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

Financial Statements as of and for the Year Ended 31 December 2017 and Independent Auditor's Report

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

INDEPENDENT AUDITOR'S REPORT

To the 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 2017, 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 Audit ("Official Gazette of the Republic of Serbia", No. 62/2013) and Standards on Auditing applicable in the Republic of Serbia. 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 2017, 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, 23 April 2018

Danijela Krtinic
Certified Auditor

Društvo za reviziju BDO d.o.o. Beograd

BALANCE SHEET
As of 31 December 2017
In RSD thousand

TRANSLATION

	Note	31 December 2017	31 December 2016
ASSETS			
Non-current assets			
Intangible assets	6	743	363
Property, plant and equipment	7	190,746	185,304
Long-term financial placements	8	294,723	259,200
		486,212	**444,867**
Current assets			
Inventories	9	172,943	91,782
Trade receivables	10	554,697	415,108
Other receivables	11	25,423	18,547
Short-term financial placements	12	52,404	101,464
Cash and cash equivalents	13	80,840	32,126
Prepayments and accrued income	14	70,934	15,136
		957,241	**674,163**
TOTAL ASSETS		**1,443,453**	**1,119,030**
OFF BALANCE SHEET ASSETS	15	**581,725**	**420,374**
EQUITY AND LIABILITIES			
Equity	16		
Capital	16	66,143	66,143
Reserves	16	9,665	9,665
Unrealised gains on securities and other components of other comprehensive income, net	16	37,312	1,707
Retained earnings	16	539,284	519,388
		652,404	**596,903**
Long-term provisions and liabilities			
Long-term provisions	17	3,861	3,078
Long-term liabilities	18	46,765	95,789
		50,626	**98,867**
Deferred tax liabilities	23	**137**	**262**
Current liabilities			
Short-term financial liabilities	19	97,329	28,636
Advances and deposits received and retainers	20	104,653	31,243
Accounts payable	20	504,752	330,298
Other short term liabilities	21	12,850	10,542
Value added tax payable	22	8,509	13,024
Other tax liabilities	22	2,066	1,348
Accruals and deferred income	22	10,127	7,907
		740,286	**422,998**
TOTAL EQUITY AND LIABILITIES		**1,443,453**	**1,119,030**
OFF BALANCE SHEET LIABILITIES		**581,725**	**420,374**

The accompanying notes on pages 1 to 45
are an integral part of these financial statements.

The accompanying financial statements were approved for issue on 23 April 2018 and signed on behalf of the Company's management by:

"TELEGROUP"

Milan Stefanovic Acting Director	Miladina Veljkovic Head of Finance & Accounting Department

INCOME STATEMENT
As of 31 December 2017
In RSD thousand

TRANSLATION

	Note	2017	2016
OPERATING INCOME			
Income from the sale of goods	25	635,652	718,994
Income from the sale of products and services	25	1,608,508	1,033,541
Other operating income	25	586	5,551
		2,244,746	**1,758,086**
OPERATING EXPENSES			
Costs of goods sold	26	(506,092)	(551,612)
Own-work and goods capitalised		1,100	6,424
Costs of material	27	(391,875)	(269,734)
Cost of fuel and energy	27	(23,444)	(20,137)
Wages, salaries and other personnel expenses	28	(256,304)	(215,087)
Productive services costs	29	(673,307)	(418,309)
Depreciation and amortisation	30	(20,205)	(17,450)
Long term provisions		(826)	(337)
Non-material costs	31	(354,834)	(260,879)
		(2,225,787)	**(1,747,121)**
OPERATING INCOME		**18,959**	**10,965**
Financial income	32	22,146	18,115
Financial expenses	33	(27,813)	(25,318)
Net financial (loss)/income		**(5,667)**	**(7,203)**
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	(3,102)	(147)
Other income	35	16,933	18,397
Other expenses	36	(1,580)	(2,154)
OPERATING PROFIT BEFORE TAX		**25,543**	**19,858**
Net profit from discontinued operations, effects of changes in accounting policies and prior year's error adjustment		-	-
PROFIT BEFORE TAX		**25,543**	**19,858**
INCOME TAXES			
Tax expense of the period	23	(5,772)	(4,822)
Deferred tax (expenses)/income of the period	23	125	(2,286)
NET PROFIT FOR THE YEAR		**19,896**	**12,750**

The accompanying notes on pages 1 to 45 are an integral part of these financial statements.

Milan Stefanovic
Acting Director

Miladina Veljkovic
Head of Finance & Accounting Department

STATEMENT OF OTHER COMPREHENSIVE INCOME
For the Year Ended 31 December 2017
In RSD thousand

TRANSLATION

	2017	2016
NET PROFIT FOR THE YEAR	**19,896**	**12,750**
Other comprehensive income:		
Actuarial (losses)/gains on defined benefits plans	(145)	(1,221)
Gains/(losses) on translation of financial statements of foreign operations	(157)	(12)
Gains/(losses) on financial asset held for sale	35,908	(1,411)
Total other comprehensive income/(loss), net of related taxes	**35,606**	**(2,644)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**55,502**	**10,106**

The accompanying notes on pages 1 to 45
are an integral part of these financial statements.

Milan Stefanovic
Acting Director

Miladina Veljkovic
Head of Finance & Accounting Department

STATEMENT OF CHANGES IN EQUITY
For the Year Ended 31 December 2017
In RSD thousand

TRANSLATION

	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 2016	**66,143**	**6,695**	**2,970**	**2,422**	**1,929**	**506,638**	**586,797**
Net profit for the year	-	-	-	-	-	12,750	12,750
Other comprehensive income:							
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**
Net profit for the year	-	-	-	-	-	19,896	19,896
Other comprehensive income:							
Actuarial (losses)/gains arising from calculation of retirement benefits	-	-	-	(303)	-	-	(303)
Unrealized (losses)/gains on financial asset held for sale	-	-	-	-	35,908	-	35,908
Balance as of 31 December 2017	**66,143**	**6,695**	**2,970**	**886**	**36,426**	**539,284**	**652,404**

The accompanying notes on pages 1 to 45 are an integral part of these financial statements.

Milan Štefanović
Acting Director

Miladina Veljkovic
Head of Finance & Accounting Department

STATEMENT OF CASH FLOWS
For the Year Ended 31 December 2017
In RSD thousand

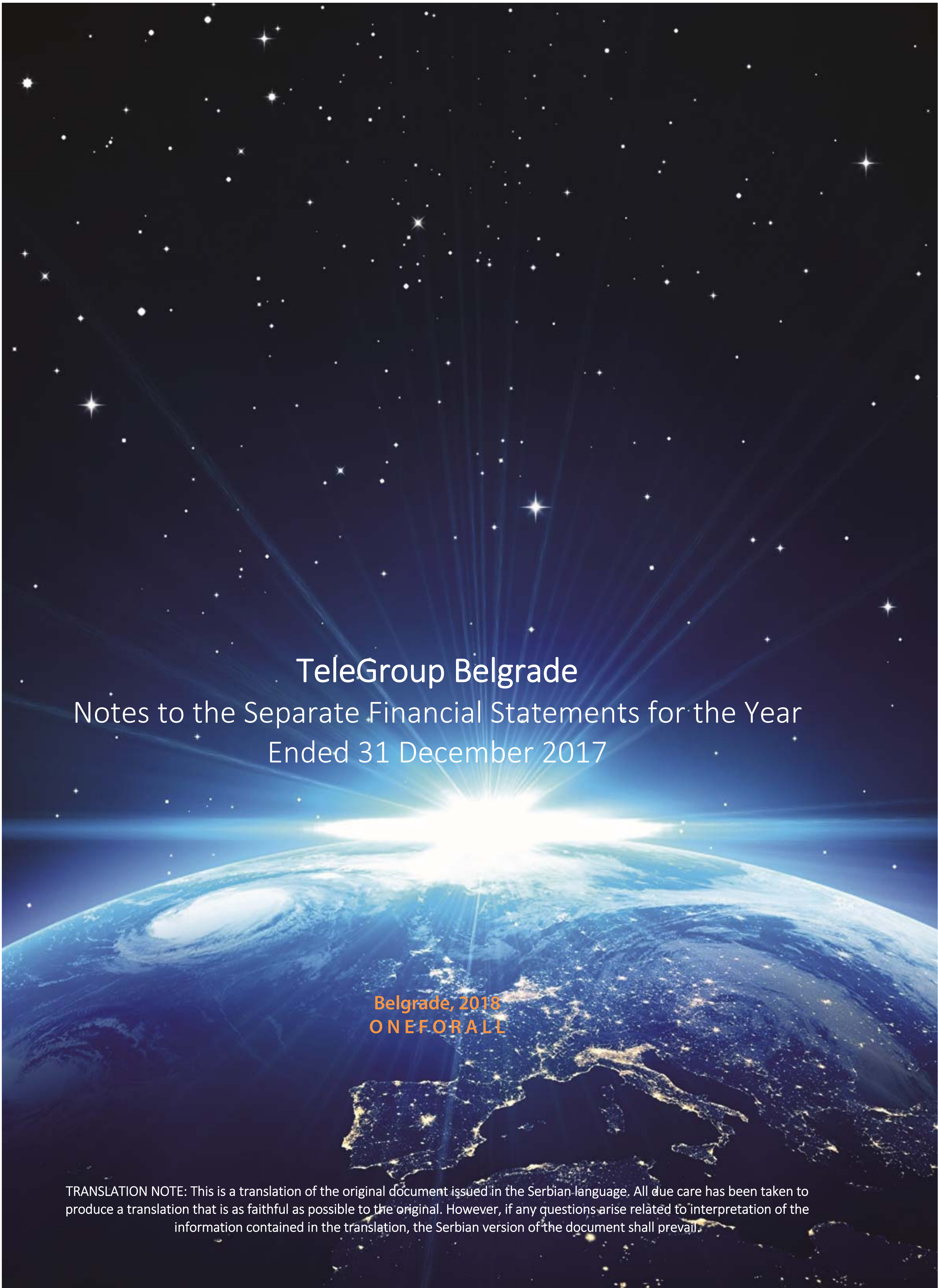
TRANSLATION

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Sales and advances received	2,287,961	1,873,963
Other cash inflows from operating activities	7,233	-
Payments to suppliers and advances paid	(2,113,098)	(1,532,163)
Wages, salaries and other personnel expenses	(204,557)	(185,293)
Interest paid	(11,767)	(15,067)
Income tax	(2,974)	(6,542)
Cash outflows for other taxes payable	(27,063)	(32,463)
Net cash flows from operating activities	**(64,265)**	**102,435**
CASH FLOWS FROM INVESTING ACTIVITIES		
Other financial placements (net inflows)	99,683	-
Purchase of shares and investments (net outflows)	(16)	(159,246)
Purchase of intangible assets, property, plant, equipment and biological assets	-	(40,992)
Net cash flows from investing activities	**99,667**	**(200,238)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Long-term borrowings (net inflows)	-	63,051
Long-term borrowings (net outflows)	(12,246)	-
Short-term borrowings (net inflows)	33,633	-
Short-term borrowings (net outflows)	-	(10,353)
Other liabilities (outflows)	-	-
Finance lease	(8,016)	(6,813)
Net cash flows from financing activities	**13,371**	**45,885**
Total cash inflows	**2,428,510**	**1,937,014**
Total cash outflows	**(2,379,737)**	**(1,988,932)**
Net inflows/(outflows) in cash and cash equivalents	**48,773**	**(51,918)**
Cash and cash equivalents, beginning of the year	32,126	83,394
Foreign currency gains on translation of cash and cash equivalents	119	666
Foreign currency losses on translation of cash and cash equivalents	(178)	(16)
Cash and cash equivalents, end of the year	**80,840**	**32,126**

The accompanying notes on pages 1 to 45
are an integral part of these financial statements.

Milan Stefanovic
Acting Director

Miladina Veljkovic
Head of Finance & Accounting Department



TeleGroup Belgrade

Notes to the Separate Financial Statements for the Year Ended 31 December 2017

Belgrade, 2018

ONEFORALL

TRANSLATION NOTE: This is a translation of the original document issued in the Serbian language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Serbian version of the document shall prevail.

1. CORPORATE INFORMATION

Company for telecommunications engineering "TeleGroup" d.o.o. Belgrade, (hereinafter: the Company), Svetozara Miletica 9a, 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 the Company is telecommunications engineering. The Company's business includes delivery and installation of telecommunication equipment, as well as services related to designing, construction and engineering. TeleGroup has signed Contracts on partnership and cooperation with many renowned world companies.

As of 31 December 2017, the Company has 146 employees, and, as of 31 December 2016 136 employees. Tax identification number of the Company is 101733237.

As of 31 December 2017 the Company has 5 subsidiaries (see Note 8) and a branch in Germany.

These separate financial statements were adopted by the Founder of the Company on 23 April 2018. The adopted financial statements can be subsequently amended, based on the Decision of the Founder of the Company no later than the end of 2018.

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-sized 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 No. 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.

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 2017 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 2017 and are, as such, applicable to the accompanying financial statements as of 31 December 2017, but have not been translated and published by the Ministry of Finance of the Republic of Serbia, and, therefore, have not been implemented by the Company:

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

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 2017 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 standards improvement project, "2012-2014 Cycle", published by the IASB in September 2014, primarily through removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2016);
- Amendments to IFRS 11 "Joint Arrangements" : Accounting for Acquisitions of Interests (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);
- Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28) (effective for annual periods beginning on or after 1 January 2016);
- IFRS 14 "Regulatory Deferral Accounts" (effective for annual periods beginning on or after 1 January 2016);
- 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 7 "Cashflow Statements" - Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017) and
- Amendment to IAS 12 "Income taxes" annual standards improvement project "2014-2016 Cycle", published by the IASB in December 2016 (effective for annual periods beginning on or after 1 January 2017).

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

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

(b) New Standards, Amendments and Interpretations not yet effective

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

- 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 various standards (IFRS 1 and IAS 28) as a result of annual standards improvement project, "2014-2016 Cycle", published by the IASB in December 2016 (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);
- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2018);
- Amendments to IFRS 4 "Insurance contracts" regarding the implementation of IFRS 15 "Revenue from Contracts with Customers" (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);
- Amendment to IFRS 15 "Revenue from contracts with customers" (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);
- IFRIC 23 "Uncertainty over Income Tax Treatments" (effective for annual periods beginning on or after 1 January 2019);
- IFRS 16 "Leases" (effective for annual periods beginning on or after 1 January 2019);
- Annual improvements of IFRSs, "2015-2017 Cycle" - IFRS 3, IFRS 11, IAS 12 and IAS 23, published by the IASB in December 2017 (effective for annual periods beginning on or after 1 January 2019) and
- IFRS 17 "Insurance Contracts" (effective for annual periods beginning on or after 1 January 2021).

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 settling such transactions and translation of monetary assets and liabilities denominated in foreign currencies at the year end 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 2016, 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.

2.7. 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.

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.

Subsequent expenses are included in the cost of an item of property, plant and equipment or recognised as a separate 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

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 Company 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 - 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5. Financial Instruments (Continued)

Financial Assets (Continued)

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

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 "Financial Instruments: Recognition and Measurement", 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 (invoiced) 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.

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 time value of money and risks related to the liability. When discounting is used, the carrying value of a provision is increased in each period, in order to reflect the time flow. This increase is stated as the borrowing cost.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10. Leases (Continued)

Company as the Lessor (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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.12. Revenue Recognition (Continued)

(a) Sales of Products and Services

Income from sale of products and goods is recognised at the moment when the significant risks and rewards of ownership of the goods have passed to the buyer, which usually occurs upon delivery of products and goods. It is deemed that upon sale no element of financing is present, since sales is performed with the 60 days' credit, which is in accordance with the market practice.

(b) Sales of Services

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

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

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

(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) Operating Lease Income

Operating 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13. Current and Deferred Income Taxes (Continued)

Current Tax (Continued)

Losses of the current period may be transferred to the account of profit determined in the annual tax return from the future accounting periods, but not longer than 5 ensuing years.

Deferred Income Tax

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

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

Deferred tax liabilities are recognised 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.

Unrecognised 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.

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, foreign exchange 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 Board of Directors.

4.1. Financial Instruments by Category

Categories of financial instruments, according to the carrying value as of 31 December 2017 and 2016 are presented in the following table:

	2017	2016
Financial assets		
Cash and cash equivalents	80,840	32,126
Other long-term financial placements	105,746	70,214
Trade receivables	554,697	415,108
Other receivables and short-term financial placements	77,827	120,011
	819,110	**637,459**
Financial liabilities		
Long-term and short-term borrowings, leases	144,094	124,425
Accounts payable	504,752	330,298
Other trade payables	12,850	10,542
	661,696	**465,265**

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.

4. FINANCIAL INSTRUMENTS - RISK MANAGEMENT (Continued)

4.2. Financial Risk Factors (Continued)

(a) Market Risk (Continued)

Foreign Exchange Risk (Continued)

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

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

	EUR	USD	RSD	2017 Total
Financial assets				
Cash and cash equivalents	4,277	726	75,837	80,840
Other long-term financial placements and financial assets held for sale	-	-	105,746	105,746
Trade receivables	147,224	14,805	392,668	554,697
Other receivables and short-term financial placements	52,635	7,861	17,331	77,827
Total	**204,136**	**23,392**	**591,582**	**819,110**
Financial liabilities				
Long-term and short-term borrowings, leases	144,094	-	-	144,094
Accounts payable	85,139	44,492	375,121	504,752
Other trade payables	1,828	-	11,022	12,850
Total	**231,061**	**44,492**	**386,143**	**661,696**
Net effect	**(26,925)**	**(21,100)**	**205,439**	**157,414**
10%	**(2,693)**	**(2,110)**		

4. FINANCIAL INSTRUMENTS - RISK MANAGEMENT (Continued)

4.2. Financial Risk Factors (Continued)

(a) Market Risk (Continued)

Foreign Exchange Risk (Continued)

	EUR	USD	RSD	2016 Total
Financial assets				
Cash and cash equivalents	7,461	177	24,488	32,126
Other long-term financial placements and financial assets held for sale	-	-	70,214	70,214
Trade receivables	135,799	55,467	223,842	415,108
Other receivables and short-term financial placements	41,432	-	78,579	120,011
Total	**184,692**	**55,644**	**397,123**	**637,459**
Financial liabilities				
Long-term and short-term borrowings, leases	124,425	-	-	124,425
Accounts payable	76,140	97,888	156,270	330,298
Other trade payables	2,416	-	8,126	10,542
Total	**202,981**	**97,888**	**164,396**	**465,265**
Net effect	**(18,289)**	**(42,244)**	**232,727**	**172,194**
10%	**(1,829)**	**(4,224)**		

<u>*Sensitivity Analysis*</u>

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

	2017	2016
EUR	(2,693)	(1,829)
USD	(2,110)	(4,224)
Total	**(4,803)**	**(6,053)**

If as of 31 December 2017, 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 4,803 thousand (2016: RSD 6,053 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.

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 2017, financial assets denominated in EUR amount to RSD 204,136 thousand (31 December 2016: RSD 184,692 thousand) which accounts for 89.72% (2016: 76.85%) of the total financial liabilities of the Company denominated in foreign currency.

As of 31 December 2017, financial liabilities denominated in EUR amount to RSD 239,993 thousand (31 December 2016: RSD 202,981 thousand), which accounts for 84.36% (2016: 67.46%) 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.

As of 31 December 2017, the amount of borrowings and financial lease liabilities is denominated in foreign currency - EUR 1,216,260.00.

During 2017 and 2016, 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, excluding related legal entities does not exceed 16% of the total income from sales (2016: 15%).

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 creditworthiness 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 perioddepending 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 Company's 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 2017	Up to 3 months	From 3 to 12 months	From 1 to 5 years	Total
Long-term and short-term borrowings, leases	5,861	91,468	46,765	**144,094**
Accounts payable	504,752	-	-	**504,752**
Other trade payables	12,850	-	-	**12,850**
	523,463	**91,468**	**46,765**	**661,696**

4. FINANCIAL INSTRUMENTS - RISK MANAGEMENT (Continued)

4.2. Financial Risk Factors (Continued)

(c) Liquidity Risk (Continued)

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**

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.

4. FINANCIAL INSTRUMENTS - RISK MANAGEMENT (Continued)

4.3. Capital Risk Management (Continued)

The gearing ratios at 31 December 2017 and 2016 were as follows:

	2017	2016
Total borrowings (Notes 18 and 19)	144,094	124,425
Less: Cash and cash equivalents (Note 13)	(80,840)	(32,126)
Net debt	**63,254**	**92,299**
Equity	652,427	596,903
Equity - total	**715,681**	**689,202**
Gearing ratio	**8.84%**	**13.39%**

* *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*

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

(a) Estimates and Assumptions

Useful Lives of Intangible Assets and Property, Plant and Equipment

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

Impairment of Non-financial Assets

At each balance sheet date, the Company’s management reviews the carrying amounts of the Company’s intangible assets and property, plant and equipment presented in the financial statements. If there is any indication that such assets have been impaired, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

(a) Estimates and Assumptions (Continued)

Impairment of Non-financial Assets (Continued)

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

Impairment of Accounts Receivable and Other Receivables

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

Retirement Benefits

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

Deferred Tax Assets

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

6. INTANGIBLE ASSETS

	Concessions, patents, licenses and similar rights	Total
COST		
As of 1 January 2016	**24,226**	**24,226**
Additions during the year	(108)	(108)
Balance as of 31 December 2016	**24,118**	**24,118**
Disposals and write-off		
Transfer from PPE to intangible assets (Note 7)	777	777
Balance as of 31 December 2017	**24,895**	**24,895**
ACCUMULATED AMORTISATION		
As of 1 January 2016	**23,242**	**23,242**
Amortisation charge (Note 30)	621	621
Disposals and write-off	(108)	(108)
Balance as of 31 December 2016	**23,755**	**23,755**
Disposals and write-off	-	-
Amortisation charge (Note 30)	397	397
Balance as of 31 December 2017	**24,152**	**24,152**
CARRYING VALUE AS OF:		
- 31 December 2017	**743**	**743**
- 31 December 2016	**363**	**363**

7. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Plant and equipment	Investment property	Constru-ction in progress	Total
COST						
Balance as of 1 January 2016	**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**
Additions	-	-	143	-	31,839	31,982
Transfer from construction in progress	-	1,251	25,998	-	(27,249)	-
Disposals and write-offs	-	(3,493)	(7,919)	-	-	(11,412)
Transfer to investment property	-	(820)	-	820	-	-
Transfer to intangible assets	-	-	-	-	(777)	(777)
Balance as of 31 December 2017	**9,804**	**109,180**	**152.513**	**820**	**14,755**	**287,072**
ACCUMULATED DEPRECIATION						
Balance as of 1 January 2016	**-**	**13,340**	**95,766**	**-**	**-**	**109,106**
Depreciation (Note 30)	-	1,459	15,369	-	-	16,828
Disposals and write-offs	-	-	(43,959)	-	-	(43,959)
Balance as of 31 December 2016	**-**	**14,799**	**67,176**	**-**	**-**	**81,975**
Depreciation (Note 30)	-	1,320	18,380	108	-	19,808
Additions	-	-	1,947	-	-	1,947
Disposals and write-offs	-	(431)	(6,973)	-	-	(7,404)
Balance as of 31 December 2017	**-**	**15,688**	**80,530**	**108**	**-**	**96,326**
CARRYING VALUE AS OF:						
31 December 2017	**9,804**	**93,492**	**71,983**	**712**	**14,755**	**190,746**
31 December 2016	**9,804**	**97,443**	**67,115**	**-**	**10,942**	**185,304**

Bank borrowings have been secured by mortgages against buildings with the total carrying value as of 31 December 2017 amounting to RSD 69,766 thousand (Note 18).

Out of total procurement of fixed assets during 2017, the amount of RSD 606 thousand relates to the related party Telegroup Sofija EOOD, Bulgaria (Note 37a).

7. PROPERTY, PLANT AND EQUIPMENT (Continued)

The equipment acquired under the finance lease by the Company includes the following:

	2017	2016
Cost	14,289	30,903
Accumulated depreciation	(3,878)	(11,136)
Carrying value as of 31 December	**10,411**	**19,767**

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

The cost of written off equipment the Company utilises in its operations as of 31 December 2017 amounted to RSD 64,634 thousand (31 December 2016: RSD 65,368 thousand) and it relates to equipment.

Based on the Company's management estimate, at 31 December 2017, property, plant and equipment are not impaired.

8. LONG-TERM FINANCIAL PLACEMENTS

	2017	2016
Equity investments in subsidiaries	189,001	188,986
Securities available for sale	99,305	63,397
Other long-term financial placements	6,441	6,817
Less: allowance for impairment	(24)	-
Balance as of 31 December	**294,723**	**259,200**

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

Name and seat	2017	2016	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	3,689	3,674	51.00%
Telegroup Podgorica d.o.o., Podgorica	492	492	100.00%
Telegroup Finance d.o.o., Belgrade	158,754	158,754	78.26%
Balance as of 31 December	**189,001**	**188,986**	

Securities available for sale relate to:

Name and seat	2017	2016
Jubmes banka a.d., Belgrade	99,305	63,397
Balance as of 31 December	**99,305**	**63,397**

8. LONG-TERM FINANCIAL PLACEMENTS (Continued)

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

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 2017.

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:

	2017	**2016**
RSD	99,305	63,397
EUR	-	-
Balance as of 31 December	**99,305**	**63,397**

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.

	2017	**2016**
Long-term domestic loans (Note 37d)	6,441	6,817
Balance as of 31 December	**6,441**	**6,817**

9. INVENTORIES

	2017	**2016**
Material, spare parts, tools and small inventory	**7,092**	**6,467**
Goods	52,190	64,641
Less: Allowance for impairment	-	(1,002)
Goods	**52,190**	**63,639**
Advances paid for inventories and services	134,710	42,724
Less: Allowance for impairment	(21,049)	(21,048)
Advances paid for inventories and services	**113,661**	**21,676**
Inventories, balance as of 31 December	**172,943**	**91,782**

Inventories of goods amounting to RSD 52,190 thousand were measured at fair value less costs to sell.

10. TRADE RECEIVABLES

	2017	2016
Domestic trade receivables - subsidiaries	971	723
Less: Allowance for impairment - subsidiaries	(695)	(695)
Domestic trade receivables - subsidiaries (Note 37c)	**276**	**28**
Foreign trade receivables - parent and subsidiaries (Note 37c)	**58,914**	**37,087**
Foreign trade receivables - other related parties (Note 37c)	**24,731**	**26,591**
Domestic trade receivables	541,491	437,342
Less: Allowance for impairment of domestic trade receivables	(101,494)	(98,416)
Domestic trade receivables	**439,997**	**338,926**
Foreign trade receivables	30,779	12,476
Less: Allowance for impairment of foreign trade receivables	-	-
Foreign trade receivables	**30,779**	**12,476**
Balance as of 31 December	**554,697**	**415,108**

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

	Total	Within credit period	Out of credit period
Domestic trade receivables – parent and subsidiaries	971	27	944
Foreign trade receivables – parent and subsidiaries	58,914	26,005	32,909
Trade payables – other related parties	24,731	18,331	6,400
Domestic trade receivables	541,491	340,823	200,668
Foreign trade receivables	30,779	23,389	7,390
Total	**656,886**	**408,575**	**248,311**

10. TRADE RECEIVABLES (Continued)

	Total	Within credit period	Out of credit period < 60 days	61 to 180	181 to 365	>365	Allowance for impai-rment	Balance
Domestic trade receivables – parent and subsidiaries	971	27	55	110	84	695	(695)	276
Foreign trade receivables – parent and subsidiaries	58,914	26,005	25,517	6,800	592	-	-	58,914
Trade receivables – other related parties	24,731	18,331	6,400	-	-	-	-	24,731
Domestic trade receivables	541,491	340,823	89,415	9,065	3,771	98,417	(101,494)	439,997
Foreign trade receivables	30,779	23,389	7,364	-	-	26	-	30,779
Total	**656,886**	**408,575**	**128,751**	**15,975**	**4,447**	**99,138**	**(102,189)**	**554,697**

As of 31 December 2017, trade receivables amounting to RSD 248,311 thousand are due and impaired in the amount of RSD 102,189 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 40,253 thousand relates to receivables from subsidiaries and related parties.

As of 31 December 2017, trade receivables amounting to RSD 102,189 thousand (31 December 2016: RSD 99,111 thousand) are due and impaired in full.

Movements on the allowance for impairment of receivables account:

	2017	2016
Balance as of 1 January	99,111	106,378
Additional charge for the year (Note 34)	3,078	-
Write-off of previously provisioned receivables	-	(2,764)
Recovered previously provisioned receivables (Note 35)	-	(4,503)
Balance as of 31 December	**102,189**	**99,111**

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.

10. TRADE RECEIVABLES (Continued)

Out of total domestic trade receivables as of 31 December 2017 amounting to RSD 440,273 thousand, the amount of RSD 47,605 thousand is denominated in foreign currencies, where the amount of RSD 8,921 thousand is denominated in USD and RSD 38,684 thousand in EUR. The remaining portion amounting to RSD 392,668 thousand is expressed in domestic currency.

Other positiions within trade receivables do not contain impaired assets.

11. OTHER RECEIVABLES

	2017	2016
Interest and dividends receivable	11,501	16,422
Receivables from employees	486	440
Receivables from public authorities (Branch in Germany)	5,709	-
Receivables for overpaid taxes and contributions	-	1,720
Other current receivables	8,213	451
Less: Allowance for impairment	(486)	(486)
Balance as of 31 December	**25,423**	**18,547**

12. SHORT-TERM FINANCIAL PLACEMENTS

	2017	2016
Short-term loans and placements – parents and subsidiaries (Note 37d)	22,207	18,545
Less: Allowance for impairment (Note 37d)	(5,725)	(5,725)
	16,482	**12,820**
Short-term domestic loans and placements	23,493	89,215
Less: Allowance for impairment	(1,000)	(1,000)
	22,493	**88,215**
Other short-term financial placements	**13,429**	**429**
Balance as of 31 December	**52,404**	**101,464**

Loans granted to subsidiaries are non-interest bearing, 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 2017 amounts to RSD 16,482 thousand. Loans granted to other related parties in the amount of RSD 5,725 thousand are fully impaired.

Domestic short-term loans and placements relate to loans granted to 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.

12. SHORT-TERM FINANCIAL PLACEMENTS (Continued)

Other short-term placements include funds deposited with the domestic commercial banks (overnight) in the amount of RSD 13,020 thousand and a current portion of long-term financial placements in the amount of RSD 409 thousand (Note 37c). Interest rate on overnight loans is variable and it depends on the amount of time deposits.

13. CASH AND CASH EQUIVALENTS

	2017	2016
Current accounts	75,321	24,109
Foreign currency account	4,855	7,037
Other cash and cash equivalents	664	980
Balance as of 31 December	**80,840**	**32,126**

As of 31 December 2017, the Company had RSD 20,000 thousand (2016: 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 a.d. Belgrade.

14. PREPAYMENTS AND ACCRUED INCOME

	2017	2016
Prepaid expenses	13,393	12,491
Receivables for uninvoiced income	46,525	1,554
Other prepayments and accrued income	11,016	1,091
Balance as of 31 December	**70,934**	**15,136**

15. OFF-BALANCE SHEET ASSETS

	2017	2016
Mortgages	355,122	289,644
Guarantees	226,603	130,730
Balance as of 31 December	**581,725**	**420,374**

The Company had contingent liabilities related to banking and other guarantees and on other grounds, arising from regular business operations in the amount of RSD 226,603 thousand (31 December 2016: RSD 130,730 thousand). No financial liabilities are expected to arise from contingent liabilities.

16. CAPITAL

	Basic capital	Reserves	Gains/losses arising from securities	Actuarial gains or losses	Retained earnings	Total
Balance as of 1 January 2016	**66,143**	**9,665**	**1,929**	**2,422**	**506,638**	**586,797**
Net profit for the year	-	-	-	-	12,750	12,750
Other comprehensive result:						
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**
Net profit for the year	-	-	-	-	19,896	19,896
Other comprehensive result:						
Changes in fair value of financial assets available for sale	-	-	35,908	(303)	-	35,605
Balance as of 31 December 2017	**66,143**	**9,665**	**36,426**	**886**	**539,284**	**652,404**

(a) Basic Capital

The amount of the Company's share capital registered with the Serbian Business Registers Agency from 16 January 2001 amounts to RSD 66,143 thousand 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.

(c) Revaluation Reserves and Unrealised Gains and Losses

Unrealised gains arising from securities available for sale amounting to RSD 36,426 thousand, represent a positive effect of fair value arisng from shares of Jubmes banka a.d. Belgrade.

17. LONG-TERM PROVISIONS

	2017	2016.
Employee benefits and other employee benefits	3,861	3,078
Balance as of 31 December	**3,861**	**3,078**

17. LONG-TERM PROVISIONS (Continued)

(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 reference interest rates of the National Bank of Serbia have been used.

	Employee benefits and other employee benefits	Total
Balance as of 1 January 2017	**3,078**	**3,078**
Additional provisions	826	826
Effect of discounting	145	145
Utilised during the year	(188)	(188)
Balance as of 31 December 2017	**3,861**	**3,861**

Basic actuarial assumptions used:

	2017	2016
Discount rate	3.5%	4.0%
Future salary increases	2.0%	2.0%
Inflation rate	3.0%	3.0%
Fluctuation rate	19.21%	22.0%
Total number of employees as of 31 December	146	136

(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. As of 31 December 2017, the Company estimates that there will be no expenses incurred on the basis of given warranty period, and that it is not necessary to establish provisions on this basis.

(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 2017 the Company acts as a defendant in one litigation.

18. LONG-TERM LIABILITIES

	2017	2016
Long-term borrowings and domestic loans	59,237	111,192
Finance lease liabilities	16,143	13,233
Total long-term liabilities	**75,380**	**124,425**
Less: Current portion of long-term borrowings due within one year (Note 19)	(21,202)	(22,851)
Less: Current portion of long-term finance lease liabilities due within one year (Note 19)	(7,413)	(5,785)
Balance as of 31 December	**46,765**	**95,789**

Maturity of long-term loans and borrowings:

	2017	2016
From 1 to 2 years	45,018	9,260
From 2 to 5 years	14,219	101,932
Balance as of 31 December	**59,237**	**111,192**

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

	2017	2016
RSD	-	-
EUR	59,237	111,192
Balance as of 31 December	**59,237**	**111,192**

Overview of the Long-term Loans by Creditor

			2017		2016	
Loans from domestic banks	**Annual interest rate**	**Currency**	**In the currency**	**Amount RSD 000**	**In the currency**	**Amount RSD 000**
ProCredit Bank	3%+6m Euribor	EUR	500,000	59,237	-	-
OTP banka	4.5%+3m Euribor	EUR	-	-	75,000	9,260
Jubmes banka	5.86%+3m Euribor	EUR	-	-	825,542	101,932
Total		EUR	**500,000**	**59,237**	**900,542**	**111,192**

18. LONG-TERM LIABILITIES (Continued)

Overview of the Long-term Loans by Creditor (Continued)

Liabilities from the borrowing from ProCredit Bank a.d. amounting to RSD 59,237 thousand relate to the loan granted in 2017, in the total amount of EUR 500,000 with the repayment period of 36 months, at a fixed nominal interest rate of 3% in the first 24 months, and after the expiry of this period at an interest rate of 3%+6m Euribor per annum. The loan repayment will take place in 30 equal instalments, upon the expiration of the grace period of 6 months.

(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:

	2017		2016	
	Present value	**Future value**	**Present value**	**Future value**
Up to 1 year	6,881	7,413	5,297	5,785
From 1 to 3 years	8,357	8,730	7,087	7,448
Balance as of 31 December	**15,238**	**16,143**	**12,384**	**13,233**

The difference between the future value of minimal lease payments and their 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 5.69% to 6.20%. As collateral for securing the timely settlement of liabilities arising from finance lease, the Company provided promissory notes.

19. SHORT-TERM FINANCIAL LIABILITIES

	2017	2016
Domestic short-term borrowings	68,714	-
Current portion of long-term borrowings due within one year (Note 18)	21,202	22,851
Current portion of long-term finance lease liabilities due within one year (Note 18)	7,413	5,785
Balance as of 31 December	**97,329**	**28,636**

Short-term domestic loans relate to the liabilities arising from a loan granted by ProCredit Bank a.d. in the amount of RSD 68,714 thousand based on the revolving credit line approved in 2016 in the total amount of EUR 1,000,000, with an interest rate of 3.3%+6m Euribor per annum. The loan is intended for working capital. Collaterals for the loan are promissory notes.

19. SHORT-TERM FINANCIAL LIABILITIES (Continued)

Long-term liabilities relate to the loan approved by ProCredit Bank a.d. in 2017. The portion of the loan maturing in the next year amounts to EUR 178,957.94 (equivalent of RSD 21,202 thousand). The portion of long-term liabilities based on the finance lease due in the next year amounts to EUR 62,573.92 (equivalent of RSD 7,413 thousand).

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

	2017	2016
RSD	-	-
EUR	97,329	28,636
Balance as of 31 December	**97,329**	**28,636**

20. ADVANCES, DEPOSITS RECEIVED AND RETAINERS AND ACCOUNTS PAYABLE

	2017	2016
Advances and deposits received and retainers	**104,653**	**31,243**
Trade payables –parents (Note 37c)	2,659	710
Domestic trade payables - related parties (Note 37c)	108	-
Domestic trade payables	345,317	214,783
Foreign trade payables	55,564	68,468
Other accounts payable	101,104	46,337
Accounts payable	**504,752**	**330,298**
Total accounts payable	**609,405**	**361,541**

Advances received in the amount of RSD 104,653 thousand mostly relate to the delivery of equipment and services.

Trade payables are non-interest bearing and have the credit days ranging from 30 to 90 days. Trade payables as of 31 December 2017 amounting to RSD 129,631 thousand are denominated in foreign currency, out of which the amount of RSD 44,492 thousand in USD and the amount of RSD 85,139 thousand in EUR. The Company's management deems that the stated value of trade payables approximated their fair value as of the balance sheet date.

21. OTHER SHORT-TERM LIABILITIES

	2017	2016
Gross salaries and compensations	9,201	7,906
Interests payable and financing expenses	396	500
Liabilities to employees	2,591	2,063
Liabilities to individuals for contractual fees	631	-
Other liabilities	31	73
Balance as of 31 December	**12,850**	**10,542**

21. OTHER SHORT-TERM LIABILITIES (Continued)

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

	2017	2016
a) Value added tax payable	**8,509**	**13,024**
b) Taxes, contributions and other duties		
Tax liabilities from the result	1,054	-
Contributions payable charged to expenses	80	17
Other liabilities for taxes, contributions and other taxes	909	1,331
	2,043	**1,348**
c) Accruals and deferred income		
Accrued expenses	9,259	6,202
Deferred income	549	1,439
Other accruals and deferred income	319	266
Total	**10,127**	**7,907**

23. INCOME TAXES

a) Components of Income Taxes

Major components of tax expense are as follows:

	2017	2016
Tax income /(expense) of the period		
Tax expense charged to income for the year	(5,772)	(4,822)
	(5,772)	**(4,822)**
Deferred tax income/(expense) of the period		
Origination and reversal of temporary differences	125	(2,286)
Total	**(5,647)**	**(7,108)**

23. INCOME TAXES (Continued)

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:

	2017	2016
Profit before tax	25,543	19,858
Income tax at statutory rate of - 15%	3,831	2,979
Expenses not deductible for tax purposes	1,941	1,843
Other reconciliations of expenses/(income)	-	-
Total	**5,772**	**4,822**
Effective tax rate	*22.60%*	24.28%

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 long-term provisions for retirement benefits.

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

	2017	2016
Balance as of 1 January	**-**	**2,025**
Effects of temporary differences (credited)/charged to the income statement	**-**	(2,025)
Balance as of 31 December	**-**	-

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

	2017	2016
Balance as of 1 January	**262**	-
Effects of temporary differences (credited)/charged to the income statement	125	262
Balance as of 31 December	**137**	**262**

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 2017.

The Company prepared and submitted to the clients 330 confirmations of which 274 were returned, while 56 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.

25. OPERATING INCOME

	2017	2016
Sales of goods		
Sales of products to parents and subsidiaries on a foreign market (Note 37a)	24,253	16,506
Sales of products to other related parties on a foreign market (Note 37a)	209,800	163,372
Sales of goods on a domestic market	393,025	485,676
Sales of goods on a foreign market	8,574	53,440
Total sales of goods	**635,652**	**718,994**
Sales of products and services		
Sales of products and services to parents and subsidiaries on a foreign market (Note 37a)	56,551	27,315
Sales of products and services to other related parties on a foreign market (Note 37a)	75,900	101,424
Sales of products and services to parents and subsidiaries on a domestic market (Note 37a)	823	132
Sales of products and services on a domestic market	1,407,269	866,635
Sales of products and services on a foreign market	67,965	38,035
Total sales of products and services	**1,608,508**	**1,033,541**
Other operating income	586	5,551
Total operating income	**2,244,746**	**1,758,086**

Other operating income amounting to RSD 586 thousand (2016: RSD 5,551 thousand) relates to rental income and income from own goods capitalised.

26. COST OF GOODS SOLD

Cost of goods sold as of 31 December 2017 amounted to RSD 506,092 thousand (2016: RSD 551,612 thousand), out of which the amount of RSD 176,739 thousand (2016: RSD 137,891 thousand) relates to parents, subsidiaries and other related parties (Note 37a).

27. COST OF MATERIAL, FUEL AND ENERGY

	2017	2016
Processing material	381,970	258,481
Other material (overhead)	5,831	8,783
Spare parts	4,074	2,470
Costs of material	**391,875**	**269,734**
Fuel and energy	23,444	20,137
Total	**415,319**	**289,871**

28. WAGES, SALARIES, AND OTHER PERSONAL EXPENSES

	2017	2016
Gross salaries and compensations	179,425	147,411
Payroll taxes and contributions payable by the employer	29,412	26,004
Temporary job contracts	259	389
Remuneration to physical persons arising from other contracts	12,660	11,422
Other personal expenses and benefits	34,548	29,861
Total	**256,304**	**215,087**
Number of employees at the year end	**146**	**136**

29. PRODUCTIVE SERVICES COSTS

	2017	2016
Expenses of own-work and goods capitalised	606,203	356,541
Transportation cost	23,281	22,835
Maintenance	14,892	21,995
Rental expenses	12,575	8,549
Fairs	1,694	261
Advertising and marketing fees	11,351	6,290
Other services	3,311	1,838
Total	**673,307**	**418,309**

Out of the total amount of expenses of own-work and goods capitalised, the amount of RSD 18,019 thousand relates to a related party Telegroup GMBH, Berlin (Note 37a).

30. DEPRECIATION AND AMORTISATION

	2017	2016
Amortisation charge (Note 6)	397	621
Depreciation charge (Note 7)	19,808	16,829
Total	**20,205**	**17,450**

31. NON-MATERIAL COSTS

	2017	2016
Cost of non-productive services	297,065	207,222
Entertainment	22,759	23,316
Insurance premiums	3,663	2,157
Bank charges	10,002	8,205
Membership fees	1,693	1,720
Taxes	8,642	7,651
Contributions	976	433
Other non-material costs	10,034	10,175
Total	**354,834**	**260,879**

The largest portion of other non-material costs in the amount of RSD 6,500 thousand relates to various fees.

32. FINANCIAL INCOME

	2017	2016
Financial income from parent and subsidiaries transactions (Note 37b)	3,039	1,221
Financial income from other related party transactions (Note 37b)	123	2,953
Interest income	4,650	6,349
Foreign exchange gains and gains arising from foreign currency clause application	14,334	7,592
Total	**22,146**	**18,115**

33. FINANCIAL EXPENSES

	2017	2016
Financial expenses - parent and subsidiaries transactions (Note 37b)	14,014	9,638
Financial expenses - other related parties transactions (Note 37b)	2,674	1,186
Interest expense	5,853	5,115
Foreign exchange losses and losses arising from foreign currency clause application	5,272	9,379
Total	**27,813**	**25,318**

34. LOSSES FROM VALUE ADJUSTMENTS OF OTHER ASSETS CARRIED AT FAIR VALUE THROUGH PROFIT OR LOSS

	2017	2016
Impairment of non-current financial placements and other available-for-sale securities	24	-
Impairment of trade receivables (Note 10)	3,078	-
Impairment of short-term financial placements	-	147
Total	**3,102**	**147**

35. OTHER INCOME

	2017	2016
Gains on sale of intangible assets, property, plant and equipment	12,500	1,082
Collected written-off receivables (Note 10)	-	4,503
Written-off receivables for advances paid recovered	-	2,600
Sundry income	3,176	4,913
Equipment value adjustment	1,002	4,479
Liabilities waived	255	820
Total	**16,933**	**18,397**

Out of total amount of gains on sale of intangible assets, property, plant and equipment the amount of RSD 155 thousand relates to a related party Telegroup d.o.o., Banja Luka (Note 37a).

36. OTHER EXPENSES

	2017	2016
Losses on the sale and disposal of intangible assets, property, plant and equipment	37	325
Shortages	18	10
Losses on the sale of equity investments and securities	-	1,384
Direct write off of receivables	582	158
Other sundry expenses	943	277
Total	**1,580**	**2,154**

37. RELATED PARTY TRANSACTIONS

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

(a) Acquisitions and Sale to Related Parties

The following transactions were carried out with related parties:

	2017	2016
Sales of goods and services (Notes 25 and 35)		
Parent – Telegroup LTD, Great Britain	21,377	21,558
Subsidiary – Telegroup d.o.o., Podgorica	59,428	22,263
Subsidiary – Greensoft d.o.o., Novi Sad	278	131
Subsidiary – Telegroup Finance d.o.o., Belgrade	545	-
Other related parties – Telegroup d.o.o., Banja Luka	285,709	264,796
Other related parties - Telegorup GMBH, Berlin	145	-
Other related parties - Telegroup Sofia EOOD, Bulgaria	-	-
	367,482	**308,748**

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

	2017	2016
Purchases of goods and services (Notes 7, 26 and 29)		
Parent – Telegroup LTD, Great Britain	161,109	109,077
Subsidiary – Telegroup d.o.o., Podgorica	47	2,466
Subsidiary – Telegroup Finance d.o.o., Belgrade	13,683	9,913
Subsidiary – Greensoft d.o.o., Novi Sad	1,900	788
Other related parties – Telegroup d.o.o., Banja Luka	-	95
Other related parties - Telegorup GMBH, Berlin	18,019	
Other related parties - Telegroup Sofia EOOD, Bulgaria	606	15,552
	195,364	**137,891**

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

37. RELATED PARTY TRANSACTIONS (Continued)

(b) Financial Income and Expenses - Related Parties

	2017	2016
Financial income (Note 32)		
Parent – Telegroup LTD, Great Britain	2,208	252
Subsidiary – Telegroup d.o.o., Podgorica	66	14
Subsidiary – Greensoft d.o.o., Novi Sad	765	763
Subsidiary – Telegroup Finance d.o.o., Belgrade	-	192
Other related parties – Telegroup d.o.o., Banja Luka	122	2,938
Other related parties - Telegroup Sofia EOOD, Bulgaria	1	15
	3,162	**4,174**

	2017.	2016.
Financial expenses (Note 33)		
Parent – Telegroup LTD, Great Britain	901	1,530
Subsidiary – Telegroup d.o.o., Podgorica	482	52
Subsidiary – Greensoft d.o.o., Novi Sad	562	-
Subsidiary – Telegroup Finance d.o.o., Belgrade	12,068	8,056
Other related parties – Telegroup d.o.o., Banja Luka	2,667	1,168
Other related parties - Telegroup Sofia EOOD, Bulgaria	6	18
	16,688	**10,824**

(c) Year-end Balances Arising from Sales/Purchases of Goods/Services (Net Present Value)

	2017	2016
Receivables from related parties (Note 10)		
Parent – Telegroup LTD, Great Britain	21,325	21,608
Subsidiary – Telegroup d.o.o., Podgorica	37,589	15,479
Subsidiary – Greensoft d.o.o., Novi Sad	276	28
Other related parties – Telegroup d.o.o., Banja Luka	24,586	26,344
Other related parties - Telegorup GMBH, Berlin	145	-
Other related parties - Telegroup Sofia EOOD, Bulgaria	-	2,023
	83,921	**65,482**
Payables to related parties (Note 20)		
Parent – Telegroup LTD, Great Britain	2,616	-
Subsidiary – Greensoft d.o.o., Novi Sad	-	710
Other related parties - DKM Riznica	108	-
Other related parties – Telegroup d.o.o., Podgorica	43	-
	2,767	**710**

37. RELATED PARTY TRANSACTIONS (Continued)

(d) Year-end Balances Arising from Sales/Purchases of Goods/Services (Net Present Value) (Continued)

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 also include advances paid 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.

(e) Loans to Related Parties

	2017	2016
Loans to directors, management and their family members:		
As of 1 January	7,194	7,571
Repayment during the year	(344)	(377)
End of year (Notes 8 and 12)	**6,850**	**7,194**
Loans to related parties (Notes 12):		
As of 1 January	18,545	15,300
Loans granted during the year	4,200	3,245
Foreign exchange gains/(losses)	(538)	-
Allovance for impairment	(5,725)	(5,725)
End of year	**16,482**	**12,820**

38. EVENTS AFTER THE BALANCE SHEET DATE

On 21 February 2018 the Company acquired a related party Teamenergo d.o.o., Belgrade since Milomir Gligorijevic, the founder and president of the parent company Telegroup LTD, Great Britain, has become owner of 51% of the share in a company Teamenergo d.o.o., Belgrade.

There were no other significant events that would require adjustments or disclosures in the notes to the accompanying financial statements, except the above mentioned event.

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 2017 and 2016 into the functional currency (RSD), were as follows:

In RSD

	31 December 2017	31 December 2016
EUR	118.4727	123.4723
USD	99.1155	117.1353
CHF	101.2847	114.8473
GBP	133.4302	143.8065

Belgrade, 23 April 2018

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