value include cash and cash equivalents, trade and other receivables, trade and other payables, and loans and borrowings.

Due to their short-term nature, the carrying value of cash and cash equivalents, trade and other receivables, trade and other payables approximates their fair value.

3.6. Inventories

Inventories are stated at the lower of cost and net realisable value.

Cost of materials and goods comprises the purchase price increased by transport and other attributable costs of acquisition.

Output of inventories is computed using the weighted-average method.

NOTES TO THE FINANCIAL STATEMENTS**For the Year Ended 31 December 2015***All amounts are expressed in RSD thousand, unless otherwise stated*

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**3.6. Inventories (Continued)**

Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Allowances that are charged to "Other expenses" are made when appropriate, in order to reduce the carrying value of such inventories to their net realisable value.

3.7. Off-balance sheet assets and liabilities

Off-balance sheet assets/liabilities include: leased assets, excluding assets acquired on finance lease, goods on consignment, material received for processing and finishing and other assets not owned by the Company, as well as receivables/payables arising from collaterals, such as guarantees and other forms of guarantees.

3.8. Distribution of profits

Distribution of profits to the Company's shareholders is recognised as a liability in the period in which the shareholders approved the above mentioned distribution of profits.

3.9. Provisions, contingent liabilities and contingent assets*Provisions*

Provisions are recognised in the amounts representing the best estimate of the expenditure required to settle the present obligation at the balance sheet date. The provision charge is recognised in the expenses of the period.

When the effect of the time value of money is significant, the amount of provision is the present value of the outflows required to settle the liabilities, arrived at using the pre-tax discount rate which reflects the current market estimate of the value of money and risks related to the liability. When discounting is used, the carrying value of a provision is increase in each period, in order to reflect the time flow. This increase is stated as the borrowing cost.

Provisions are reviewed as of each balance sheet date and adjusted in order to reflect the best possible present estimate.

When the outflow of the economic benefits is no longer probable, provisions are derecognised in income. Provisions are not recognised for future losses.

Contingent liabilities and contingent assets

Contingent liabilities are not recognised in the financial statements. Contingent liabilities are disclosed in notes to the financial statement, unless probability of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognised in the financial statements. Contingent assets are disclosed in notes to the financial statement, unless probability of an outflow of resources embodying economic benefits is probable.

NOTES TO THE FINANCIAL STATEMENTS**For the Year Ended 31 December 2015***All amounts are expressed in RSD thousand, unless otherwise stated*

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**3.10. Leases*****Company as a Lessee******Finance lease***

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. Finance leases are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income in interest expense.

Operating Lease

A lease is classified as an operating lease if it does not transfer to the Company substantially all the risks and rewards incidental to ownership. The total payments made under operating leases are charged to other operating expenses in the income statement on a straight-line basis over the period of the lease.

Company as the Lessor***Finance lease***

When assets are leased under finance lease agreements, net investment into lease is recognised as a receivable. The difference between the future and present value of the receivable is recognised as unearned finance income.

Income from lease is recognised over the lease term using the net investment method, which approximates the constant periodical yield rate.

Operating lease

When an asset is leased under operating lease agreement, it is stated in the income statement depending on the type of asset.

Income from operating lease is recognised on a straight-line basis over the period of the lease.

3.11. Employee Benefits**(a) Employee Taxes and Contributions for Social Security**

In accordance with the regulations prevailing in the Republic of Serbia, the Company has an obligation to pay contributions to various state social security funds. These obligations involve the payment of contributions on behalf of the employee, by the employer, in an amount calculated by applying the specific, legally-prescribed rates. The Company is also legally obligated to withhold contributions from gross salaries to employees, and on their behalf to transfer the withheld portions directly to the appropriate government funds. The Company has no legal obligation to pay further benefits. These contributions payable on behalf of the employee and employer are charged to expenses in the period in which they arise.

NOTES TO THE FINANCIAL STATEMENTS**For the Year Ended 31 December 2015*****All amounts are expressed in RSD thousand, unless otherwise stated***

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**3.11. Employee Benefits (Continued)****(b) Retirement benefits**

The Company provides retirement benefits. The right to these benefits usually conditioned with the employee remaining in service up to the retirement age and/or the completion of a minimum service period. The expected expenses for the benefits accumulate during the years of employment.

Liabilities from the benefits and related expenses are recognised in the amount of present value of future cash flows using the projected unit credit actuarial valuation method. Actuarial gains and losses and expenses of past services provided are recognised in the income statement when incurred.

(c) Profit sharing

The Company recognises a liability and an expense for bonuses and profit sharing in the period when the decision on their payment has been adopted. The aforementioned liability is debited to retained earnings.

3.12. Revenue recognition

The Company recognises revenue when the amount of revenue can be reliably measured, and it is probable that future economic benefits will flow to the entity. Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities.

(a) Sales of products and services

Income from sale of products and goods is recognised at the moment when the significant risks and rewards of ownership of the goods have passed to the buyer, which usually occurs upon delivery of products and goods.

It is deemed that upon sale no element of financing is present, since sales is performed with the 60 days' credit, which is in accordance with the market practice.

(b) Sales of services

The Company sells telecommunication services. These services are provided on a time and material basis or as a fixed-price contract, with contract terms with the usual contracted conditions.

Revenue arising from the time and material consumed contracts is recognised at the amount of the contracted fee considering that working hours have been consumed and direct expenses have been incurred. For material contracts, the stage of completion is measured on the basis of direct expenses incurred as a percentage of the total expenses to be incurred.

Revenue from fixed-price contracts is also recognised under the percentage-of-completion method. In accordance with this method, revenue is generally recognised based on the services performed to date as a percentage of the total services to be performed.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2015

All amounts are expressed in RSD thousand, unless otherwise stated

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.12. Revenue recognition (Continued)

(c) *Interest Income*

Interest income originates from interests accrued on deposits with banks, loans extended to related and third parties, as well as default interest accrued on default payments by the customers, in accordance with the contractual provisions. Interest income is recognised on an accrual basis.

(d) *Operative lease income*

Operative lease income originates from the operative lease of equipment and is accrued on a straight-line basis over the lease period.

3.13. Current and deferred income taxes

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised in equity.

Current tax

Current income tax is calculated and paid in accordance with the effective Law on Corporate Income Tax and relevant by-laws.

Current income tax is calculated and paid in accordance with the effective Law on Corporate Income Tax and applicable by-law. Income tax is payable at the rate of 15% on the tax base reported in the annual corporate income tax return.

The tax regulations in the Republic of Serbia do not envisage that any tax losses of the current period can be used to recover taxes paid within a specific previous period. Losses of the current period may be transferred to the account of profit determined in the annual tax return from the future accounting periods, but not longer than 5 ensuing years.

Deferred income tax

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred income tax is determined using tax rates (and laws) that have been enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax liabilities are recognized on all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forwards of unused tax credits and unused tax losses can be utilised.

Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2015
All amounts are expressed in RSD thousand, unless otherwise stated
3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)
3.14. Related Party Disclosures

For the purpose of these financial statements related legal entities are those entities when one legal entity has a possibility to control another entity or have the right to govern the financial and business operations of the entity, as defined by IAS 24 "Related Party Disclosures".

Relations between the Company and its related parties are regulated at contractual basis and are carried out on commercial terms and conditions. Outstanding balances of receivables and liabilities at the balance sheet date, as well as transactions occurred during the reporting periods with related parties separately disclosed in notes to the financial statements.

4. FINANCIAL INSTRUMENTS - RISK MANAGEMENT

In the ordinary course of business, the Company is exposed to a different extent to a variety of financial risks: market risk, credit risk and liquidity risk. The Company's overall risk management, in the current situation of the unpredictability of financial markets, is focused on the minimisation of the potential adverse effects on the Company's financial performance. Risk management has been defined by the Company's policies as adopted by the Managing Board.

4.1. Financial instruments by category

Categories of financial instruments, according to the carrying value as of 31 December 2015 and 2014 are presented in the following table:

	<u>2015</u>	<u>2014</u>
<i>Financial assets</i>		
Cash and cash equivalents	83,394	70,487
Other long-term financial placements	73,625	8,229
Trade receivables	393,577	504,982
Other receivables and short-term financial placements	113,846	40,193
	<u>664,442</u>	<u>623,891</u>
<i>Financial liabilities</i>		
Long-term and short-term borrowings, leases	64,413	76,061
Accounts payable	242,907	217,234
Other trade payables	8,473	6,280
	<u>315,793</u>	<u>299,575</u>

In 2015 and 2014, the Company had no derivative financial instruments.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2015

All amounts are expressed in RSD thousand, unless otherwise stated

4. FINANCIAL INSTRUMENTS - RISK MANAGEMENT (Continued)

4.2. Financial risk factors

(a) Market Risk

Market risk is the risk that the fair value of future cash flows of a financial instrument shall be variable due to changes in market prices. Market risk includes three kinds of risks, as follows:

Foreign Exchange Risk

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to EUR. Foreign exchange risk arises from future commercial transactions, and recognised assets and liabilities in foreign operations.

Management has set up a policy to manage its foreign exchange risk against its functional currency. The Company has receivables and liabilities denominated in foreign currencies, therefore timely matching of inflows and outflows in the same currency as a protection from currency risk has been maximized.

The Company has receivables and liabilities denominated in foreign currencies; therefore timely matching of inflows and outflows in the same currency as a protection from currency risk has been maximized. On the other hand, the Company does not hedge its entire foreign exchange risk exposure due to the existing legislation and undeveloped financial market.

Exposure to foreign exchange risk as of 31 December is presented in the table below:

Financial assets	EUR	USD	RSD	2015 Total
Cash and cash equivalents	47,021	253	36,120	83,394
Other long-term financial placements and financial assets held for sale	-	-	73,625	73,625
Trade receivables	137,876	32,958	222,743	393,577
Other receivables	35,019	22	78,805	113,846
Total	219,916	33,233	411,293	664,442
Financial liabilities	EUR	USD	RSD	Total
Long-term and short-term borrowings, leases	47,746	-	16,667	64,413
Accounts payable	89,193	40,695	113,019	242,907
Other trade payables	326	791	7,356	8,473
Total	137,265	41,486	129,686	315,523
Net effect	82,651	(8,253)	281,607	348,919
10%	8,265	(825)		

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2015

All amounts are expressed in RSD thousand, unless otherwise stated

4. FINANCIAL INSTRUMENTS - RISK MANAGEMENT (Continued)

4.2. Financial risk factors (Continued)

(a) Market Risk (Continued)

Foreign exchange risk (Continued)

Financial assets	EUR	USD	RSD	2014 Total
Cash and cash equivalents	18,944	225	51,318	70,487
Other long-term financial placements and financial assets held for sale	-	-	8,229	8,229
Trade receivables	163,037	11,319	330,626	504,982
Other receivables	22,104		18,089	40,193
Total	204,085	11,544	408,262	623,891
Financial liabilities				
Long-term and short-term borrowings, leases	26,061	-	50,000	76,061
Accounts payable	17,893	34,382	164,959	217,234
Other trade payables	-	-	6,280	6,280
Total	43,954	34,382	221,239	299,575
Net effect	160,131	(22,838)	187,023	324,316
10%	16,013	(2,284)		

Sensitivity analysis

Depreciation of Dinar of 10% in comparison with EUR and USD would result in the following effects to the Company's result, while all other variables would be held constant:

	2015	2014
EUR	8,265	16,013
USD	(825)	(2,284)
Total	7,440	13,729

If as of 31 December 2015, the functional currency has increased/weakened by 10% against EUR and USD, with all other variables held constant, profit for the year after tax would have been higher/lower by the amount of RSD 7,440 thousand (2014: RSD 13,729 thousand), mainly as a result of foreign exchange gains/losses on translation of borrowings denominated in foreign currencies and receivables/payables denominated in EUR and USD.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2015

*All amounts are expressed in RSD thousand, unless otherwise stated***4. FINANCIAL INSTRUMENTS - RISK MANAGEMENT (Continued)****4.2. Financial risk factors (Continued)****(a) Market Risk (Continued)***Foreign exchange risk (Continued)**Sensitivity analysis (Continued)*

As of 31 December 2015, financial assets denominated in EUR amount to RSD 219,916 thousand (31 December 2014: RSD 204,085 thousand) which accounts for 86.87% (2014: 94.64%) of the total financial liabilities of the Company denominated in foreign currency.

As of 31 December 2015, financial liabilities denominated in EUR amount to RSD 137,265 thousand (31 December 2014: RSD 43,954 thousand), which accounts for 76.79% (2014: 51.11%) of the total financial liabilities of the Company denominated in foreign currency.

Price Risk

The Company is not exposed to equity securities price risk because it does not have investments classified in the balance sheet either as available-for-sale or at fair value through profit or loss.

On the other hand, the Company is exposed to price risk from the changes in prices of services, due to the strong competition in the telecommunications market. By introducing new services, the Company strives to compensate for the existing risk.

Interest Rate Risk

The Company's interest rate risk arises mainly from long-term borrowings from banks. Borrowings issued at variable rates expose the Company to cash flow interest rate risk. Borrowings issued at fixed rates expose the Company to fair value interest rate risk.

At 31 December 2015, borrowings were mainly denominated in RSD - RSD 16,667 thousand, while the remaining portion was denominated in foreign currency - EUR 340,950.

During 2015 and 2014, the majority of the Company's borrowings were granted at fixed interest rates.

(b) Credit risk

Credit risk is the risk that the credit beneficiaries will not be able to discharge their contractual obligations to the Company. Credit risk primarily arises with respect to trade receivables.

The Company's credit risk exposure arising from trade receivables mostly depends on specific characteristics of each individual customer. The Company does not have significant concentrations of credit risk, because the participation of the major individual customer does not exceed 15% of the total income from sales (2014: 15%).

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2015

All amounts are expressed in RSD thousand, unless otherwise stated

4. FINANCIAL INSTRUMENTS - RISK MANAGEMENT (Continued)

4.2. Financial risk factors (Continued)

(b) Credit risk

In accordance with the adopted credit policy, the Company analyses the credit worthiness of each individual customer before offering it the standard sales conditions. Furthermore, for each customer, the credit limit is established, representing the maximum amount of a receivable before the approval of the General Manager is requested. For the customers whose credit rating does not meet the required conditions, sales is performed solely on the basis of advance payments.

(c) Liquidity risk

Liquidity risk relates to the risk that the Company does not have enough highly liquid assets to settle liabilities when they fall due. The Company manages its assets and liabilities in such a way that it can fulfil its due obligations at all times, without the unacceptable losses and harming its reputation.

Cash flow planning is performed at the level of the Company's business activities and collectively for the Company as a whole. The Company's Finance Department supervises the liquidity planning with respect to the Company's requirements, in order to secure that the Company always has sufficient amounts of cash to settle its operating needs, as well as to have free space in its undrawn credit arrangements.

The Company has a sufficient amount of highly liquid assets (cash and cash equivalents) as well as a continuous inflow of cash from goods and services, which allow it to meet its commitments on due dates. The Company does not use financial derivatives.

In order to manage liquidity risk, the Company has adopted the financial policies which define the maximum amount of the advance payment to works and equipment suppliers, grace period and the length of repayment, depending on the value and type of purchase contracts. In addition, pursuant to the business policy, a dispersion in the decision-making levels in the procurement of goods/services was made.

The table below analyses the group's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not material):

31 December 2015	Up to 3 months	From 3 to 12 months	From 1 to 2 years	Total
Long-term and short-term borrowings, leases	30,530	21,556	12,327	64,413
Accounts payable	242,907	-	-	242,907
Other trade payables	8,473	-	-	8,473
	<u>281,910</u>	<u>21,556</u>	<u>12,327</u>	<u>315,793</u>

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2015

All amounts are expressed in RSD thousand, unless otherwise stated

4. FINANCIAL INSTRUMENTS - RISK MANAGEMENT (Continued)

(c) Liquidity risk (Continued)

31 December 2014	Up to 3 months	From 3 to 12 months	From 1 to 2 years	Total
Long-term and short-term borrowings, leases	8,383	48,781	18,897	76,061
Accounts payable	217,234	-	-	217,234
Other trade payables	6,280	-	-	6,280
	<u>231,897</u>	<u>48,781</u>	<u>18,897</u>	<u>299,575</u>

4.3. Capital Risk Management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to maintain an optimal capital structure to reduce the cost of capital and to provide returns for shareholders.

In order to maintain or adjust the capital structure, the Company may consider the following options: to adjust the amount of dividends paid to shareholders, to return capital to shareholders, to issue new shares or to sell assets to reduce debts.

The Company has no external requirements related to capital.

The Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. This ratio is calculated as net debt divided by total capital. Net debt is calculated when the total loans (both short-term and long-term, as presented in the balance sheet) are reduced by cash and cash equivalent. The total capital is calculated when net debt is added to capital, stated in the balance sheet.

The gearing ratios at 31 December 2015 and 2014 were as follows:

	2015	2014
Total borrowings (Notes 18 and 19)	64,413	76,061
Less: Cash and cash equivalents (Note 13)	(83,394)	(70,487)
Net debt	(18,981)	5,574
Equity	586,797	565,881
Equity - total	567,816	571,455
Gearing ratio	0.00%	0.98%

* Net debt is calculated as total borrowings (including current and non-current borrowings as shown in the balance sheet) less cash and cash equivalents.

** Total capital is calculated as equity as shown in the balance sheet plus net debt.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2015
All amounts are expressed in RSD thousand, unless otherwise stated

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Company makes estimates and assumptions relating to the future. The resulting accounting estimates shall rarely be equal to realised results, as a rule.

(a) Estimates and assumptions
Useful lives of intangible assets and property, plant and equipment

Intangible assets and property, plant and equipment are amortised or depreciated over their useful lives. Useful lives are based on the management's estimates of the period that the assets will generate revenue, which are periodically reviewed for continued appropriateness. Changes to estimates can result in significant variations in the carrying value and amounts charged to the income statement in specific periods.

Impairment of Non-Financial Assets

At each balance sheet date, the Company's management reviews the carrying amounts of the Company's intangible assets and property and equipment presented in the financial statements. 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.

If the recoverable amount of an asset is estimated to be less than its carrying value, the carrying amount of the asset is reduced to its recoverable amount. An impairment review requires management to make subjective judgements concerning the cash flows, growth rates and discount rates of the cash generating units under review.

Impairment of Accounts Receivable and Other Receivables

The Company calculates impairment for doubtful receivables based on estimated losses resulting from the inability of its customers to make required payments. The Company bases its estimate on the ageing of the account receivables balance and its historical write-off experience, customer credit-worthiness and changes in its customer payment terms when evaluating the adequacy of the impairment loss for doubtful accounts. These involve assumptions about future customer behaviour and the resulting future cash collections.

Retirement benefits

The costs of defined employee benefits payable upon the termination of employment, i.e. retirement in accordance with the legal requirements are determined based on the actuarial valuation. The actuarial valuation includes an assessment of the discount rate, future movements in salaries, mortality rates and fluctuations in the number of employees. As these plans are long-term ones, significant uncertainties influence the outcome of the assessment. The actuarial valuation assumptions are disclosed in Note 17 to the financial statements.

Deferred Tax Assets

Deferred tax assets are recognised for all tax losses to the extent to which taxable profit will be available against which the unused tax losses can be utilized. Significant estimate of the management is necessary to determine the amount of deferred tax assets which can be recognised, based on the period of in which it was created and the amount of future taxable profits and the tax policy planning strategy.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2015
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6. INTANGIBLE ASSETS

	Patents, licences, software and similar rights	Total
COST		
As of 1 January 2014	24,451	24,451
Additions during the year	(225)	(225)
Balance as of 31 December 2014	24,226	24,226
Disposals and write-off	-	-
Transfer to intangible assets	-	-
Balance as of 31 December 2015	24,226	24,226
ACCUMULATED AMORTISATION		
As of 1 January 2014	21,918	21,918
Amortisation charge	1,051	1,051
Disposals and write-off	(349)	(349)
Balance as of 31 December 2014	22,620	22,620
Amortisation charge (Note 30)	622	622
Balance as of 31 December 2015	23,242	23,242
CARRYING VALUE AS OF:		
- 31 December 2015	984	984
- 31 December 2014	1,606	1,606

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2015

All amounts are expressed in RSD thousand, unless otherwise stated

7. PROPERTY, PLANT AND EQUIPMENT

	<u>Land</u>	<u>Buildings</u>	<u>Plant and equipment</u>	<u>Construc tion in progress</u>	<u>Total</u>
COST					
Balance as of					
1 January 2014	-	122,779	204,395	1,729	328,903
Additions	-	-	14,145	13,667	27,812
Reclassification from buildings	9,804	(9,804)	-	-	-
Transfer from construction in progress	-	-	(124)	(14,145)	(14,269)
Disposals and write-offs	-	-	(78,295)	-	(78,295)
Balance as of					
31 December 2014	9,804	112,975	140,121	1,251	264,151
Additions	-	-	-	28,618	28,618
Transfer from construction in progress	-	-	22,691	(22,691)	-
Disposals and write-offs	-	(733)	(25,529)	-	(26,262)
Balance as of					
31 December 2015	9,804	112,242	137,283	7,178	266,507
ACCUMULATED DEPRECIATION					
Balance as of					
1 January 2014	-	11,016	148,770	-	159,786
Depreciation (Note 30)	-	1,469	19,413	-	20,882
Disposals and write-offs	-	(537)	(63,932)	-	(64,469)
Balance as of					
31 December 2014	-	11,948	104,251	-	116,199
Depreciation (Note 30)	-	1,467	16,344	-	17,811
Disposals and write-offs	-	(75)	(24,829)	-	(24,902)
Balance as of					
31 December 2015	-	13,340	95,766	-	109,108
CARRYING VALUE AS OF:					
31 December 2015	<u>9,804</u>	<u>98,902</u>	<u>41,517</u>	<u>7,178</u>	<u>157,401</u>
31 December 2014	<u>9,804</u>	<u>101,027</u>	<u>35,870</u>	<u>1,251</u>	<u>147,952</u>

Bank borrowings have been secured by mortgages against buildings with the total carrying value as of 31 December 2015 amounting to RSD 64,507 thousand (Note 19).

Furthermore, the carrying value of vehicles pledged as collateral for loans as of 31 December 2015 amounted to je RSD 1,237 thousand (Note 19).

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2015
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7. PROPERTY, PLANT AND EQUIPMENT (Continued)

Equipment the Company acquired under the finance lease includes the following:

	<u>2015</u>	<u>2014</u>
Cost		
Accumulated depreciation	12,611 (3,412)	26,581 (17,945)
Carrying value as of 31 December	<u>9,199</u>	<u>8,636</u>

The Company leases vehicles and machines under the finance lease agreement terms. The periods of these agreements are between 4 and 5 years.

The position „Plant and equipment“ includes vehicles the Company leased to third parties in accordance with the agreement on operative lease with the following carrying values:

	<u>2015</u>	<u>2014</u>
Cost		
Accumulated depreciation as of 1 January	23,442	23,442
Charge for the year	(18,323) (3,882)	(14,441) (3,882)
Carrying value as of 31 December	<u>1,237</u>	<u>5,119</u>

The carrying value of property, plant and equipment not in use as of 31 December 2015 amounted to RSD 1,237 thousand.

Cost of written-off equipment the Company utilises in its operations as of 31 December 2015 amounted to RSD 57,653 thousand (2014: RSD 73,978 thousand) and relates to equipment.

Based on the Company's management estimate, at 31 December 2015, property, plant equipment are not impaired.

8. LONG-TERM FINANCIAL PLACEMENTS

	<u>2015</u>	<u>2014</u>
Equity investments in subsidiaries		
Securities available for sale	29,740	26,066
Other long-term financial placements	66,431	657
Less: allowance for impairment	7,194	7,572
	<u>-</u>	<u>-</u>
Balance as of 31 December	<u>103,365</u>	<u>34,295</u>

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2015

*All amounts are expressed in RSD thousand, unless otherwise stated***8. LONG-TERM FINANCIAL PLACEMENTS (Continued)**

Equity investments in subsidiaries relate to investments in the following companies:

<u>Name and seat</u>	<u>2015</u>	<u>2014</u>	<u>Interest %</u>
Jel-Mi Impregnacija d.o.o. Markovac	26,042	26,042	80.31
Telegroup-Dunavnet d.o.o. Novi Sad	24	24	50.00
Greensoft d.o.o. Novi Sad	3,674	-	51.00
Balance as of 31 December	29,740	26,066	-

Equity investments in other legal entities relate to:

<u>Name and seat</u>	<u>2015</u>	<u>2014</u>
Jubmes banka a.d. Belgrade	65,981	357
Energomontaža a.d. Belgrade	450	300
Balance as of 31 December	66,431	657

The Company's investments in equity of other legal entities are publicly traded on the BSE.

Fair value of other investments traded on an active market is determined based on the current market value at the moment of closing of the stock market as of 31 December 2015.

In 2015 and 2014, no provisions were established for financial assets available for sale. No financial asset has expired or has been impaired.

Maximum exposure to credit risk as of the balance sheet date represents the fair value of debt securities classified as available for sale.

Financial assets available for sale are denominated in the following currencies:

	<u>2015</u>	<u>2014</u>
RSD	66,431	657
EUR	-	-
Balance as of 31 December	66,431	657

Other long-term financial placements completely relate to the long-term loan granted to the physical person with the repayment period of 25 years, interest-free.

	<u>2015</u>	<u>2014</u>
Long-term domestic loans	7,194	7,572
Balance as of 31 December	7,194	7,572

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2015
All amounts are expressed in RSD thousand, unless otherwise stated
9. INVENTORIES

	2015	2014
Material, spare parts, tools and small inventory	15,409	19,080
Goods	43,424	41,669
Less: Allowance for impairment	(5,482)	(3,952)
Goods	37,942	37,717
Advances paid for inventories and services	31,890	98,165
Less: Allowance for impairment	(26,760)	(27,260)
Advances paid for inventories and services	5,130	70,905
Balance as of 31 December	58,481	127,702

Inventories of goods amounting to RSD 43,424 were measured at fair value less costs to sell.

10. TRADE RECEIVABLES

	2015	2014
Domestic trade receivables - subsidiaries	695	695
Less: Allowance for impairment - subsidiaries	(695)	(695)
Domestic trade receivables - subsidiaries	-	-
Foreign trade receivables - parent and subsidiaries	-	4,680
Foreign trade receivables - other related parties	133,865	168,258
Domestic trade receivables	362,544	438,249
Less: Allowance for impairment of domestic trade receivables	(103,404)	(107,623)
Domestic trade receivables	259,140	330,626
Foreign trade receivables	2,852	5,488
Less: Allowance for impairment of foreign trade receivables	(2,280)	(4,070)
Foreign trade receivables	572	1,418
Balance as of 31 December	393,577	504,982

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2015
All amounts are expressed in RSD thousand, unless otherwise stated
10. TRADE RECEIVABLES (Continued)

The carrying value of trade receivables classified as loans and receivables, corresponds to their fair value.

	<u>Total</u>	<u>Within credit period</u>	<u>Out of credit period</u>				
Domestic trade receivables - parent and subsidiaries	695	-	695				
Foreign trade receivables - parent companies	-	-	-				
Trade payables - other related parties	133,865	109,326	24,539				
Domestic trade receivables	362,544	212,246	150,298				
Foreign trade receivables	2,852	428	2,424				
Total	499,956	322,000	177,956				

	<u>Total</u>	<u>Within credit period</u>	<u>Out of credit period < 60 days</u>	<u>61 to 180</u>	<u>181-365</u>	<u>365</u>	<u>Allowance for impairment</u>	<u>Balance</u>
Domestic trade receivables - parent and subsidiaries	695	-	-	-	-	695	(695)	-
Trade payables - other related parties	133,865	109,326	24,539	-	-	-	-	133,865
Domestic trade receivables	362,544	212,246	44,828	4,268	94	101,108	(103,404)	259,141
Foreign trade receivables	2,852	428	45	414	28	1,937	(2,280)	572
Total	499,956	322,000	69,412	4,682	122	103,740	(106,378)	393,578

As of 31 December 2015, trade receivables amounting to RSD 177,956 thousand are due but not impaired in the amount of RSD 106,378 thousand, while the remaining portion relates to customers who have not had issues in collection. Out of the above mentioned receivables, the amount of RSD 24,539 thousand relates to receivables from related parties.

As of 31 December 2015, trade receivables amounting to RSD 106,378 thousand (2014: RSD 112,388 thousand) are due and impaired in full.

Movements on the allowance for impairment of receivables account:

	<u>2015</u>	<u>2014</u>
Balance as of 1 January	112,388	39,165
Additional charge for the year (Note 34)	2,736	75,291
Write-off of previously provisioned receivables	-	(553)
Recovered previously provisioned receivables (Note 35)	(8,746)	(1,515)
Balance as of 31 December	106,378	112,388

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2015
All amounts are expressed in RSD thousand, unless otherwise stated
10. TRADE RECEIVABLES (Continued)

Establishment and reversal of allowance for impairment of receivables is stated in 'Other expenses/other income' in the income statement (Notes 35 and 36). Amounts credited to allowance for impairment are transferred out of the books when it is not expected that they will be settled.

Other positions in trade receivables do not contain impaired assets.

11. OTHER RECEIVABLES

	<u>2015</u>	<u>2014</u>
Interest and dividends receivable	9,637	3,960
Receivables from employees	201	46
Receivables for overpaid taxes and contributions	-	151
Other current receivables	327	149
Less: Allowance for impairment	(364)	-
Balance as of 31 December	<u>9,801</u>	<u>4,306</u>

12. SHORT-TERM FINANCIAL PLACEMENTS

	<u>2015</u>	<u>2014</u>
Short-term loans and placements - parents and subsidiaries	15,300	5,725
Less: Allowance for impairment	(5,700)	(5,310)
	<u>9,600</u>	<u>415</u>
Short-term domestic loans and placements	93,561	31,606
Less: Allowance for impairment	(1,000)	-
	<u>92,561</u>	<u>31,606</u>
Other short-term financial placements	<u>1,884</u>	<u>3,866</u>
Balance as of 31 December	<u>104,045</u>	<u>35,887</u>

Loans granted to subsidiaries are interest-free, except for the loan granted to Greensoft d.o.o. Novi Sad which became a related party in 2015. The interest on the granted placement is 6% p.a., and the balance as of 31 December 2015 amounts to RSD 9,575 thousand.

Short-term loans and placements in the country relate to loans granted to related and third parties. They were granted with the repayment period from 6 to 12 months with the interest rate ranging from 6% to 12% per annum. As collateral for securing the collection of the granted loans, the Company received promissory notes.

Other short-term placements include funds deposited with the domestic commercial banks overnight. Interest rate on overnight loans is variable and depends on the amount of the deposited funds.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2015

All amounts are expressed in RSD thousand, unless otherwise stated

13. CASH AND CASH EQUIVALENTS

	<u>2015</u>	<u>2014</u>
Current accounts	35,750	50,752
Foreign currency account	46,940	18,307
Other cash and cash equivalents	<u>704</u>	<u>1,428</u>
Balance as of 31 December	<u>83,394</u>	<u>70,487</u>

As of 31 December 2015, the Company had RSD 20,000 thousand (2014: RSD 20,000 thousand) of undrawn credit facilities granted by banks, for which the conditions for withdrawal have been fulfilled. The above mentioned funds are granted overdraft, which is a portion of the credit line with Banca Intesa (Note 18).

14. PREPAYMENTS AND ACCRUED INCOME

	<u>2015</u>	<u>2014</u>
Prepaid expenses	20,690	1,026
Receivables for uninvoiced income	6,532	-
Other prepayments and accrued income	<u>1,646</u>	<u>2,521</u>
Balance as of 31 December	<u>28,868</u>	<u>3,547</u>

Prepaid expenses amounting to RSD 20,690 thousand mostly, in the amount of RSD 16,505 thousand relate to prepaid maintenance.

15. OFF-BALANCE SHEET ITEMS

	<u>2015</u>	<u>2014</u>
Mortgages	295,507	213,847
Guarantees	87,517	84,756
Sureties	<u>12,615</u>	<u>23,833</u>
Balance as of 31 December	<u>395,639</u>	<u>322,436</u>

The Company had commitments relating to bank and other guarantees and on other grounds, which were the result of regular operations, amounting to RSD 87,517 thousand (2014: RSD 84,756 thousand). It is not expected that due to commitments financial liabilities will arise.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2015

All amounts are expressed in RSD thousand, unless otherwise stated

16. CAPITAL

	Basic capital	Reserves	Gains/losses arising from securities	Actuarial gains or losses	Retained earnings	Total
Balance as of 1 January 2014	66,143	9,665	(1,644)	2,438	475,446	552,048
Net profit for the year	-	-	-	-	14,243	14,243
Other comprehensive result:						
Changes in fair value of financial assets available for sale	-	-	(610)	200	-	(410)
Total comprehensive result in 2014	66,143	9,665	(2,254)	2,638	489,689	565,881
Net profit for the year					16,949	16,949
Other comprehensive result:						
Changes in fair value of financial assets available for sale	-	-	4,183	(216)	-	3,967
Balance as of 31 December 2015	66,143	9,665	1,929	2,422	506,638	586,797

(a) Basic capital

The amount of the Company's share capital registered with the Business Registers Agency from 16 January 2001 amounts to RSD 66,143 thousand out of which the contribution in cash amounts to RSD 522 thousand and contribution in kind amounts to RSD 65,621 thousand.

(b) Reserves

Reserves are used for future losses coverage.

(c) Revaluation reserves and unrealised gains and losses

Unrealised gains arising from securities available for sale amounting to RSD 1,929 thousand, represent a positive effect of fair value.

Total unrealised (losses)/gains, net, as of 31 December 2015 relate to unrealised losses based on shares of Enegomontaže a.d. Belgrade, in the amount of RSD 1,250 thousand and to unrealised profit based on the shares of Jubmes banka a.d. Belgrade in the amount of RSD 3,179 thousand.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2015

All amounts are expressed in RSD thousand, unless otherwise stated

17. LONG-TERM PROVISIONS

	2015	2014
Employee benefits	1,611	1,239
Balance as of 31 December	1,611	1,239

(a) Employee benefits and other employee benefits

Provisions for retirement benefits and other employee benefits are measured at the present value of the future outflows using the discount rate reflecting the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability. Bearing in mind that in the Republic of Serbia there is no developed market for such bonds, the rates of market yields on Government bonds have been used.

	Employee benefits and other employee benefits	Total
Balance as of 1 January 2014	1,674	1,1674
Additional provisions	(198)	(198)
Effect of discounting	(200)	(200)
Utilised during the year	(37)	(37)
Balance as of 31 December 2014	1,239	1,239
Additional provisions	156	156
Effect of discounting	216	216
Balance as of 31 December 2015	1,611	1,611

Basic actuarial assumptions used:

	2015	2014
Discount rate	4.5%	8%
Future salary increases	2.5%	4%
Fluctuation of employees/mortality/illness	120	129

In the actuarial calculation the mortality tables for the period 2000 - 2002 were used.

(b) Warranty provisions

The Company generally offers 1 to 3 year warranties for its products. Management estimates the related provision for future warranty claims based on historical warranty claim information, as well as recent trends that might suggest that past cost information may differ from future claims.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2015
All amounts are expressed in RSD thousand, unless otherwise stated
17. LONG-TERM PROVISIONS (Continued)
(c) Litigation

Provisions for legal proceedings represent the Company management's best estimates of the expenditures required to settle such obligations. As per the management, subsequent to the appropriate legal consultations, the outcome of these proceedings will not lead to significant losses. The Company acts as a defendant in two litigations in the amount of RSD 61 thousand.

18. LONG-TERM LIABILITIES

	<u>2015</u>	<u>2014</u>
Long-term borrowings and domestic loans	47,782	58,398
Finance lease liabilities	<u>6,278</u>	<u>7,584</u>
Total long-term liabilities	<u>54,060</u>	<u>5,982</u>
Less: Current portion of long-term liabilities due within one year (Note 19)	(38,660)	(38,003)
Less: Current portion of long-term liabilities due within one year - finance lease (Note 19)	<u>(3,073)</u>	<u>(5,353)</u>
Balance as of 31 December	<u><u>12,327</u></u>	<u><u>22,626</u></u>

Maturity of long-term loans and placements:

	<u>2015</u>	<u>2014</u>
From 1 to 2 years	47,782	58,398
From 2 to 5 years	<u>-</u>	<u>-</u>
Balance as of 31 December	<u><u>47,782</u></u>	<u><u>58,398</u></u>

The carrying value of the Company's borrowings is denominated in the following currencies:

	<u>2015</u>	<u>2014</u>
RSD	16,667	50,000
EUR	<u>31,115</u>	<u>8,398</u>
Balance as of 31 December	<u><u>47,782</u></u>	<u><u>58,398</u></u>

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2015

All amounts are expressed in RSD thousand, unless otherwise stated

18. LONG-TERM LIABILITIES (Continued)

Overview of the long-term loans by creditor

Loans from domestic banks	Annual interest rate	Currency	2015		2014	
			In the currency	Amount RSD 000	In the currency	Amount RSD 000
Banca Intesa	4.37%	EUR	23,048	2,803	46,097	5,576
Banca Intesa	4.9%	EUR	7,776	946	23,330	2,822
OTP banka	4.75%	RSD	16,667	16,667	50,000	50,000
OTP banka	4.5%+3m Euribor	EUR	225,000	27,366	-	-
Total				47,782		58,398

Liabilities from the borrowing from OTP banka in the amount of RSD 16,667 thousand and relate to the loan granted in 2015 with the repayment period of 18 months, with the grace period of 6 months and the interest rate of 4.75% per annum. Promissory notes represent the collateral for the borrowing.

Liabilities from the borrowings from OTP in the amount of RSD 27,336 thousand relate to the loan granted in 2015, in the total amount of EUR 300,000 with the repayment period of 24 months, with the interest rate of 4.5% + 3m Euribor per annum. Collaterals securing the loan are the 1st ranking mortgage Niš, 2nd ranking mortgage Stari Grad and promissory notes.

Liabilities from the borrowings from Banca Intesa in the total amount of RSD 3,749 thousand represent the remaining portion of the debt on borrowings granted 2008 and 2012. The final repayment of both loans is in 2016. Promissory notes represent the collateral for the borrowings.

(i) Finance lease liabilities

Finance lease liabilities are effectively secured as the right that the leased asset shall be returned to the lessor if the lessee fails to settle the liability.

Finance lease liabilities - minimal lease payments:

	2015		2014	
	Present value	Future value	Present value	Future value
Up to 1 year	2,842	3,073	5,086	5,352
From 1 to 3 years	3,090	3,205	2,126	2,232
Balance as of 31 December	5,932	6,278	7,212	7,584

The difference between the future value of minimal lease payments and the present value represents the interest contained in the lease payments.

Finance lease liabilities have the repayment period from 36 to 48 months and the interest rate ranging from 8.28% to 8.69%. As collateral for securing the settlement of liabilities arising from finance lease, the Company provided promissory notes.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2015
All amounts are expressed in RSD thousand, unless otherwise stated
19. SHORT-TERM FINANCIAL LIABILITIES

	<u>2015</u>	<u>2014</u>
Domestic short-term borrowings	10,353	10,079
Current portion of long-term loans due within one year (Note 18)	38,660	38,003
Current portion of long-term loans due within one year - finance lease (Note 18)	<u>3,073</u>	<u>5,353</u>
Balance as of 31 December	<u>52,086</u>	<u>53,435</u>

Short-term domestic borrowings relate to liabilities from a short-term borrowing from ProCredit banka. The borrowing was granted to the amount of EUR 500,000 with the interest of 5.15% per annum, on 12 monthly instalments. Remaining debt arising with respect to the above mentioned borrowing is EUR 85,125 (equivalent of RSD 10,353 thousand).

A portion of long-term liabilities relates to the borrowing from OTP banka in 2015. A portion which is due in the following year amounts to EUR 150,000 (equivalent of RSD 18,244 thousand), as well a portion of the borrowing in RSD, in the amount of RSD 16,667 thousand.

The remaining amount of EUR 30,825 (RSD 3,749 thousand) represents the debt toward Banca Intesa.

The carrying value of short-term financial liabilities of the Company is denominated in the following currencies:

	<u>2015</u>	<u>2014</u>
RSD	16,667	33,333
EUR	<u>35,419</u>	<u>20,102</u>
Balance as of 31 December	<u>52,086</u>	<u>53,435</u>

20. ADVANCES, DEPOSITS RECEIVED AND RETAINERS AND ACCOUNTS PAYABLE

	<u>2015</u>	<u>2014</u>
Advances and deposits received and retainers	<u>49,855</u>	<u>38,032</u>
Domestic trade payables		
Domestic trade payables	4,118	-
Foreign trade payables	126,539	164,326
Trade payables - other foreign related parties	92,899	50,137
Other accounts payable	535	962
Domestic trade payables	<u>18,816</u>	<u>1,809</u>
Total accounts payable	<u>242,907</u>	<u>217,234</u>

Advances received in the amount of RSD 49,855 thousand mostly relate to the delivery of equipment and services.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2015

*All amounts are expressed in RSD thousand, unless otherwise stated***20. VALUE ADDED TAX AND OTHER TAX LIABILITIES, ACCRUALS AND DEFERRED INCOME (Continued)**

Trade payables are non-interest bearable and have the credit days ranging from 30 to 90 days. Trade payables as of 31 December 2015, amounting to RSD 129,220 thousand are denominated in foreign currency, out of which the amount of RSD 40,695 thousand is denominated in USD and RSD 88,525 thousand in EUR.

The Company's management deems that the stated value of trade payables approximated their fair value as of the balance sheet date.

21. OTHER SHORT-TERM LIABILITIES

	<u>2015</u>	<u>2014</u>
Gross salaries and compensations	6,109	4,436
Interests payable and financing expenses	309	388
Liabilities to employees	1,875	1,447
Other liabilities	180	9
Balance as of 31 December	<u>8,473</u>	<u>6,280</u>

The Company management deems that the stated value of other short-term liabilities reflects their fair value as of the balance sheet date.

22. VALUE ADDED TAX AND OTHER TAX LIABILITIES, ACCRUALS AND DEFERRED INCOME

	<u>2015</u>	<u>2014</u>
a) Value added tax payable	-	26,288
b) Taxes, contributions and other duties		
Tax liabilities from the result	2,120	-
Contributions payable charged to expenses	14	10
Other liabilities for taxes, contributions and other taxes	1,805	188
	<u>3,939</u>	<u>198</u>
c) Pasivna vremenska razgraničenja		
Accrued expenses	6,001	2,544
Deferred income	1,491	662
Other accruals and deferred income	11	57
Total	<u>7,503</u>	<u>3,263</u>

NOTES TO THE FINANCIAL STATEMENTS
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23. INCOME TAXES
a) Components of income taxes

Major components of tax expense are as follows:

	<u>2015</u>	<u>2014</u>
Tax expense of the period		
Tax expense charged to income for the year	7,137	6,070
	<u>7,137</u>	<u>6,070</u>
Deferred tax expense /(income)		
Origination and reversal of temporary differences	1,687	2,281
	<u>1,687</u>	<u>2,281</u>
Total	<u>8,824</u>	<u>8,351</u>

	<u>2015</u>	<u>2014</u>
Income taxes from operations	7,137	6,070
Total	<u>7,137</u>	<u>6,070</u>

Numerical Reconciliation of Tax Expense and Profit before Tax

Calculated income tax expense (income) differs from the theoretical amount which would be arrived at using the currently-enacted tax rate of 15% on the accounting profit before tax, as follows:

	<u>2015</u>	<u>2014</u>
Profit before tax	25,773	22,594
Income tax at statutory rate of - 15%	3,866	3,389
Expenses not deductible for tax purposes	2,975	2,711
Other reconciliations of expenses/(income)	296	(30)
Total	<u>7,137</u>	<u>6,070</u>
Effective tax rate	<u>27.69%</u>	<u>26.86%</u>

(a) Deferred tax assets and liabilities

Deferred tax assets, net relate to the temporary difference between the carrying value of property, equipment and intangible assets and their tax basis, and temporary differences arising from the provision for retirement benefits.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2015

*All amounts are expressed in RSD thousand, unless otherwise stated***23. INCOME TAXES (Continued)****(a) Deferred tax assets and liabilities (Nastavak)**

Movements in deferred tax assets and liabilities during the year were as follows:

	<u>2015</u>	<u>2014</u>
Balance as of 1 January	<u>3,712</u>	<u>5,993</u>
Effects of temporary differences (credited)/charged to the income statement	<u>(1,687)</u>	<u>(2,281)</u>
Balance as of 31 December	<u><u>2,025</u></u>	<u><u>3,712</u></u>

24. RECONCILIATION OF OUTSTANDING BALANCES WITH COUNTERPARTIES

Pursuant to Article 18 of the Law on Accounting, the Company performed reconciliation of accounts receivable and accounts payable with its debtors and creditors as of 31 December 2015.

The Company prepared and submitted to the clients 331 out of which 288 were returned, while 43 confirmations had not been returned until the date of preparation of these financial statements.

Since these confirmations include a clause stating that "if the recipient does not return the confirmation within a certain period of time, the balance of receivables and payables shall be deemed reconciled", the Company considers that the outstanding balances stated in the remaining unreturned confirmations, are also reconciled.

Based on the performed reconciliation procedure there are no material unreconciled amounts of receivables and payables.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2015
All amounts are expressed in RSD thousand, unless otherwise stated
25. OPERATING INCOME

	<u>2015</u>	<u>2014</u>
Sales of goods		
Sales of products to other related parties on a foreign market	119,742	225,234
Sales of products to other related parties on the domestic market	411,223	385,214
Sales of goods on a foreign market	<u>285,956</u>	<u>13,990</u>
Total sales of goods	<u>816,921</u>	<u>624,438</u>
Sales of products and services		
Sales of products and services to parents and subsidiaries on a foreign market	-	4,680
Sales of products and services to other related parties on a foreign market	184,198	155,929
Sales of products and services to other related parties on the domestic market	756,472	663,153
Sales of products and services on a foreign market	<u>10,688</u>	<u>851</u>
Total sales of products and services	<u>951,358</u>	<u>824,613</u>
Other operating income	<u>14,167</u>	<u>17,809</u>
Total operating income	<u><u>1,782,446</u></u>	<u><u>1,466,860</u></u>

Other operating income amounting to RSD 14,167 thousand (2014: RSD 17,809 thousand) relates to rental income.

26. COST OF GOODS SOLD

Cost of goods sold amounted to RSD 661,372 thousand in 2015 (2014: RSD 490,696 thousand).

27. COST OF MATERIAL, FUEL AND ENERGY

	<u>2015</u>	<u>2014</u>
Processing material	155,478	132,449
Other material (overhead)	7,398	5,563
Spare parts	<u>3,345</u>	<u>3,791</u>
Costs of material	<u>166,221</u>	<u>141,803</u>
Fuel and energy	<u>21,854</u>	<u>20,860</u>
Total	<u><u>188,075</u></u>	<u><u>162,663</u></u>

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2015
All amounts are expressed in RSD thousand, unless otherwise stated
28. SALARIES, COMPENSATIONS AND OTHER PERSONAL EXPENSES

	<u>2015</u>	<u>2014</u>
Gross salaries and compensations	116,076	93,297
Payroll taxes and contributions payable by the employer	20,778	16,700
Temporary job contracts	177	393
Authorship contracts	11,738	5,089
Remuneration to physical persons arising from other contracts	33,883	30,233
Total	<u>182,652</u>	<u>145,712</u>
Number of employees at the year end	<u>126</u>	<u>129</u>

29. PRODUCTIVE SERVICES COSTS

	<u>2015</u>	<u>2014</u>
Expenses of own-work and goods capitalised	413,370	388,028
Transportation cost	26,116	18,721
Maintenance	8,882	34,870
Rental expenses	12,643	2,790
Fairs	261	825
Advertising and marketing fees	3,321	877
Research	330	-
Development costs which are not capitalised	3,080	1,464
Total	<u>468,003</u>	<u>447,575</u>

30. DEPRECIATION, AMORTISATION AND PROVISIONS

	<u>2015</u>	<u>2014</u>
Amortisation charge (Note 6)	622	1,051
Depreciation charge (Note 7)	17,811	20,882
Total	<u>18,433</u>	<u>21,933</u>

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2015
All amounts are expressed in RSD thousand, unless otherwise stated
31. NON-MATERIAL COSTS

	<u>2015</u>	<u>2014</u>
Cost of non-productive services	195,997	53,568
Entertainment	22,162	15,226
Insurance premiums	2,981	2,036
Bank charges	7,361	5,142
Membership fees	1,383	1,298
Taxes	8,244	11,030
Contributions	324	303
Other non-material costs	8,997	6,341
Total	<u>247,449</u>	<u>94,944</u>

32. FINANCIAL INCOME

	<u>2015</u>	<u>2014</u>
Parent and subsidiaries transactions	242	372
Other related party transactions	2,274	7,636
Interest income	6,076	4,218
Foreign exchange gains and gains arising from foreign currency clause application	12,741	14,521
Total	<u>21,333</u>	<u>26,747</u>

33. FINANCIAL EXPENSES

	<u>2015</u>	<u>2014</u>
Financial expenses - parent and subsidiaries transactions	132	-
Financial expenses - other related parties transactions	1,422	443
Interest expense	6,671	4,825
Foreign exchange losses and losses arising from foreign currency clause application	14,105	13,728
Total	<u>22,330</u>	<u>18,996</u>

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2015
All amounts are expressed in RSD thousand, unless otherwise stated
34. LOSSES FROM VALUE ADJUSTMENTS OF OTHER ASSETS CARRIED AT FAIR VALUE THROUGH PROFIT OR LOSS

	<u>2015</u>	<u>2014</u>
Impairment of inventories of material, goods and advances	1,530	24,148
Impairment of trade receivables (Note 10)	2,736	75,291
Impairment of short-term financial placements	1,755	-
Total	<u>6,021</u>	<u>99,439</u>

35. OTHER INCOME

	<u>2015</u>	<u>2014</u>
Gains on sale of intangible assets, property, plant and equipment	330	1,339
Surpluses	31	23
Collected written-off receivables	8,746	1,515
Written-off receivables for advances paid recovered	500	-
Reversal of long-term and short-term provisions	-	198
Sundry income	6,090	6,435
Liabilities waived	128	176
Total	<u>15,825</u>	<u>9,686</u>

36. OTHER EXPENSES

	<u>2015</u>	<u>2014</u>
Losses on the sale and disposal of intangible assets, property, plant and equipment	104	591
Shortages	63	345
Direct write off of receivables	618	1,440
Other sundry expenses	1,461	2,438
Total	<u>2,246</u>	<u>4,814</u>

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2015
All amounts are expressed in RSD thousand, unless otherwise stated
37. RELATED PARTY TRANSACTIONS
(a) Acquisitions and sale to related parties

The Company's major shareholder is Telegroup Limited, London which holds 100% of the Company's basic capital.

The following transactions were carried out with related parties:

	<u>2015</u>	<u>2014</u>
<i>(a) Sales of goods and services</i>		
Parent	-	4,680
Other related parties	303,940	381,163
	<u>303,940</u>	<u>385,843</u>

Goods are sold based on the pricelists and terms that would be available to third parties.

	<u>2015</u>	<u>2014</u>
<i>(b) Purchases of goods and services</i>		
Parent	6,355	940
Other related parties	1,383	946
	<u>7,738</u>	<u>1,886</u>

Goods and services are bought on normal commercial terms and conditions.

(b) Year-end balances arising from sales/purchases of goods/services

	<u>2015</u>	<u>2014</u>
Receivables from related parties (Note 10)		
Parent	-	4,680
Other related parties	137,514	168,258
	<u>137,514</u>	<u>172,938</u>
Payables to related parties (Note 20)		
Parent	4,118	-
Other related parties	535	962
	<u>4,653</u>	<u>962</u>

The receivables from related parties arise mainly from sale transactions and are due 60 days after the date of sales. The receivables are unsecured in nature and bear no interest. The payables to related parties arise mainly from purchase transactions and are due 60 days after the date of purchase. The payables bear no interest.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2015
All amounts are expressed in RSD thousand, unless otherwise stated
37. RELATED PARTY TRANSACTIONS (Continued)
(a) Loans to related parties

	<u>2015</u>	<u>2014</u>
Loans to directors, management and their family members:		
As of 1 January	7,948	8,325
Repayment during the year	(377)	(377)
End of year	<u>7,571</u>	<u>7,948</u>
Loans to associates:		
As of 1 January	3,629	-
Loans granted during the year	7,370	3,629
Repayment during the year	(1,424)	-
End of year	<u>9,575</u>	<u>3,629</u>
Loans to related parties:		
As of 1 January	5,725	5,650
Loans granted during the year	-	75
Allowance to impairment	(5,700)	(5,310)
End of year	<u>25</u>	<u>415</u>
Loans to related parties and associated - total:	<u><u>9,600</u></u>	<u><u>4,044</u></u>

38. EVENTS AFTER THE BALANCE SHEET DATE
(a) Investments in associates

On 19 January 2016, the Company acquired 30.43% of the stake in Jubmes faktor d.o.o. Belgrade, for the total amount of RSD 56,887 thousand.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2015

All amounts are expressed in RSD thousand, unless otherwise stated

39. EXCHANGE RATES

The official exchange rates of the National Bank of Serbia for the major currencies, used in the translation of balance sheet items denominated in foreign currencies as of 31 December 2015 and 2014 into the functional currency (RSD), were as follows:

	31 December 2015	In RSD 31 December 2014
EUR	121.6261	120.9583
USD	111.2468	99.4641
CHF	112.5230	100.5472
GBP	164.9391	154.8365

Belgrade, 21 April 2016



Miladina Veljkovic
Head of Finance & Accounting
Department

