

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

**Financial Statements as of and for
the Year Ended 31 December 2016
and
Independent Auditor's Report**

*This is an English translation of Independent Auditor's Report and
2016 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 2016, 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.

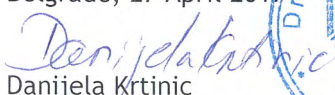
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or 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 2016, 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, 27 April 2017


Danijela Krtinic

Certified Auditor



INCOME STATEMENT
For the Year Ended 31 December 2016
In RSD thousand

	<u>Note</u>	<u>2016</u>	<u>2015</u>
OPERATING INCOME	25		
Income from the sale of goods		718,994	816,921
Income from the sale of products and services		1,033,541	951,358
Other operating income		5,551	14,167
		<u>1,758,086</u>	<u>1,782,446</u>
OPERATING EXPENSES			
Costs of goods sold	26	(551,612)	(661,372)
Own-work and goods capitalised		6,424	2,906
Costs of material	27	(269,734)	(166,221)
Cost of fuel and energy	27	(20,137)	(21,854)
Wages, salaries and other personnel expenses	28	(215,087)	(182,652)
Productive services costs	29	(418,309)	(468,003)
Depreciation and amortisation	30	(17,450)	(18,433)
Long term provisions		(337)	(156)
Non-material costs	31	(260,879)	(247,449)
		<u>(1,747,121)</u>	<u>(1,763,234)</u>
OPERATING INCOME		<u>10,965</u>	<u>19,212</u>
Financial income	32	18,115	21,333
Financial expenses	33	(25,318)	(22,330)
Net financial (loss)/income		<u>(7,203)</u>	<u>(997)</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	(147)	(6,021)
Other income	35	18,397	15,825
Other expenses	36	(2,154)	(2,246)
OPERATING PROFIT BEFORE TAX		<u>19,858</u>	<u>25,773</u>
Net profit from discontinued operations, effects of changes in accounting policies and prior year's error adjustment		-	-
PROFIT BEFORE TAX		<u>19,858</u>	<u>25,773</u>
INCOME TAXES	23		
Tax expense of the period		(4,822)	(7,137)
Deferred tax expenses of the period		(2,286)	(1,687)
NET PROFIT FOR THE YEAR		<u>12,750</u>	<u>16,949</u>

The accompanying notes on pages 1 to 44
are an integral part of these financial statements.

STATEMENT OF OTHER COMPREHENSIVE INCOME
For the Year Ended 31 December 2016
In RSD thousand

	<u>2016</u>	<u>2015</u>
NET PROFIT FOR THE YEAR	12,750	16,949
Other comprehensive income:		
Actuarial (losses)/gains on defined benefits plans	(1,221)	(216)
Gains/(losses) on financial asset held for sale	<u>(1,411)</u>	<u>4,183</u>
Total other comprehensive income/(loss), net of related taxes	<u>(2,644)</u>	<u>3,967</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>10,106</u>	<u>20,916</u>

The accompanying notes on pages 1 to 44
are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
For the Year Ended 31 December 2016
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 2015	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)/gains arising from calculation of retirement benefits	-	-	-	(216)	-	-	(216)
Unrealized (losses)/gains 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
Net profit for the year	-	-	-	-	-	12,750	12,750
<i>Other comprehensive income:</i>							
Actuarial (losses)/gains arising from calculation of retirement benefits	-	-	-	(1,233)	-	-	(1,233)
Unrealized (losses)/gains on financial asset held for sale	-	-	-	-	(1,411)	-	(1,411)
Balance as of 31 December 2016	66,143	6,695	2,970	1,189	518	519,388	596,903

The accompanying notes on pages 1 to 44
are an integral part of these financial statements.

STATEMENT OF CASH FLOWS
For the Year Ended 31 December 2016
In RSD thousand

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Sales and advances received	1,873,963	2,208,171
Interest received from operating activities	-	289
Other cash inflows from operating activities	-	1,136
Payments to suppliers and advances paid	(1,532,163)	(1,801,723)
Wages, salaries and other personnel expenses	(185,293)	(151,394)
Interest paid	(15,067)	(4,465)
Income tax	(6,542)	(4,866)
Cash outflows for other taxes payable	(32,463)	(48,145)
Net cash flows from/used operating activities	102,435	199,003
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of intangible assets, property, plant, equipment and biological assets	-	5,755
Other financial placements (net inflows)	-	2,323
Purchase of shares and investments (net outflows)	(159,246)	(69,297)
Purchase of intangible assets, property, plant, equipment and biological assets	(40,992)	(20,466)
Other financial placements (outflows)	-	(91,840)
Net cash flows used/from investing activities	(200,238)	(173,525)
CASH FLOWS FROM FINANCING ACTIVITIES		
Long-term borrowings (net inflows)	63,051	36,160
Short-term borrowings (net inflows)	-	60,233
Short-term borrowings (net outflows)	(10,353)	-
Other liabilities (outflows)	-	(102,442)
Finance lease	(6,813)	(7,138)
Net cash flows used/from in financing activities	45,885	(13,187)
Total cash inflows	1,937,014	2,314,067
Total cash outflows	(1,988,932)	(2,301,776)
Net inflows/(outflows) in cash and cash equivalents	(51,918)	12,291
Cash and cash equivalents, beginning of the year	83,394	70,487
Foreign currency gains on translation of cash and cash equivalents	666	919
Foreign currency losses on translation of cash and cash equivalents	(16)	(303)
Cash and cash equivalents, end of the year (Note 13)	32,126	83,394

The accompanying notes on pages 1 to 44
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 2016

Belgrade, 21 April 2017

NOTES TO THE FINANCIAL STATEMENTS**For the Year Ended 31 December 2016***All amounts are expressed in RSD thousand, unless otherwise stated*

1. CORPORATE INFORMATION

Company for telecommunications engineering "TeleGroup" d.o.o. Belgrade, (hereinafter: the Company), was established on 16 January 2001. The Company was established by the company "TeleGroup" Limited from London, Great Britain (hereinafter: the Founder).

The primary activity of "TeleGroup" 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 2016, the Company has 136 employees, and, as of 31 December 2015 126. Tax identification number of the Company is 101733237.

As of 31 December 2016 has 5 subsidiaries (see Note 8).

These financial statements were adopted by the Founder of the Company on 21 April 2017. The adopted financial statements can be subsequently amended, based on the decisions of the Founder of the Company no later than the end of 2017.

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 the Republic of Serbia", 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).

According to the Decision No. 401-00-896/2014-16 issued by the Minister of Finance of the Republic of Serbia on 13 March 2014 ("Official Gazette of the Republic of Serbia", No. 35/2014), an official translation of the Conceptual Framework for Financial Reporting and principal IAS texts, i.e. the IFRS published by the International Accounting Standards Board ("IASB"), as well as interpretations of the standards published by the International Financial Reporting Interpretations Committee ("IFRIC") in the form in which they were issued, i.e. adopted, was established.

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 the Republic of Serbia 95/2014 and 144/2014).

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.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2016

All amounts are expressed in RSD thousand, unless otherwise stated

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

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.

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 2016 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 2016 and are, as such, applicable to the accompanying financial statements as of 31 December 2016, 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 "Leases" (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);
- 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 2016

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)****(a) *New Standards, Interpretations and Amendments effective as of 1 January 2016 not yet officially translated and adopted in the Republic of Serbia (Continued)***

- 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 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 Interests in Other Entities" - Applying the Consolidation Exception (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); and
- IFRS 14 "Regulatory Deferral Accounts" (effective for annual periods beginning on or after 1 January 2016).

Even though the Company's management deems that the most of aforementioned amendments to standards and new standards and interpretations of standards have no material effect on the accompanying financial statements, considering the matters referred to the above, the accompanying financial statements are not reconciled with all the requirements of IFRS and cannot be deemed to be financial statements prepared and presented in accordance with IFRS.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2016

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 the International Accounting Standards Board and International Financial Reporting Interpretations Committee, but have not been applicable or officially translated and published by the Ministry of Finance, and, therefore, have not been implemented by the Company:

- Amendment to IAS 7 “Cashflow statements” - Disclosure initiative (effective for annual periods beginning on or after 1 January 2017);
- Amendment to IAS 12 “Income taxes” - Recognition of deferred tax assets for unrealised losses (effective for annual periods beginning on or after 1 January 2017);
- Amendment to IAS 40 “Investment property” relating to transfers of investment property (effective for annual periods beginning on or after 1 January 2018);
- Amendments to IFRS 2 “Share based payments” (effective for annual periods beginning on or after 1 January 2018);
- Amendments to IFRS 4 “Insurance contracts” regarding the implementation of IFRS 9 “Financial instruments” (effective for annual periods beginning on or after 1 January 2018);
- IFRS 9 “Financial Instruments” (effective for annual periods beginning on or after 1 January 2018);
- IFRS 15 “Revenue from Contracts with Customers” (effective for annual periods beginning on or after 1 January 2018);
- Amendments to IFRS 15 “Revenue from contracts with customers” (effective for annual periods beginning on or after 1 January 2018);
- Amendments to various standards (IFRS 1, IFRS 12 and IAS 28) as a result of annual improvements project standards, “2014-2016 Cycle”, published by the IASB in December 2016 (effective for annual periods beginning on or after 1 January 2018);
- IFRIC 22 “Foreign currency transactions and advance consideration” (effective for annual periods beginning on or after 1 January 2018) and
- IFRS 16 “Leases” (effective for annual periods beginning on or after 1 January 2019).

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2016

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" and
- 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 39). 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 2015, prepared in accordance with the accounting regulations prevailing in the Republic of Serbia.

2.6. Going Concern Assumption

The financial statements have been prepared under the going concern principle, which means that the Company will continue its operations in the foreseeable future, covering the period of at least twelve months from the date of the financial statements.

2.6. Use of Estimates

The preparation of the financial statements in accordance with IFRS requires the application of the key accounting estimates. It also requires the management to use its judgement in the application of the accounting policies of the Company. These estimates and related assumptions are based on information available as of the date of the preparation of the financial statements. Actual results could differ from these estimates.

These estimates and underlying assumptions are reviewed on an ongoing basis. If through examination it is determined that there have been changes in the estimated value, the determined effects are recognised in the financial statements in the period when the change has occurred. Areas that require a higher degree of judgment or complexity, or areas where assumptions and estimates are material to the financial statements are disclosed in Note 5.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2016

All amounts are expressed in RSD thousand, unless otherwise stated

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.

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.

3.2. Property, Plant and Equipment

Items of property, plant and equipment which fulfil the requirements to be recognised as assets are initially recognised at cost.

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

NOTES TO THE FINANCIAL STATEMENTS**For the Year Ended 31 December 2016***All amounts are expressed in RSD thousand, unless otherwise stated*

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**3.2. Property, Plant and Equipment (Continued)**

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.

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 assets 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.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2016

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)

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.

(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.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2016

All amounts are expressed in RSD thousand, unless otherwise stated

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5. Financial instruments (Continued)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2016

All amounts are expressed in RSD thousand, unless otherwise stated

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5. Financial instruments (Continued)

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 from inventories is determined using weighted average method.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2016

All amounts are expressed in RSD thousand, unless otherwise stated

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9. Provisions, contingent liabilities and contingent assets (Continued)

Provisions (Continued)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2016

All amounts are expressed in RSD thousand, unless otherwise stated

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10. Leases (Continued)

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.

(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. Costs of past services provided are recognised in the income statement when incurred, while actuarial gains and losses are recognised in the statement of other comprehensive income. The basic assumptions on which the calculation of provision for employee benefits was performed are disclosed in Note 17.

(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.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2016

All amounts are expressed in RSD thousand, unless otherwise stated

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**3.12. Revenue recognition (Continued)****(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.

(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.

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.

NOTES TO THE FINANCIAL STATEMENTS**For the Year Ended 31 December 2016***All amounts are expressed in RSD thousand, unless otherwise stated*

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**3.13. Current and deferred income taxes (Continued)***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.

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.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2016
All amounts are expressed in RSD thousand, unless otherwise stated
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 2016 and 2015 are presented in the following table:

	<u>2016</u>	<u>2015</u>
<i>Financial assets</i>		
Cash and cash equivalents	32,126	83,394
Other long-term financial placements	70,214	73,625
Trade receivables	415,108	393,577
Other receivables and short-term financial placements	<u>120,011</u>	<u>113,846</u>
	<u>637,459</u>	<u>664,442</u>
<i>Financial liabilities</i>		
Long-term and short-term borrowings, leases	124,425	64,413
Accounts payable	330,298	242,907
Other trade payables	<u>10,542</u>	<u>8,473</u>
	<u>465,265</u>	<u>315,793</u>

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.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2016
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)

	EUR	USD	RSD	2015 Total
Financial assets				
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 and short-term financial placements	35,019	22	78,805	113,846
Total	219,916	33,233	411,293	664,442
Financial liabilities				
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	137,042	315,793
Net effect	82,651	(8,253)	274,251	348,649
10%	8,265	(825)		

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:

	2016	2015
EUR	(1,829)	8,265
USD	(4,224)	(825)
Total	(6,053)	7,440

If as of 31 December 2016, 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 6,053 thousand (2015: RSD 7,440 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 2016

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 2016, financial assets denominated in EUR amount to RSD 184,692 thousand (31 December 2015: RSD 219,916 hiljada) thousand) which accounts for 76.85% (2015: 86.87%) of the total financial liabilities of the Company denominated in foreign currency.

As of 31 December 2016, financial liabilities denominated in EUR amount to RSD 202,981 thousand (31 December 2015: RSD 137,265 thousand), which accounts for 67.46% (2015: 76.79%) 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 2016, borrowings and financial lease liabilities are denominated in foreign currency - EUR 1,007,714.

During 2016 and 2015, 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 (2015: 15%).

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2016
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 (Continued)

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 2016	Up to 3 months	From 3 to 12 months	From 1 to 2 years	Total
Long-term and short-term borrowings, leases	6,175	22,461	95,789	124,425
Accounts payable	330,298	-	-	330,298
Other trade payables	10,542	-	-	10,542
	347,015	22,461	95,789	465,265

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2016
All amounts are expressed in RSD thousand, unless otherwise stated
4. FINANCIAL INSTRUMENTS - RISK MANAGEMENT (Continued)
(c) Liquidity risk (Continued)

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
	281,910	21,556	12,327	315,793

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 2016 and 2015 were as follows:

	2016	2015
Total borrowings (Notes 18 and 19)	124,425	64,413
Less: Cash and cash equivalents (Note 13)	(32,126)	(83,394)
Net debt	92,299	(18,981)
Equity	596,903	586,797
Equity - total	689,202	567,816
Gearing ratio	13.39%	0.00%

* 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 2016
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6. INTANGIBLE ASSETS

	Patents, licences, software and similar rights	Total
COST		
As of 1 January 2015	24,226	24,226
Additions during the year	-	-
Balance as of		
31 December 2015	24,226	24,226
Disposals and write-off	(108)	(108)
Transfer to intangible assets	-	-
Balance as of		
31 December 2016	24,118	24,118
ACCUMULATED AMORTISATION		
As of 1 January 2015	22.620	22.620
Amortisation charge (Note 30)	622	622
Disposals and write-off		
Balance as of		
31 December 2015	23,242	23,242
Disposals and write-off	(108)	(108)
Amortisation charge (Note 30)	621	621
Balance as of		
31 December 2016	23,755	23,755
CARRYING VALUE AS OF:		
- 31 December 2016	363	363
- 31 December 2015	984	984

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2016

All amounts are expressed in RSD thousand, unless otherwise stated
7. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Plant and equipment	Construction in progress	Total
COST					
Balance as of					
1 January 2015	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
Additions	-	-	162	47,417	47,579
Transfer from construction in progress	-	-	43,653	(43,653)	-
Disposals and write-offs	-		(46,807)	-	(46,807)
Balance as of					
31 December 2016	9,804	112,242	134,291	10,942	267,279
ACCUMULATED DEPRECIATION					
Balance as of					
1 January 2015	-	11,948	104,251	-	116,199
Depreciation (Note 30)	-	1,467	16,344	-	17,811
Disposals and write-offs	-	(75)	(24,829)	-	(24,904)
Balance as of					
31 December 2015	-	13,340	95,766	-	109,106
Depreciation (Note 30)	-	1,459	15,370	-	16,829
Disposals and write-offs	-		(43,960)	-	(43,960)
Balance as of					
31 December 2016	-	14,799	67,176	-	81,975
CARRYING VALUE AS OF:					
31 December 2016	9,804	97,443	67,115	10,942	185,304
31 December 2015	9,804	98,902	41,517	7,178	157,401

Bank borrowings have been secured by mortgages against buildings with the total carrying value as of 31 December 2016 amounting to RSD 60,156 thousand (Note 18).

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2016
All amounts are expressed in RSD thousand, unless otherwise stated
7. PROPERTY, PLANT AND EQUIPMENT (Continued)

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

	<u>2016</u>	<u>2015</u>
Cost	30,903	12,611
Accumulated depreciation	<u>(11,136)</u>	<u>(3,412)</u>
Carrying value as of 31 December	<u>19,767</u>	<u>9,199</u>

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

As of 31 December 2016, the Company does not have vehicles leased to third parties under operating lease agreements (2015: RSD 23,442 thousand - cost, i.e. RSD 1,237 thousand - carrying value). Equipment and vehicles that were under lease in 2015, were sold in 2016.

Cost of written-off equipment the Company utilises in its operations as of 31 December 2016 amounted to RSD 65,368 thousand (2015: RSD 57,653 thousand) and relates to equipment.

Based on the Company's management estimate, at 31 December 2016, property, plant equipment are not impaired.

8. LONG-TERM FINANCIAL PLACEMENTS

	<u>2016</u>	<u>2015</u>
Equity investments in subsidiaries	188,986	29,740
Securities available for sale	63,397	66,431
Other long-term financial placements	6,817	7,194
Less: allowance for impairment	<u>-</u>	<u>-</u>
Balance as of 31 December	<u>259,200</u>	<u>103,365</u>

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2016
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:

Name and seat	2016	2015	Interest %
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	3,674	51.00
Telegroup Podgorica d.o.o. Podgorica	492	-	100.00
Telegroup Finance d.o.o. Belgrade	158,754	-	78.26
Balance as of 31 December	188,986	29,740	

Equity investments in other legal entities relate to:

Name and seat	2016	2015
Jubmes banka a.d. Belgrade	63,397	65,981
Energomontaža a.d. Belgrade	-	450
Balance as of 31 December	63,397	66,431

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 2016.

A share in Telegroup Finance d.o.o., Belgrade is pledged in accordance with the Pledge Agreement based on a loan approved by Jubmes banka a.d. Belgrade for the purchase of the share in the above mentioned company (Note 18).

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:

	2016	2015
RSD	63,397	66,431
EUR	-	-
Balance as of 31 December	63,397	66,431

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.

	2016	2015
Long-term domestic loans	6,817	7,194
Balance as of 31 December	6,817	7,194

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2016

All amounts are expressed in RSD thousand, unless otherwise stated
9. INVENTORIES

	2016	2015
Material, spare parts, tools and small inventory	6,467	15,409
Goods	64,641	43,424
Less: Allowance for impairment	(1,002)	(5,482)
Goods	63,639	37,942
Advances paid for inventories and services	42,724	31,890
Less: Allowance for impairment	(21,048)	(26,760)
Advances paid for inventories and services	21,676	5,130
Balance as of 31 December	91,782	58,481

Inventories of goods amounting to RSD 64,641 were measured at fair value less costs to sell.

10. TRADE RECEIVABLES

	2016	2015
Domestic trade receivables - subsidiaries	723	695
Less: Allowance for impairment - subsidiaries	(695)	(695)
Domestic trade receivables - subsidiaries	28	-
Foreign trade receivables - parent and subsidiaries	37,087	-
Foreign trade receivables - other related parties	26,591	133,865
Domestic trade receivables	437,342	362,544
Less: Allowance for impairment of domestic trade receivables	(98,416)	(103,404)
Domestic trade receivables	338,926	259,140
Foreign trade receivables	12,476	2,852
Less: Allowance for impairment of foreign trade receivables	-	(2,280)
Foreign trade receivables	12,476	572
Balance as of 31 December	415,108	393,577

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2016

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.

As of 31 December 2016, trade receivables amounting to RSD 225,820 thousand are due but not impaired in the amount of RSD 99,111 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 32,824 thousand relates to receivables from subsidiaries and related parties.

As of 31 December 2016, trade receivables amounting to RSD 99,111 thousand (2015: RSD 106,378 thousand) are due and impaired in full.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2016

All amounts are expressed in RSD thousand, unless otherwise stated
10. TRADE RECEIVABLES (Continued)

Movements on the allowance for impairment of receivables account:

	2016	2015
Balance as of 1 January	106,378	112,388
Additional charge for the year (Note 34)		2,736
Write-off of previously provisioned receivables	(2,764)	-
Recovered previously provisioned receivables (Note 35)	(4,503)	(8,746)
Balance as of 31 December	99,111	106,378

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

	2016	2015
Interest and dividends receivable	16,422	9,637
Receivables from employees	440	201
Receivables for overpaid taxes and contributions	1,720	-
Other current receivables	451	327
Less: Allowance for impairment	(486)	(364)
Balance as of 31 December	18,547	9,801

12. SHORT-TERM FINANCIAL PLACEMENTS

	2016	2015
Short-term loans and placements - parents and subsidiaries	18,545	15,300
Less: Allowance for impairment	(5,725)	(5,700)
	12,820	9,600
Short-term domestic loans and placements	89,215	93,561
Less: Allowance for impairment	(1,000)	(1,000)
	88,215	92,561
Other short-term financial placements	429	1,884
Balance as of 31 December	101,464	104,045

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 2016 amounts to RSD 12,820 thousand.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2016
All amounts are expressed in RSD thousand, unless otherwise stated
12. SHORT-TERM FINANCIAL PLACEMENTS (Continued)

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.

13. CASH AND CASH EQUIVALENTS

	<u>2016</u>	<u>2015</u>
Current accounts	24,109	35,750
Foreign currency account	7,037	46,940
Other cash and cash equivalents	980	704
Balance as of 31 December	<u>32,126</u>	<u>83,394</u>

As of 31 December 2016, the Company had RSD 20,000 thousand (2015: 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>2016</u>	<u>2015</u>
Prepaid expenses	12,491	20,690
Receivables for uninvoiced income	1,554	6,532
Other prepayments and accrued income	1,091	1,646
Balance as of 31 December	<u>15,136</u>	<u>28,868</u>

Prepaid expenses amounting to RSD 12,491 thousand mostly, in the amount of RSD 11,476 thousand relate to prepaid maintenance.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2016

All amounts are expressed in RSD thousand, unless otherwise stated
15. OFF-BALANCE SHEET ITEMS

	2016	2015
Mortgages	289,644	295,507
Guarantees	130,730	87,517
Sureties	-	12,615
Balance as of 31 December	420,374	395,639

The Company had commitments relating to bank and other guarantees and on other grounds, which were the result of regular operations, amounting to RSD 130,730 thousand (2015: RSD 87,517 thousand). It is not expected that due to commitments financial liabilities will arise.

16. CAPITAL

	Basic capital	Reserves	Gains/losses arising from securities	Actuarial gains or losses	Retained earnings	Total
Balance as of 1 January 2015	66,143	9,665	(2,254)	2,638	489,689	565,881
Net profit for the year	-	-	-	-	16,949	16,949
<i>Other comprehensive result:</i>						
Changes in fair value of financial assets available for sale	-	-	4,183	(216)	-	3,967
Total comprehensive result in 2015	66,143	9,665	1,929	2,422	506,638	586,797
Net profit for the year					12,750	12,750
<i>Other comprehensive result:</i>						
Changes in fair value of financial assets available for sale	-	-	(1,411)	(1,233)	-	(2,644)
Balance as of 31 December 2016	66,143	9,665	518	1,189	519,388	596,903

(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 out of which the contribution in kind amounts to RSD 522 thousand and contribution in cash amounts to RSD 65,621 thousand.

(b) Reserves

Reserves are used for future losses coverage.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2016
All amounts are expressed in RSD thousand, unless otherwise stated
16. CAPITAL (Continued)
(c) Revaluation reserves and unrealised gains and losses

Unrealised gains arising from securities available for sale amounting to RSD 518 thousand, represent a positive effect of fair value arising from shares of Jubmes banke a.d. Belgrade.

Total unrealised (losses)/gains, net, as of 31 December 2016 relate to unrealised losses based on shares of Enegomontaže a.d. Belgrade, in the amount of RSD 1,384 thousand and to unrealised profit based on the shares of Jubmes banka a.d. Belgrade in the amount of RSD 2,661 thousand.

17. LONG-TERM PROVISIONS

	2016	2015
Employee benefits	3,078	1,611
Balance as of 31 December	3,078	1,611

(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 2016	1,611	1,611
Additional provisions	337	337
Effect of discounting	1,222	1,222
Utilised during the year	(92)	(92)
Balance as of 31 December 2016	3,078	3,078

Basic actuarial assumptions used:

	2016	2015
Discount rate	4%	4.5%
Future salary increases	2%	2.5%
Fluctuation of employees/mortality/illness	136	119

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2016

*All amounts are expressed in RSD thousand, unless otherwise stated***17. LONG-TERM PROVISIONS (Continued)****(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.

(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. As of 31 December 2016 there are no litigations initiated against the Company.

18. LONG-TERM LIABILITIES

	<u>2016</u>	<u>2015</u>
Long-term borrowings and domestic loans	111,192	47,782
Finance lease liabilities	<u>13,233</u>	<u>6,278</u>
Total long-term liabilities	<u>124,425</u>	<u>54,060</u>
Less: Current portion of long-term liabilities due within one year (Note 19)	(22,851)	(38,660)
Less: Current portion of long-term liabilities due within one year - finance lease (Note 19)	<u>(5,785)</u>	<u>(3,073)</u>
Balance as of 31 December	<u><u>95,789</u></u>	<u><u>12,327</u></u>

Maturity of long-term loans and placements:

	<u>2016</u>	<u>2015</u>
From 1 to 2 years	9,260	47,782
From 2 to 5 years	<u>101,932</u>	<u>-</u>
Balance as of 31 December	<u><u>111,192</u></u>	<u><u>47,782</u></u>

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

	<u>2016</u>	<u>2015</u>
RSD	-	16,667
EUR	<u>111,192</u>	<u>31,115</u>
Balance as of 31 December	<u><u>111,192</u></u>	<u><u>47,782</u></u>

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2016

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	2016		2015	
			In the currency	Amount RSD 000	In the currency	Amount RSD 000
Banca Intesa	4.37%	EUR	-	-	23,048	2,803
Banca Intesa	4.9%	EUR	-	-	7,776	946
OTP banka	4.75%	RSD	-	-	16,667	16,667
	4.5%+3m					
OTP banka	Euribor	EUR	75,000	9,260	225,000	27,366
	5.86+3m					
Jubmes banka	Euribor	EUR	825,542	101,932	-	-
Total		EUR	900,542	111,192	255,824	47,782

Liabilities from the borrowing from OTP banka in the amount of RSD 9,260 thousand and 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 for this loan are the first ranking mortgage in Nis, the second ranking mortgage in Belgrade, the Municipality of Stari Grad and promissory notes.

Liabilities from the loan from Jubmes banka a.d. in the amount of RSD 101,932 thousand relates to the loan granted in 2016, in the total amount of EUR 825,542 with the repayment period of 96 months and the interest rate of 5.86+3m Euribor per annum. The loan repayment will take place in 30 equal instalments, upon the expiration of the grace period of 6 months. The loan was used for the purchase of the share in Telegroup Finance in the amount of 47.83% obtained by the purchase of the share using this loan, as well as the pledge against 30.43% of the share in Telegroup Finance, which had already been owned by the Company (Note 8).

(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:

	2016		2015	
	Present value	Future value	Present value	Future value
Up to 1 year	5,297	5,785	2,842	3,073
From 1 to 3 years	7,087	7,448	3,090	3,205
Balance as of 31 December	12,382	13,233	5,932	6,278

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 2016

All amounts are expressed in RSD thousand, unless otherwise stated

19. SHORT-TERM FINANCIAL LIABILITIES

	2016	2015
Domestic short-term borrowings	-	10,353
Current portion of long-term loans due within one year (Note 18)	22,851	38,660
Current portion of long-term loans due within one year - finance lease (Note 18)	5,785	3,073
Balance as of 31 December	28,636	52,086

Short-term domestic loans relate to the liabilities arising from a short-term loan granted by Jubmes banka in 2016. A portion due in the next year amounts to EUR 110,072 (equivalent of RSD 13,591 thousand). The remaining portion of long-term liabilities relates to the borrowing granted by OTP banka in 2015. The portion due in the next year amounts to EUR 75,000 (equivalent of RSD 9,260 thousand).

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

	2016	2015
RSD	-	16,667
EUR	28,636	35,419
Balance as of 31 December	28,636	52,086

20. ADVANCES, DEPOSITS RECEIVED AND RETAINERS AND ACCOUNTS PAYABLE

	2016	2015
Advances and deposits received and retainers	31,243	49,855
Domestic trade payables		
Trade payables - parents	710	4,118
Domestic trade payables	214,783	126,539
Foreign trade payables	66,468	92,899
Trade payables - other foreign related parties	-	535
Other accounts payable	46,337	18,816
Total accounts payable	330,298	242,907

Advances received in the amount of RSD 31,243 thousand mostly relate to the delivery of equipment and services.

Trade payables are non-interest bearable and have the credit days ranging from 30 to 90 days. Trade payables as of 31 December 2016, amounting to RSD 174,028 thousand are denominated in foreign currency, out of which the amount of RSD 97,888 thousand is denominated in USD and RSD 76,140 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.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2016

All amounts are expressed in RSD thousand, unless otherwise stated

21. OTHER SHORT-TERM LIABILITIES

	<u>2016</u>	<u>2015</u>
Gross salaries and compensations	7,906	6,109
Interests payable and financing expenses	500	309
Liabilities to employees	2,063	1,875
Other liabilities	73	180
Balance as of 31 December	<u>10,542</u>	<u>8,473</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>2016</u>	<u>2015</u>
a) Value added tax payable	<u>13,024</u>	<u>-</u>
b) Taxes, contributions and other duties		
Tax liabilities from the result	-	2,120
Contributions payable charged to expenses	17	14
Other liabilities for taxes, contributions and other taxes	1,331	1,805
	<u>1,348</u>	<u>3,939</u>
c) Pasivna vremenska razgraničenja		
Accrued expenses	6,202	6,001
Deferred income	1,439	1,491
Other accruals and deferred income	266	11
Total	<u>7,907</u>	<u>7,503</u>

23. INCOME TAXES

a) Components of income taxes

Major components of tax expense are as follows:

	<u>2016</u>	<u>2015</u>
Tax expense of the period		
Tax expense charged to income for the year	4,822	7,137
	<u>4,822</u>	<u>7,137</u>
Deferred tax expense /(income)		
Origination and reversal of temporary differences	2,286	1,687
Total	<u>7,108</u>	<u>8,824</u>

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2016
All amounts are expressed in RSD thousand, unless otherwise stated
23. INCOME TAXES (Continued)
a) Components of income taxes (Continued)

	<u>2016</u>	<u>2015</u>
Income taxes from operations	4,822	7,137
Total	<u>4,822</u>	<u>7,137</u>

b) Numerical Reconciliation of Income Tax Expense and Loss Before Tax Multiplied by the Income Tax Rate

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 loss before tax, as follows:

	<u>2016</u>	<u>2015</u>
Profit before tax	19,858	25,773
Income tax at statutory rate of - 15%	2,979	3,866
Expenses not deductible for tax purposes	1,843	2,975
Other reconciliations of expenses/(income)	-	296
Total	<u>4,822</u>	<u>7,137</u>
<i>Effective tax rate</i>	<u>24.28%</u>	<u>27.69%</u>

c) 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.

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

	<u>2016</u>	<u>2015</u>
Balance as of 1 January	<u>2,025</u>	<u>3,712</u>
Effects of temporary differences (credited)/charged to the income statement	(2,025)	(1,687)
Balance as of 31 December	<u>-</u>	<u>2,025</u>

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2016

All amounts are expressed in RSD thousand, unless otherwise stated

23. INCOME TAXES (Continued)

(c) Deferred tax assets and liabilities (Continued)

Movements in deferred tax liabilities during the year are presented in the table below:

	<u>2016</u>	<u>2015</u>
Balance as of 1 January	-	-
Effects of temporary differences (credited)/charged to the income statement	<u>262</u>	-
Balance as of 31 December	<u><u>262</u></u>	<u><u>-</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 2016.

The Company prepared and submitted to the clients 297 out of which 277 were returned, while 20 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 2016
All amounts are expressed in RSD thousand, unless otherwise stated
25. OPERATING INCOME

	<u>2016</u>	<u>2015</u>
Sales of goods		
Sales of products to parents and subsidiaries on a foreign market	16,506	-
Sales of products to other related parties on a foreign market	163,372	119,742
Sales of goods on a domestic market	485,676	411,223
Sales of goods on a foreign market	<u>53,440</u>	<u>285,956</u>
Total sales of goods	<u>718,994</u>	<u>816,921</u>
Sales of products and services		
Sales of products and services to parents and subsidiaries on a foreign market	27,315	-
Sales of products and services to other related parties on a foreign market	101,424	184,198
Sales of products and services to other related parties on the domestic market	132	-
Sales of products and services on a domestic market	866,635	756,472
Sales of products and services on a foreign market	<u>38,035</u>	<u>10,688</u>
Total sales of products and services	<u>1,033,541</u>	<u>951,358</u>
Other operating income	<u>5,551</u>	<u>14,167</u>
Total operating income	<u>1,758,086</u>	<u>1,782,446</u>

Other operating income amounting to RSD 5,551 thousand (2015: RSD 14,167 thousand) relates to rental income and income from own goods capitalised.

26. COST OF GOODS SOLD

Cost of goods as of 31 December 2016 sold amounted to RSD 551,612 thousand (2015: RSD 661,372 thousand).

27. COST OF MATERIAL, FUEL AND ENERGY

	<u>2016</u>	<u>2015</u>
Processing material	258,481	155,478
Other material (overhead)	8,783	7,398
Spare parts	<u>2,470</u>	<u>3,345</u>
Costs of material	<u>269,734</u>	<u>166,221</u>
Fuel and energy	<u>20,137</u>	<u>21,854</u>
Total	<u>289,871</u>	<u>188,075</u>

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2016
All amounts are expressed in RSD thousand, unless otherwise stated
28. SALARIES, COMPENSATIONS AND OTHER PERSONAL EXPENSES

	<u>2016</u>	<u>2015</u>
Gross salaries and compensations	147,411	116,076
Payroll taxes and contributions payable by the employer	26,004	20,778
Temporary job contracts	389	177
Authorship contracts	11,422	11,738
Remuneration to physical persons arising from other contracts	29,861	33,883
Total	<u>215,087</u>	<u>182,652</u>
Number of employees at the year end	<u>136</u>	<u>126</u>

29. PRODUCTIVE SERVICES COSTS

	<u>2016</u>	<u>2015</u>
Expenses of own-work and goods capitalised	356,541	413,370
Transportation cost	22,835	26,116
Maintenance	21,995	8,882
Rental expenses	8,549	12,643
Fairs	261	261
Advertising and marketing fees	6,290	3,321
Research	-	330
Other services	1,838	3,080
Total	<u>418,309</u>	<u>468,003</u>

30. DEPRECIATION, AMORTISATION AND PROVISIONS

	<u>2016</u>	<u>2015</u>
Amortisation charge (Note 6)	621	622
Depreciation charge (Note 7)	16,829	17,811
Total	<u>17,450</u>	<u>18,433</u>

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2016
All amounts are expressed in RSD thousand, unless otherwise stated
31. NON-MATERIAL COSTS

	<u>2016</u>	<u>2015</u>
Cost of non-productive services	207,222	195,997
Entertainment	23,316	22,162
Insurance premiums	2,157	2,981
Bank charges	8,205	7,361
Membership fees	1,720	1,383
Taxes	7,651	8,244
Contributions	433	324
Other non-material costs	10,175	8,997
Total	<u>260,879</u>	<u>247,449</u>

32. FINANCIAL INCOME

	<u>2016</u>	<u>2015</u>
Parent and subsidiaries transactions	1,221	242
Other related party transactions	2,953	2,274
Interest income	6,349	6,076
Foreign exchange gains and gains arising from foreign currency clause application	7,592	12,741
Total	<u>18,115</u>	<u>21,333</u>

33. FINANCIAL EXPENSES

	<u>2016</u>	<u>2015</u>
Financial expenses - parent and subsidiaries transactions	9,638	132
Financial expenses - other related parties transactions	1,186	1,422
Interest expense	5,115	6,671
Foreign exchange losses and losses arising from foreign currency clause application	9,379	14,105
Total	<u>25,318</u>	<u>22,330</u>

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2016
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>2016</u>	<u>2015</u>
Impairment of inventories of material, goods and advances	-	1,530
Impairment of trade receivables (Note 10)	-	2,736
Impairment of short-term financial placements	147	1,755
Total	<u>147</u>	<u>6,021</u>

35. OTHER INCOME

	<u>2016</u>	<u>2015</u>
Gains on sale of intangible assets, property, plant and equipment	1,082	330
Surpluses	-	31
Collected written-off receivables (Note 10)	4,503	8,746
Written-off receivables for advances paid recovered	2,600	500
Sundry income	4,913	6,090
Equipment value adjustment	4,479	-
Liabilities waived	820	128
Total	<u>18,397</u>	<u>15,825</u>

36. OTHER EXPENSES

	<u>2016</u>	<u>2015</u>
Losses on the sale and disposal of intangible assets, property, plant and equipment	325	104
Shortages	10	63
Losses on the sale of equity investments and securities	1,384	-
Direct write off of receivables	158	618
Other sundry expenses	277	1,461
Total	<u>2,154</u>	<u>2,246</u>

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2016
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>2016</u>	<u>2015</u>
<i>(a) Sales of goods and services (Note 25)</i>		
Parent - Telegroup LTD, Great Britain	21,558	-
Subsidiary - Telegroup d.o.o. Podgorica	22,263	-
Subsidiary - Greensoft d.o.o. Novi Sad	131	-
Other related parties - Telegroup d.o.o. Banja Luka	264,796	303,512
Other related parties - Telegroup Sofija EOOD Bulgaria	-	428
	<u>308,748</u>	<u>303,940</u>

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

	<u>2016</u>	<u>2015</u>
<i>(b) Purchases of goods and services (Note 26)</i>		
Parent - Telegroup LTD, Great Britain	109,077	6,422
Subsidiary - Telegroup d.o.o. Podgorica	2,466	-
Subsidiary - Telegroup finance d.o.o. Beograd	9,913	-
Subsidiary - Greensoft d.o.o. Novi Sad	788	-
Other related parties - Telegroup d.o.o. Banja Luka	95	959
Other related parties - Telegroup Sofija EOOD Bulgaria	15,552	357
	<u>137,891</u>	<u>7,738</u>

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

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2016

All amounts are expressed in RSD thousand, unless otherwise stated
37. RELATED PARTY TRANSACTIONS (Continued)
(b) Year-end balances arising from sales/purchases of goods/services

	2016	2015
Receivables from related parties (Note 10)		
Parent - Telegroup LTD, Great Britain	21,608	-
Subsidiary - Telegroup d.o.o. Podgorica	15,479	-
Subsidiary - Greensoft d.o.o. Novi Sad	28	-
Other related parties - Telegroup d.o.o. Banja Luka	26,344	133,630
Other related parties - Telegroup Sofia EOOD	2,023	3,884
	65,482	137,514
Payables to related parties (Note 20)		
Parent - Telegroup LTD, Great Britain	-	4,118
Subsidiary - Greensoft d.o.o. Novi Sad	710	-
Other related parties - Telegroup d.o.o. Banja Luka	-	535
	710	4,653

Receivables from related parties arise mainly from sale transactions and are due 60 days after the date of sale. Receivables are not secured in nature and bear no interest. Receivables from other related parties presented in the table above include advances paid and for goods/services. Payables to related parties arise mainly from purchase transactions and are due 60 days after the purchase date. Payables do not bear interest.

(c) Loans to related parties

	2016	2015
Loans to directors, management and their family members:		
As of 1 January	7,571	7,948
Repayment during the year	(377)	(377)
End of year	7,194	7,571
Loans to associates:		
As of 1 January	-	3,629
Loans granted during the year	-	7,370
Repayment during the year	-	(1,424)
End of year	-	9,575
Loans to related parties:		
As of 1 January	15,300	5,725
Loans granted during the year	3,245	-
Allowance to impairment	(5,725)	(5,700)
End of year	12,820	25
Loans to related parties and associates - total:	12,820	9,600

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2016

All amounts are expressed in RSD thousand, unless otherwise stated

38. EVENTS AFTER THE BALANCE SHEET DATE

There were no significant events that would require adjustments or disclosures in the notes to the accompanying financial statements.

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 2016 and 2015 into the functional currency (RSD), were as follows:

	31 December 2016	In RSD 31 December 2015
EUR	123.4723	121.6261
USD	117.1353	111.2468
CHF	114.8473	112.5230
GBP	143.8065	164.9391

Belgrade, 21 April 2017


 Miladina Veljković
 Head of Finance & Accounting Department


 Milan Stefanović
 Director