TELEKOM SRBIJA a.d., BELGRADE
A Joint Stock Telecommunications Company

Financial Statements for the
Year Ended 31 December 2011
in Accordance with Accounting Regulations
of the Republic of Serbia

and

Independent Auditor's Report

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Independent Auditor's Report

This is an English translation of Independent Auditor's Report and
2011 Financial Statements originally issued in the Serbian language

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and the Managing Board of
"Telekom Srbija" a.d., Belgrade

We have audited the accompanying financial statements of the Joint Stock Telecommunications Company "Telekom Srbija" a.d., Belgrade (hereinafter: the "Company"), which comprise the balance sheet as of 31 December 2011, and the income statement, 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. The statistical annex represents an integral part of these financial statements.

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 and Auditing ("Official Gazette of the Republic of Serbia", no. 46/2006 and 111/2009), 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 International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 2011, 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 Auditing, and accounting policies disclosed in Note 2 to the financial statements.

BDO d.o.o. Beograd; Registarski broj 44916 kod Agencije za privredne registre; PIB 101672840; Matični broj 06203159
Poslovni računi: 295-1214105-50 kod Srpske banke a.d. Beograd; 240-69872101500-75 kod Findomestic banke a.d. Beograd
Upisani i uplaćeni osnivački kapital Društva 4.557,18 EUR
BDO d.o.o. Beograd, privredno društvo osnovano u Republici Srbiji, je članica BDO International Limited kompanije sa ograničenom odgovornošću sa sedištem u Velikoj Britaniji i deo je međunarodne BDO mreže firmi članica.
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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and the Managing Board of
"Telekom Srbija" a.d., Belgrade (Continued)

Emphasis of Matter

We draw attention to Note 35(a) to the financial statements disclosing that as of 31 December 2011, the estimated contingent liabilities arising from lawsuits filed against the Company amount to RSD 786,282 thousand, excluding any related penalty interest that may arise thereto. Based on the estimate of the final outcome of these lawsuits made by the Company's Corporative Affairs Division, the provision for potential losses arising from pending litigations recognized in the Company's financial statements amounts to RSD 125,931 thousand as of 31 December 2011 (Note 27). The Company's management considers that the final outcome of litigations cannot be predicted with a high degree of certainty, and it judges that no material liabilities will arise from the contingent liabilities other than those provided for. Our opinion is not qualified in respect of this matter.

Belgrade, 28 February 2012

Milovan Popovic
Certified Auditor

MANAGEMENT'S REPRESENTATION

The Company's management is responsible for the preparation of the financial statements, which give a true and fair view of the financial position of the Company as of the end of the reporting period, and of its financial performance and its cash flows for the reporting period then ended in accordance with the accounting regulations prevailing in the Republic of Serbia, based on the Law on Accounting and Auditing. The Company's management is responsible for ensuring appropriate accounting records and the preparation of financial statements, which present fairly the financial position of the Company and its operating results and its cash flows, and which enable them to ensure the financial statements comply with the accounting regulations prevailing in the Republic of Serbia, as well as other applicable laws' requirements. They also have a general responsibility for implementation of processes and controls to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The Company's management considers that, preparing the financial statements as of and for the year ended 31 December 2011, set out on pages 4 to 86, the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and the Republic of Serbia accounting regulations based on the Law on Accounting and Auditing ("RS Official Gazette", no. 46/2006 and 111/2009) have been followed.

For and on behalf of the management of
"Telekom Srbija" a.d., Belgrade

Branko Radujko	Georgios Christodoulopoulos
General Manager	Director of Economic Affairs Division

INCOME STATEMENT
For the Year Ended 31 December 2011
In RSD thousand

	Note	2011	2010
OPERATING INCOME			
Sales	5	86,778,993	84,782,798
Own-work and goods capitalized		32,531	-
Other operating income	6	507,858	535,798
		87,319,382	**85,318,596**
OPERATING EXPENSES			
Cost of goods sold		(7,436)	(39,247)
Cost of material	7	(6,015,330)	(5,299,621)
Wages, salaries and other personnel expenses	8	(14,958,638)	(12,659,018)
Depreciation, amortization and provisions	9	(17,393,011)	(16,961,352)
Other operating expenses	10	(29,373,151)	(29,975,542)
		(67,747,566)	**(64,934,780)**
OPERATING PROFIT		**19,571,816**	**20,383,816**
Financial income	11	7,508,781	7,767,041
Financial expenses	12	(3,253,464)	(9,948,477)
Other income	13	3,487,038	3,227,652
Other expenses	14	(4,020,180)	(5,181,389)
PROFIT FROM OPERATIONS BEFORE TAX		**23,293,991**	**16,248,643**
NET LOSS FROM DISCONTINUED OPERATIONS	15	(145,224)	(83,952)
PROFIT BEFORE TAX		**23,148,767**	**16,164,691**
INCOME TAXES	16		
Current tax expense		(1,102,616)	(633,518)
Deferred tax income		228,051	258,256
PROFIT FOR THE YEAR		**22,274,202**	**15,789,429**
EARNINGS PER SHARE			
Basic earnings per share	26	**20.62**	**14.62**

The accompanying notes on pages 12 to 86
are an integral part of these financial statements.

The accompanying financial statements were authorized for issue by the Managing Board of the Company on 28 February 2012 and were signed on its behalf by:

Branko Radujko
General Manager

Georgios Christodoulopoulos
Director of Economic Affairs Division

BALANCE SHEET
As of 31 December 2011
In RSD thousand

	Note	31 December 2011	31 December 2010
ASSETS			
Non-current assets			
Intangible assets	17	6,259,683	7,243,477
Advances for intangible assets		144,690	57,777
Property, plant and equipment	18	103,698,693	109,874,878
Advances for property and equipment	19	299,290	465,486
Equity investments	20	60,897,038	60,211,333
Other long-term financial placements	21	1,672,317	1,239,511
		172,971,711	**179,092,462**
Current assets			
Inventories	22	6,020,708	5,920,321
Advances to suppliers		627,334	525,401
Accounts receivable	23	12,381,185	12,395,297
Receivables for overpaid income tax		-	330,190
Short-term financial placements		1,247	1,853
Cash and cash equivalents	24	14,018,543	7,949,392
Value added tax, prepayments and accrued income	25	2,874,996	2,644,028
		35,924,013	**29,766,482**
Deferred tax assets	16(c)	**1,336,491**	**1,108,440**
TOTAL ASSETS		**210,232,215**	**209,967,384**
EQUITY AND LIABILITIES			
Equity	26		
Share capital		82,512,552	82,512,552
Other capital		8,588	8,588
Reserves		589,634	589,634
Retained earnings		47,892,112	39,183,365
		131,002,886	**122,294,139**
Long-term provisions and non-current liabilities			
Long-term provisions	27	1,614,383	1,848,866
Long-term borrowings	28	17,313,422	41,715,890
Other long-term liabilities		3,238	3,748
		18,931,043	**43,568,504**
Current liabilities			
Short-term borrowings	28	28,339,123	21,369,737
Accounts payable	29	6,633,782	5,652,194
Other current liabilities	30	9,574,922	686,353
Value added tax and other tax liabilities, accruals and deferred income	31	15,659,850	16,396,457
Income tax payable		90,609	-
		60,298,286	**44,104,741**
TOTAL EQUITY AND LIABILITIES		**210,232,215**	**209,967,384**
OFF-BALANCE SHEET ITEMS	32	**3,481,581**	**5,321,926**

The accompanying notes on pages 12 to 86
are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
For the Year Ended 31 December 2011
In RSD thousand

	Share capital	Other capital	Reserves	Retained earnings	Total
Balance as of 1 January 2010	**82,512,552**	**8,588**	**589,634**	**30,058,551**	**113,169,325**
Dividends paid	-	-	-	(6,664,615)	(6,664,615)
Profit for the year 2010	-	-	-	15,789,429	15,789,429
Balance as of 31 December 2010	**82,512,552**	**8,588**	**589,634**	**39,183,365**	**122,294,139**
Dividends declared	-	-	-	(13,565,455)	(13,565,455)
Profit for the year 2011	-	-	-	22,274,202	22,274,202
Balance as of 31 December 2011	**82,512,552**	**8,588**	**589,634**	**47,892,112**	**131,002,886**

The accompanying notes on pages 12 to 86
are an integral part of these financial statements.

STATEMENT OF CASH FLOWS
For the Year Ended 31 December 2011
In RSD thousand

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and advances received	105,392,310	105,274,090
Other receipts from operating activities	970,688	703,707
Payments to suppliers and advance payments to suppliers	(44,631,697)	(46,564,141)
Payments for wages, salaries and other personnel expenses	(14,782,726)	(12,272,823)
Interest paid	(1,611,472)	(2,101,709)
Income tax paid	(594,208)	(944,444)
Other public charges paid	(9,652,300)	(11,842,385)
Net cash flows from operating activities	**35,090,595**	**32,252,295**
CASH FLOWS FROM INVESTING ACTIVITIES		
Receipts from sale of intangible assets and property and equipment	1,983	6,920
Other financial placements (net inflows)	147,997	-
Interest received	738,969	614,668
Dividends received	3,484,546	4,716,916
Purchase of equity instruments - Mtel, Montenegro	-	(2,036,142)
Purchase of equity instruments – TS:NET, the Netherlands	-	(6,034)
Purchase of equity instruments – HD-WIN, the Republic of Serbia	(790,476)	-
Purchase of intangible assets and property and equipment	(10,772,918)	(15,640,938)
Other financial placements (net outflows)	-	(145,446)
Net cash flows used in investing activities	**(7,189,899)**	**(12,490,056)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Net repayments of borrowings (net outflows)	(17,433,110)	(9,781,887)
Net repayments of borrowings and other liabilities (net outflows)	(482)	(429)
Dividends paid	(4,736,829)	(6,664,615)
Net cash flows used in financing activities	**(22,170,421)**	**(16,446,931)**
Net increase in cash and cash equivalents	5,730,275	3,315,308
Cash and cash equivalents, beginning of the year	7,949,392	9,461,806
Foreign exchange gains/(losses) on translation of cash and cash equivalents, net	338,876	(4,827,722)
Cash and cash equivalents, end of the year (Note 24)	**14,018,543**	**7,949,392**

The accompanying notes on pages 12 to 86
are an integral part of these financial statements.

STATISTICAL ANNEX
For the Year Ended 31 December 2011
In RSD thousand

I GENERAL CORPORATE INFORMATION

	2011	2010
Number of months of operations (1 to 12)	12	12
Size indication (1 to 3)	3	3
Ownership structure indication (1 to 5)	4	4
Number of foreign entities holding a share in capital	1	1
Average number of employees, based on the number at the end of each month (whole number)	9,354	9,472

II MOVEMENTS IN INTANGIBLE ASSETS, PROPERTY, PLANT, EQUIPMENT AND BIOLOGICAL ASSETS

	Cost	Accumulated depreciation/ amortization	Net book value
1. Intangible assets			
Balance at beginning of year	22,037,096	(14,735,842)	7,301,254
Additions during the year	765,099	-	765,099
Disposals	(69,846)	-	(1,661,980)
Revaluation	-	-	-
Balance at end of year	**22,732,349**	**(16,327,976)**	**6,404,373**
2. Property, plant, equipment and biological assets			
Balance at beginning of year	214,600,527	(104,260,163)	110,340,364
Additions during the year	10,163,927	-	10,163,927
Disposals	(2,843,949)	-	(16,506,308)
Revaluation	-	-	-
Balance at end of year	**221,920,505**	**(117,922,522)**	**103,997,983**

III INVENTORY STRUCTURE

	2011	2010
Material	5,986,654	5,906,268
Work in progress	-	-
Finished goods	-	-
Merchandise	34,054	14,053
Non-current assets held for sale	-	-
Payments in advance	627,334	525,401
Total	**6,648,042**	**6,445,722**

STATISTICAL ANNEX (Continued)
For the Year Ended 31 December 2011
In RSD thousand

IV CAPITAL STRUCTURE

	2011	2010
Share capital	82,512,552	82,512,552
Out of which: foreign capital	16,502,510	16,502,510
Stakes of a limited liability company	-	-
Out of which: foreign capital	-	-
Stakes of partnership or limited partnership	-	-
Out of which: foreign capital	-	-
State-owned capital	-	-
Socially-owned capital	-	-
Stakes in cooperatives	-	-
Other capital	8,588	8,588
Total	**82,521,140**	**82,521,140**

V SHARE CAPITAL STRUCTURE

	2011	2010
Ordinary shares		
Number of ordinary shares	1,080,000	1,080,000
Nominal value of ordinary shares – total	82,512,552	82,512,552
Preference shares		
Number of preference shares	-	-
Nominal value of preference shares – total	-	-
Total - nominal value of shares	**82,512,552**	**82,512,552**

VI RECEIVABLES AND LIABILITIES

	2011	2010
Trade receivables (balance at end of year)	11,799,924	12,048,608
Accounts payable (balance at end of year)	6,566,710	5,528,845
Receivables from insurance companies for damage compensations during the year (debit turnover without opening balance)	219	1,653
Value added tax – previous tax (annual amount as per tax returns)	7,705,457	8,389,559
Accounts payable (credit turnover without opening balance)	87,177,081	88,521,409
Liabilities for net salaries and fringe benefits (credit turnover without opening balance)	7,847,546	6,069,538
Liabilities for payroll taxes born by the employee (credit turnover without opening balance)	1,188,479	919,423
Liabilities for payroll contributions born by the employee (credit turnover without opening balance)	1,663,418	1,494,828
Liabilities for dividends, profit-sharing and personal income of the employer (credit turnover without opening balance)	13,631,305	6,664,615
Liabilities to individuals for services rendered based on agreements (credit turnover without opening balance)	377,994	328,550
Liabilities for VAT (annual amount as per tax returns)	15,603,502	15,740,976
Control total	**153,561,635**	**145,708,004**

STATISTICAL ANNEX (Continued)
For the Year Ended 31 December 2011
In RSD thousand

VII OTHER EXPENSES

	2011	2010
Fuel and energy	1,132,071	943,893
Gross salaries and fringe benefits	10,681,104	8,466,012
Payroll taxes and contributions born by the employer	1,662,268	1,511,836
Gross benefits of individuals for services rendered based on agreements	591,219	526,584
Gross remuneration to the Managing Board's and Supervisory Board's members	5,687	5,532
Other personal expenses	2,018,360	2,149,054
Production services	25,683,579	25,869,302
Rental expenses	4,284,260	4,281,029
Land-rental expenses	-	-
Research and development costs	991	9,470
Depreciation/amortization charge	17,384,142	16,937,205
Insurance premium costs	540,327	501,243
Bank charges and payment operations costs	227,577	265,824
Membership fees	63,351	45,902
Taxes	939,989	938,041
Contributions	-	-
Interest expenses	1,620,111	2,002,108
Interest expenses and a portion of financial expenses	1,620,111	2,002,108
Interest expenses on borrowings from banks and other financial institutions	1,610,358	1,856,160
Costs of humanitarian, cultural, health, educational, scientific and religious purposes, environmental protection and sports purposes	121,755	158,016
Control total	**70,187,260**	**68,469,319**

VIII OTHER INCOME

	2011	2010
Income from sale of goods	2,185	25,112
Premiums, subventions, subsidies, regress, compensations and recovery of tax duties	-	9,681
Conditional donations	402,743	427,715
Land-rental income	-	-
Membership fees	-	-
Interest income	1,201,409	1,092,595
Interest income on accounts and deposits held with banks and other financial institutions	764,573	621,110
Dividend income	3,484,546	4,716,916
Control total	**5,855,456**	**6,893,129**

STATISTICAL ANNEX (Continued)
For the Year Ended 31 December 2011
In RSD thousand

IX OTHER INFORMATION

	2011	2010
Excise duties (as per annual calculation of excise duties)	-	-
Customs and other import duties (annual total as per calculation)	481,125	1,364,212
Capital subventions and other government grants for construction and acquisition of property, plant, equipment and intangible assets	-	-
Government grants for premiums, regress and coverage of current operating expenses	-	-
Other government grants	-	-
Foreign donations and other non-refundable funds, received either in cash or in kind from foreign legal entities and/or individuals	1,087	46,791
Entrepreneurs' personal income from net profit (to be completed only by entrepreneurs)	-	-
Control total	**482,212**	**1,411,003**

The accompanying notes on pages 12 to 86
are an integral part of these financial statements.

1. CORPORATE INFORMATION

The Joint Stock Telecommunications Company "Telekom Srbija" a.d., Belgrade (the "Company" or "Telekom Srbija") was incorporated by the Public Enterprise for PTT communications "Srbija", Belgrade ("JP PTT" or JP PTT saobracaja "Srbija") on 23 May 1997 in a company formation transaction in which JP PTT undertook to transfer and assign to the Company all of its telecommunication assets, excluding real estate and certain other assets and liabilities.

Pursuant to Article 14a of the Law on Communications of the Republic of Serbia, JP PTT assigned certain exclusive and non-exclusive operating rights to "Telekom Srbija" for an initial period of twenty years, with the right to an extension for additional ten years. In consideration of such transfer and assignment rights, "Telekom Srbija" issued a certificate representing 1,080,000 fully-paid, registered ordinary voting shares with an individual par value of RSD 10 thousand and also performed a special issuance of "Golden Share" to the Government of the Republic of Serbia. The Golden Share bestows entitlements to their bearers, which include voting rights and presence to the Company's Shareholders' Assembly sessions, certain approval rights of the proposal for appointment of the Managing Board members and the proposal for the appointment of General Manager of the Company, amendments to the Statute and other rights determined by the Statute of the Company. This share may solely be held by the Government of the Republic of Serbia represented by its appointed representative(s).

The Company was registered in the Republic of Serbia on 29 May 1997 in accordance with the Federal Republic of Yugoslavia Company Law, as published in the FRY Official Gazette, no. 29 dated 26 June 1996.

In June 1997, 49 percent of the Company's share capital was privatized in a direct sale process. As of that date, the entities, STET International Netherlands NV, Amsterdam ("STET") and Hellenic Telecommunications Organization A.E., Athens ("OTE") acquired 29 percent and 20 percent of the Company's share capital, respectively. This transaction was duly registered with the Commercial Court of Belgrade on 13 June 1997 under inscription number Fi. 7276/97.

On 20 February 2003, JP PTT concluded a Share Purchase Agreement ("SPA") with the seller, STET International Netherlands NV, Amsterdam, whereby JP PTT purchased additional 29 percent of the share capital owned by STET and subsequently became owner of 80 percent of the Company's share capital. This share purchase transaction was registered with the Commercial Court of Belgrade on 25 December 2003 under inscription number Fi. 13612/03. On 10 December 2004, the parties, JP PTT, OTE and the Company executed a Shareholder Agreement numbered 128077/1, which represents the basis under which the mutual relations between the aforementioned parties are defined. The above Shareholder Agreement was approved by the Company's Shareholders' Assembly at its 11th Special Session held in December 2004.

For the purpose of sale of the major portion of the Company's shares owned by the Republic of Serbia, in 2010 there was a change in the Company's shareholder structure. In accordance with the Conclusion of the Government of the Republic of Serbia 05 no. 023-6816 dated 21 September 2010 and the Decision on the transfer of the shares in the Company to the Republic of Serbia, without compensation, of the Board of Directors of JP PTT dated 20 September 2010, on 24 September 2010 JP PTT and the Government of the Republic of Serbia concluded the Agreement on the transfer of the shares of Telekom Srbija a.d., Belgrade without compensation – Gift. Pursuant to this Agreement, the Republic of Serbia became the major shareholder and the legal owner of 80% of the Company's shares, represented by 864,000 ordinary shares with the nominal value of RSD 10 thousand per share, i.e., with the total nominal value amounting to RSD 8,640,000 thousand. Total value of the Company's share capital has not been changed.

1. CORPORATE INFORMATION (Continued)

In 2010, the Government of the Republic of Serbia announced an international tender for the sale of the majority block of shares of the Company. Until the deadline the company "Telekom Austria" submitted the offer. Since the offer had not met the requested criteria, the Government of the Republic of Serbia at its session held on 5 May 2011 decided to decline the submitted offer, by which the sale process was terminated.

The Company is a closed joint stock entity, which is founded for indefinite period of time. Pursuant to the Decision no. BD 3309 dated 21 February 2005, the Company was reincorporated with the Serbian Business Registers Agency.

On 30 December 2010, the Ministry of Telecommunications and Information Society submitted to the Company, for further realisation, the Conclusion of the Government of the Republic of Serbia 05 no. 023-9705/2010 dated 23 December 2010, recommending the Company to undertake all activities necessary in order to convert the Company from closed into an open join stock entity.

During 2011, the Company initiated the specific activities in order to harmonize its internal enactments in connection with the conversion into an open joint stock company.

In June 2011, the Company Law entered into force ("RS Official Gazette", no. 36 dated 27 May 2011), the application of which starts from 1 February 2012. The Law on Amendments and Supplements to the Company Law ("RS Official Gazette", no. 99 dated 27 December 2011) provides for postponement of its application to 30 June 2012, when companies are obliged to adjust their by-laws and bodies to the new Company Law.

The Company's principal business activity is in the provision of telecommunication services, of which its primary areas of operation include the provision of national and international telecommunication services, in addition to a wide range of other telecommunication services involving fixed voice services, data transmission, leased lines, private circuits and broadband services, additional mobile telephony services, fixed satellite services, internet and multimedia services. In 1998 the Company introduced GSM mobile telecommunication services.

The Company also supplies leases, construction, management and security services in the area of network infrastructure. Furthermore, the Company has the rights to provide directory services including "White" and "Yellow Pages", operator-assisted services and electronic directory services relating to fixed telephony services.

The Company's position as an exclusive supplier of fixed-line telephony services was to remain effective until 9 June 2005, in compliance with the previously applicable Law on Telecommunications of the Republic of Serbia, the date upon which such market standing was eradicated.

On 28 July 2006, the Company was granted the License for public mobile telecommunication network and services for public mobile telecommunication network in accordance with GSM/GSM1800 and UMTS/IMT-2000 standards by the Republic Telecommunications Agency ("RATEL" or "Agency"), and accordingly all fees concerning the license and frequencies are payable to RATEL.

On 13 April 2007, the Company renewed the License for construction, possessing and exploitation of public fixed telecommunication network and rendering public fixed telecommunication services and since that date all fees concerning the license are payable to RATEL.

1. CORPORATE INFORMATION (Continued)

In addition, in 2008, RATEL issued approvals to the operators and providers for the provision of voice transmission service over the Internet (9 providers), for public telecommunication networks (3 providers) and for international interconnection of a public telecommunication network (3 providers). The list of the granted authorizations by RATEL was extended during 2011.

Since 31 March 2009, the Company has possessed license for fixed wireless access to public telecommunication network and services (CDMA license), which was purchased for the amount of EUR 540,000. Besides the Company, "Media Works" also possesses this license. In 2010, by the merger of the aforementioned company and companies "Neobee.net" and "SezamPro", a Limited Liability Telecommunications Company "Orion Telekom" d.o.o., Belgrade, was established, with the aim of providing fixed telephony and internet services.

According to the Decision made by RATEL in February 2010, a License for public fixed telecommunication networks and services for the territory of the Republic of Serbia was granted to the company "Telenor" d.o.o., Belgrade for the ten-year period (with the possibility of its extension for the same period). The license fee amounts to EUR 1.05 million. In January 2011 "Telenor" d.o.o., Belgrade fulfilled the formal License requirements to start rendering services in fixed telephony.

On 8 July 2010, the Law on Electronic Communications came into force ("RS Official Gazette", no. 44 dated 30 June 2010), introducing certain innovations in the telecommunications market of the Republic of Serbia. With the passing of this Law, the previous Law on Telecommunications ceased to be valid ("RS Official Gazette", no. 44 dated 24 April 2003 with amendments in no. 36 dated 27 April 2006), and RATEL continued its work as the Republic Agency for Electronic Communications (the "Agency") in compliance with the provisions of the new Law.

According to the provisions of the new Law, the Agency was obliged to perform the market analysis within the period of one year from the date of entering the aforementioned Law into force. The Agency is also obliged to reconsider the decisions on determining the operators with significant market share, passed pursuant to the previously valid regulations, and to decide on determining the operator with a significant market power, as required under the provisions set forth in the aforementioned Law, within six months following the date of publication of the report on performed market analysis.

Markets that are subject to pre-regulation are as follows:

- Market 1: Retail market of access to the public telephone network on the fixed location,
- Market 2: Wholesale market of call origination in the public telephone network on the fixed location,
- Market 3: Wholesale market of call termination in the public telephony network,
- Market 4: Wholesale market of (physical) access to the network elements with the attributable resources (including the full and shared unbundled access to the local loop),
- Market 5: Wholesale market of broadband access,
- Market 6: Wholesale market for leased lines,
- Market 7: Wholesale market of call termination in the mobile telephony network,
- Market 8: Retail market for distribution of media contents, and
- Market 9: Retail market for publicly available telephone service from fixed location.

On 29 November 2011, the Agency submitted the decisions according to which the Company was declared as an operator with significant market power in all the above markets, except for the retail market of media contents distribution.

1. CORPORATE INFORMATION (Continued)

Different obligations have been imposed on the operator depending on the market in which it was declared as an operator with significant market power.

Inter alia, the following obligations have been imposed on the operator with significant market power: publication of certain data in the form of standard offer, non-discriminatory treatment, providing access to and use of network elements and associated assets, price control, the application of cost accounting, prohibition of excessive prices, tariff control, etc.

On 30 December 2011, the Company filed lawsuits against the Agency's decisions to the Administrative Court for the following markets: wholesale market for (physical) access to network elements and associated assets (including shared and full unbundled access to the local loop), wholesale broadband access market and wholesale leased line market.

Since 1 July 2011, the number portability in the public mobile telecommunications in the Republic of Serbia has been enabled in accordance with the Rule Book on Number Portability in the Public Mobile Telecommunications dated 25 December 2009. This possibility is provided to users of all three mobile operators which have an appropriate license granted by RATEL.

On 15 July 2011, the Rule Book on the application of the cost-accounting principle, separate accounts and reporting of a telecommunications operator with a significant market power in electronic communications and the starting base for the current cost accounting in the system of calculation and dividing profit and loss account for regulatory reporting by an operator with a significant market power ("RS Official Gazette", no. 52/2011) was passed.

The Company is domiciled in Belgrade, 2 Takovska Street, the Republic of Serbia.

At 31 December 2011, the Company had 9,048 employees (31 December 2010: 9,468 employees).

The Company holds equity instruments of the following subsidiaries (Note 20):

- A Joint Stock Company "Telus" a.d., Belgrade, the Republic of Serbia (100% of share capital);
- A Limited Liability Company "Mtel" d.o.o., Podgorica, Montenegro (51% of capital);
- A Joint Stock Telecommunications Company "Telekom Srpske" a.d., Banja Luka, the Republic of Srpska (65% of share capital);
- A Limited Liability Company "FiberNet" d.o.o., Podgorica, Montenegro (100% of capital);
- A Closed Joint Stock Company "TS:NET" B.V., Amsterdam, the Netherlands (100% of capital); and
- A Limited Liability Company "HD-WIN" d.o.o., Belgrade, the Republic of Serbia (51% of capital).

These separate financial statements were authorized for issue by the Managing Board of the Company on 28 February 2012.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis of Preparation and Presentation of the Financial Statements

The accompanying financial statements have been prepared in accordance with the accounting regulations prevailing in the Republic of Serbia, which are based on the Law on Accounting and Auditing ("RS Official Gazette", no. 46/2006 and 111/2009) that prescribes International Accounting Standards (IAS), i.e. International Financial Reporting Standards (IFRS) as a basis of preparation and presentation of the financial statements.

The financial statements have been prepared under the historical cost convention and going concern principle.

The Company's financial statements are stated in thousands of Dinars (RSD), unless otherwise stated. The Dinar is the functional and official reporting currency of the Company. All transactions in currencies that are not functional currency are considered to be transactions in foreign currency.

The financial statements are presented in the format prescribed by the "Rulebook on the Contents and Form of the Financial Statements of Enterprises, Cooperatives and Entrepreneurial Ventures" ("RS Official Gazette", no. 114/2006, 5/2007, 119/2008 and 2/2010), which differ from the presentation and titles of certain general purpose financial statements and the presentation of certain items as required under Revised IAS 1 "Presentation of Financial Statements". The application of the revised standard is mandatory for the first time for the annual periods beginning on 1 January 2009. Accordingly, the accompanying financial statements do not fully comply with IFRS, and therefore, they cannot be considered as the financial statements prepared and presented in accordance with IFRS.

These financial statements include receivables, liabilities, operating results, changes in equity and cash flows of the Company as a separate entity, excluding its subsidiaries. The Company also prepares consolidated financial statements.

In the preparation of the accompanying financial statements, the Company has adhered to the principal accounting policies described below in Note 2.

The accounting policies and estimates adopted in the preparation of these financial statements are consistent with those followed in the preparation of the Company's annual financial statements for the year ended 31 December 2010, except for the adoption of new standards and interpretations, noted below.

(a) New Standards, Interpretations and Amendments to existing Standards effective in the Current Reporting Period

The application of the following new and amended standards and IFRIC interpretations to existing standards mandatory for the first time for the financial year beginning on 1 January 2011, did not result in substantial changes to the Company's accounting policies and did not have an impact on the Company's accompanying financial statements:

- Revised IAS 24 "Related Party Disclosures" - Simplifying the disclosure requirements for government-related entities and clarifying the definition of a related party. The adoption of the amendment did not have any impact on the financial position or performance of the Company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1. Basis of Preparation and Presentation of the Financial Statements (Continued)

(a) New Standards, Interpretations and Amendments to existing Standards effective in the Current Reporting Period (Continued)

- Amendment to IAS 32 "Financial Instruments: Presentation" - Classification of Rights Issues. This amendment relates to the rights issues offered for a fixed amount of foreign currency which were treated as derivative liabilities by the existing standard. The amendment states that if certain criteria are met, these should be classified as equity regardless of the currency in which the exercise price is denominated. The amendment did not have any impact on the financial position or performance of the Company.
- Amendment to IFRS 1 "First-time Adoption of International Financial Reporting Standards" - Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters. These amendments are not relevant to the Company, as it is an existing IFRS preparer.
- Amendments to IFRIC 14 "IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" - Prepayments of a Minimum Funding Requirement. The amendments apply in limited circumstances: when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements. The amendments permit such an entity to treat the benefit of such an early payment as an asset. These amendments are not relevant to the Company, due to the absence of such arrangements.
- IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments". This interpretation clarifies the requirements of IFRSs when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. This interpretation has no impact on the Company's financial statements.
- Amendments to various standards and interpretations (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 21, IAS 28, IAS 31, IAS 34 and IFRIC 13), which are part of the IASB's annual IFRS improvements project published in May 2010. These amendments result primarily in removal of inconsistencies and terminology or editorial changes. The effective dates vary standard by standard but most are effective for annual periods beginning on or after either 1 July 2010 or 1 January 2011. The adoption of these amendments has not led to significant changes in the Company's accounting policies and it did not have a material impact on the financial position or performance of the Company.

(b) New Standards, Interpretations and Amendments to existing Standards that are not yet effective and have not been early adopted by the Company

The following new and amended standards and IFRIC interpretations have been issued but are not effective for the annual reporting period beginning on 1 January 2011. They have not been early adopted and the Company is in the process of assessing their potential impact, if any, on the financial statements. The Company intends to adopt those standards when they become effective.

- Amendment to IAS 1 "Presentation of Financial Statements" – Other comprehensive income (effective for annual periods beginning on or after 1 July 2012).
- Amendment to IAS 12 "Income Taxes" - Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after 1 January 2012).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1. Basis of Preparation and Presentation of the Financial Statements (Continued)

(b) New Standards, Interpretations and Amendments to existing Standards that are not yet effective and have not been early adopted by the Company (Continued)

- Revised IAS 19 "Employee Benefits" (effective for annual periods beginning on or after 1 January 2013).
- Revised IAS 27 "Separate Financial Statements" (effective for annual periods beginning on or after 1 January 2013).
- Revised IAS 28 "Investments in Associates and Joint Ventures" (effective for annual periods beginning on or after 1 January 2013).
- Amendments to IFRS 1 "First-time Adoption of IFRS" - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (effective for annual periods beginning on or after 1 July 2011).
- Amendment to IFRS 7 "Financial Instruments: Disclosures" - Transfer of Financial Assets (effective for annual periods beginning on or after 1 July 2011).
- IFRS 9 "Financial instruments" (effective for annual periods beginning on or after 1 January 2015). This standard addresses the classification and measurement of financial assets.
- IFRS 10 "Consolidated Financial Statements" (effective for annual periods beginning on or after 1 January 2013).
- IFRS 11 "Joint Arrangements" (effective for annual periods beginning on or after 1 January 2013).
- IFRS 12 "Disclosure of Interests in Other Entities" (effective for annual periods beginning on or after 1 January 2013).
- IFRS 13 "Fair Value Measurement" (effective for annual periods beginning on or after 1 January 2013).

The Company's management assesses the impact of the aforementioned new and amended standards and interpretations and considers that their application is not expected to have a material impact on the Company's financial statements in the periods of their first application.

2.2. Comparative Figures

Comparative figures represent the audited financial statements for the year ended 31 December 2010, prepared in accordance with the accounting regulations prevailing in the Republic of Serbia.

The Company's management has assessed that the effects of error adjustments from the previous period are not materially significant and therefore, no restatement of other comparative figures was performed. The total negative effect of error adjustments charged to the accompanying income statement for the year ended 31 December 2011 amounts to RSD 145,224 thousand (Note 15).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Fixed and Mobile Telephony Income

Income is measured at the fair value of the consideration received or receivable, net of discounts and value added tax. Income is recognized and recorded at the moment that the contracted services have been provided.

2.3.1. Fixed Telephony Income

(a) Telephony Traffic

Income from telephony traffic is measured at the fair value of the consideration received or receivable, less effective discounts and value added tax at the moment upon which services have been provided.

Income from the sale of telephone cards is recognized proportionate to the usage amount. Unused amounts at the end of the reporting period are included under "Deferred income".

(b) Telecommunication Subscription

The telecommunication subscription represents a fee charged for telephone line usage. Subscriptions are invoiced one month in advance, irrespective of a subscriber's use of the network.

(c) New Subscribers

Income from the connection of new subscribers to fixed telephony represents income earned on invoiced fees for the connection of new subscribers and installation costs. The bills for new customer connections are recorded in the period in which the user is connected.

(d) Income from Other Telecommunication Services

This income primarily includes lease of telephony capacities, i.e., telephone lines, data services, call listings, voice mail and other services. Such income is recognized and recorded in the accounting period during which it arises.

2.3.2. Mobile Telephony Income

Mobile telephony income is associated with the income earned on users who use prepaid and postpaid services, such as spent call minutes, text and multimedia messages, monthly fees, data services, sold mobile telephones, etc.

Income is recorded at the invoiced value, less effective discounts and applicable value added tax, at the moment in which the services have been provided.

Prepaid services (e-charges) are recognized and recorded at the moment of sale of the prepaid cards, and at the end of the accounting period any unused amounts are included under "Accrued income".

Mobile telephony fees are invoiced for the month in which mobile network has been used.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Fixed and Mobile Telephony Income (Continued)

2.3.3. Multi-Element Agreements (MEA)

Multi-element agreements (MEA) are treated as agreements the components of which are independent and to which different accounting treatments are applied.

Each agreement element has the value for the beneficiary independently of other elements to the agreement.

A mobile phone, as the part of the package, is recognized as an expense (material for rendering services), and the income earned on the sale of a mobile phone is credited to income when the sale is realized, i.e., when the mobile telephone is delivered to the package user.

2.3.4. Combined Service Packages

The Company also provides the combined service packages to its customers which, with a contractual obligation, enable use of IPTV services in addition to fixed telephony, ADSL and postpaid mobile packages.

2.4. Income and Expenses from International Traffic Settlements

2.4.1. Income and Expenses from International Fixed Telephony Traffic Settlements

Income and expenses from direct international traffic settlements include the income and expenses generated from all incoming and outgoing international calls realized in countries having direct international traffic and settlement. A portion of income earned or expenses incurred is recorded on the basis of an estimate made in accordance with the internal settlements for realized traffic.

In addition, the Company provides transiting services of incoming traffic from foreign operators which terminate in other incumbent operators' networks.

2.4.2. Income and Expenses from Roaming

Income and expenses arising from incoming and outgoing roaming with foreign mobile operators, which have entered into the International GSM Roaming Agreement with the Company, are recorded in the amounts invoiced both to, and from the mobile network operators. A portion of income earned or expenses incurred is recorded on the basis of an estimate made in accordance with the internal settlements for realized traffic.

Roaming discounts (based on realized, previously agreed amount of roaming) reduce roaming expenses and vice versa.

2.5. Interconnection Income and Expenses

Interconnection income and expenses are recognized as they are incurred in gross amounts, and are presented under sales revenue and other operating expenses.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5. Interconnection Income and Expenses (Continued)

Besides revenues from terminating incoming traffic in the fixed/mobile network of the Company, interconnection revenues include revenues from leased lines for interconnection, revenues from signalling links, revenues from access points in fixed network, as well as income from incoming international traffic from foreign operators' networks, which, through the networks of other national operators, terminates in the Company's network.

In addition to expenses arising from traffic termination from the Company's fixed/mobile network to other operators, interconnection expenses include expenses for leased lines for interconnection of fixed/mobile network, as well as expenses arising from incoming international traffic from foreign operators' networks which, through the Company's network, terminates in networks of other national operators.

2.6. Operating Leases

Leases where the Company does not transfer substantially all the risks and rewards incidental to ownership of a leased asset to the lessee are classified as operating leases.

Revenues based on operating leases are recognized in the income statement in the period to which they relate.

Operating leases relate to the rental of business premises, premises for radio base stations, warehouses and other rental expenses. The aforementioned expenses are recorded in the income statement at the moment in which such expenses arise, on an accrual basis, in accordance with the relevant operating lease agreements.

2.7. Sales of Handsets and Cost of Goods Sold

Sales of handsets mostly relates to the mobile telephones and ISDN devices sold. This income is recorded at the selling date. The cost of goods sold represents the cost of telephones sold and are recorded upon sales.

2.8. Maintenance and Repairs

The maintenance and repair of property, plant and equipment are expensed as incurred at the effective amounts, and have been recognized in the Company's income statement. Maintenance and repairs primarily relate to the maintenance of telecommunication equipment, local networks, computer equipment and software.

2.9. Borrowing Costs

Borrowing costs are recorded as an expense during the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of fund.

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset that necessarily takes a substantial period of time to get ready for its intended use or sale are to be capitalized as part of the cost of the respective asset.

2.10. Dividend Income

Dividend income is recognized when the right to receive payment is established.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11. Foreign Currency Translation and Accounting Treatment of Exchange Gains/Losses and Effects of Foreign Currency Clause Application

Balance sheet and income statement items stated in the financial statements are valued by using currency of primary economic environment (functional currency). As disclosed in Note 2.1, the accompanying financial statements are stated in thousands of Dinars (RSD), which represents the functional and official reporting currency of the Company.

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 38).

Foreign currency transactions are translated into RSD at the official exchange rates published by the National Bank of Serbia, in effect at the date of each transaction.

Foreign exchange gains or losses arising upon the translation of assets, liabilities and transactions are credited or debited as appropriate, to the income statement, as part of finance income/expense (Notes 11 and 12).

Income or expenses arising upon the translation of assets and liabilities by applying contractual foreign currency clause are credited or debited as appropriate, to the income statement, as part of finance income/expense (Notes 11 and 12).

2.12. Property, Plant and Equipment

Property, plant and equipment of the Company at 31 December 2011 comprise property and equipment.

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Cost comprises the purchase price including import duties, non-refundable taxes, and any directly-attributable costs of bringing the asset to working condition for its intended use. Any trade discounts and/or rebates received (grants) are deducted in arriving at the purchase price. The cost of self-constructed property and equipment is its cost at the date upon which its construction or development was completed.

Property and equipment is capitalized for tangible fixed assets if it is expected that their useful economic life will exceed one year. Subsequent investment in property and equipment, which value at the time of investment is higher than the average gross salary in the Republic of Serbia according to the most recent data published by the Republic Bureau for Statistics, increases the cost of the asset.

Capital improvements, renewals and repairs that extend the useful life of an asset are capitalized. Repairs and maintenance are expensed as incurred and are shown as operating expenses (Note 2.8).

Gains from the disposal of property and equipment are credited directly to "Other income", whereas any losses arising on the disposal of property and equipment are charged to "Other expenses". The useful lives are reviewed at least at each financial year-end and, if there is a change in the expected pattern of consumption of the future economic benefits embodied in the asset, the depreciation rate is changed to reflect the changed pattern.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.13. Intangible Assets

Intangible assets consist of software, licenses, other rights, long-term rent and other intangibles. Intangible assets are stated at cost less accumulated amortization and accumulated impairment losses, if any.

Costs associated with maintaining computer software programmes are recognized as an expense as incurred.

Research and development costs are recognized as an expense as incurred (Note 10).

2.14. Depreciation and Amortization

Depreciation and amortization of property and equipment and intangible assets are provided on a straight-line basis in order to fully write off the cost of the assets over their estimated useful lives.

The depreciation and amortization of property and equipment and intangible assets are provided at rates based on the estimated useful life of property and equipment as estimated by the Company's management and adopted by the Company's Managing Board. Competent departments of the Company revise the useful life of property and equipment periodically.

The principal annual depreciation rates in use for classes of property and equipment are as follows:

Property	1.5% – 10%
Equipment for fixed telephony	2.5% – 50%
Equipment for mobile telephony	6.67% – 20%
Transportation equipment	10% – 33.33%
Computer equipment	10% – 33.33%
Other equipment	6.67% – 33.33%

The principal annual amortization rates in use for intangible assets are as follows:

License for fixed wireless access (CDMA)	10%
Software licenses	20% – 50%
Software licenses – mobile telephony	10%
Software	20% – 33.33%

Depreciation and amortization on property, plant, equipment and intangible assets begins when the related assets are placed in service. Land is not depreciated.

The calculation of the depreciation and amortization for tax purposes is determined by the Law on Corporate Income Tax of the Republic of Serbia ("RS Official Gazette", no. 25/2001, 80/2002, 43/2003, 84/2004 and 18/2010) and the Rules on the Manner of Fixed Assets Classification in Groups and Depreciation for Tax Purposes ("RS Official Gazette", no. 116/2004 and 99/2010). Different depreciation methods used for the financial reporting purposes and the tax purposes give raise to deferred taxes (Note 16(c)).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.15. Impairment of Non-financial Assets

In accordance with adopted accounting policy, at each reporting date, the Company's management reviews the carrying amounts of the Company's intangible assets and property and equipment. If there is any indication that such assets have been impaired, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

If the recoverable amount of an asset is estimated to be less than its carrying value, the carrying amount of the asset is reduced to its recoverable amount, being the higher of an asset's fair value less costs to sell and value in use. Impairment losses, representing a difference between the carrying amount and the recoverable amount of tangible and intangible assets, are recognized in the income statement as required by IAS 36 "Impairment of Assets".

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

2.16. Inventories

Inventories are primarily stated at the lower of cost and net realizable value. Cost includes the invoiced value, transport and other attributable expenses. Cost is computed using the weighted-average method. The net realizable value is the price at which inventories may be realized in the normal course of business, after allowing for the costs of realization.

Allowances that are charged to "Other expenses" are made where appropriate in order to reduce the carrying value of such inventories to management's best estimate of their net realizable value. Inventories found to be damaged or of a substandard quality are written off in full.

Inventories of goods for resale are valued at their selling prices throughout the year. At the end of the accounting period, their value is adjusted to cost by an apportionment of the related selling margin and value added tax, which is calculated on an average basis between the cost of goods sold and the inventories held at the end of accounting period.

Valuation of Mobile Telephones on Stock

The sale of mobile phones in the Company is mostly realized through MEAs (multi-element agreement), i.e. as a part of a package.

The sale of mobile phones within MEA is an activity which is executed with a view to stimulate and increase the sale volume of certain services (packages) to the new users. The mobile phones are sold at lower prices as a part of the Company's business strategy. The Company, in return, enters agreements with package users for a certain periods of time which ensure future economic benefits to the Company. The Company expects to compensate for the cost of a mobile telephone which it sells at lower prices, at the same time stimulating and enhancing sale of different services to the package users.

The valuation of the inventories is carried at cost whereas the expense (material for rendering services) is realized when the mobile phone is sold, i.e. delivered to the user based on multi-element agreement (Note 2.3.3).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.17. Investments in Subsidiaries

Subsidiary is a legal entity in which the Company possesses a stake of more than 50 percent, or otherwise holds more than half of voting rights, or the right to manage the financial (business) policy of the subsidiary. Equity investments in subsidiaries are stated at historical cost.

If there is any indication that investments in subsidiaries have been impaired, the recoverable amount of the investment is estimated in order to determine the extent of an impairment loss. If the recoverable amount of an investment is estimated to be lower than its carrying value, the carrying amount of the investment is reduced to its recoverable amount, and the impairment loss is recognized as an expense of the period.

2.18. Financial Instruments

All financial instruments are initially recognized at fair value (usually equal to the consideration paid) including any directly attributable transaction costs of acquisition or issue of the financial asset or financial liability, except for financial assets and financial liabilities at fair value through profit and loss.

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

2.18.1. Financial Assets

Management determines the classification of its financial assets at initial recognition. The classification depends on the purpose for which the financial assets were acquired. Regular way purchases and sales of financial assets are recognized on the settlement date.

The Company's financial assets include cash and short-term deposits, employee loans and other long-term financial placements and trade and other receivables.

The Company has classified its financial assets into the category "loans and receivables".

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

The Company has not classified any of its financial assets upon initial recognition as at fair value through profit and loss, available for sale or held to maturity.

Financial assets are derecognized when the rights to receive cash flows from the asset have expired or have been transferred, and the Company has transferred substantially all risks and rewards of ownership.

The subsequent measurement of financial assets depends on their classification as follows:

(a) Other Long-Term Financial Placements

Other long-term financial placements include the long-term interest-free receivables from employees based on approved housing (residential) loans, long-term interest bearing receivables from employees for granted loans as participation in housing loans and in interest, and other long-term loans to employees, as well as other non-current receivables.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.18. Financial Instruments (Continued)

2.18.1. Financial Assets (Continued)

(a) Other Long-Term Financial Placements (Continued)

Employee housing loans are measured based on their amortized cost using the interest rate at which the Company could obtain long-term borrowings, which is approximately the effective interest rate.

An allowance for impairment of receivables from employees is established when there is objective evidence that the Company will not be able to collect all of the amounts due according to original terms of the receivables. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's effective interest rate.

(b) Accounts Receivable

Accounts receivable are stated at their invoiced values, less allowance for impairment. An allowance for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to original terms of the receivables.

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy of financial reorganization, and default or delinquency in payments (more than 60 days overdue) are considered indicators that the receivable is impaired.

A provision for impairment is made on the basis of the ageing of the receivables balances and historical experience, and when the partial or full collection of an account receivable is deemed to be no longer probable.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of loss is recognized in the income statement within "Other expenses" (Note 14). When a receivable is uncollectible, it is written off against the allowance account for accounts receivable. Subsequent recoveries of amounts previously written off and reversal of the previously recognized impairment loss are credited to "Other income" (Note 13).

2.18.2. Financial Liabilities

Management determines the classification of its financial liabilities at initial recognition. The Company's financial liabilities include loans and borrowings and trade and other payables (operating liabilities).

Financial liabilities are derecognized when the Company fulfils the obligations, or when the contractual repayment obligation has either been cancelled or has expired.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of the existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.18. Financial Instruments (Continued)

2.18.2. Financial Liabilities (Continued)

The subsequent measurement of financial liabilities depends on their classification as follows:

(a) Loans Received from Banks and Suppliers

Loans received from banks and suppliers are initially recognized at the amount of the loan disbursements received (i.e. fair value), and are subsequently stated at the amortized cost that is computed based on the contractual interest rate. The Company's management judges that the effects of application of contractual instead of effective interest rate as required by IAS 39 "Financial Instruments: Recognition and Measurement", have no material effect on the financial statements. Loans bear mostly variable market interest rates and prepaid loan origination fees are deferred over the life of the loan using the straight-line method.

Liability is classified as current if it is expected to be settled in the Company's normal operating cycle, i.e. if payment is due within 12 months or less after the reporting period. All other liabilities are classified as non-current.

(b) Operating Liabilities

Trade payables and other short-term liabilities are subsequently measured at amortized cost, being the amount of the consideration received due to the short-term nature of these liabilities.

2.18.3. Offsetting Financial Instruments

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

2.19. Accrued Expenses and Income

Accruals primarily comprise computed and unbilled income for services performed during the current reporting period, which are billed in the subsequent period, as well as prepaid expenses.

Estimated expenses for services received in the current, but invoiced in next accounting period, as well as deferred income, are recorded within accruals.

2.20. Cash and Cash Equivalents

Cash and cash equivalents include cash on current accounts held with banks, cash on hand and any other highly-liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash, and are subject to an insignificant risk of changes in value.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21. Granted Assets

Granted assets (e.g., telephony equipment, local area networks and related equipment) received from municipalities and other entities are capitalized at invoiced, or fair (market) value. Such assets are credited to deferred income at fair value, and are released to current income as performed in the amount of the depreciation of the related assets.

The fair value of the equipment delivered is reduced by the amount of assets received free of charge from the suppliers, i.e., granted assets (e.g., telecommunications equipment and software) in proportion to the value of the equipment granted in accordance with the agreement, in cases when granted assets can be allocated to the specific purchases.

2.22. Provisions and Contingencies

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

Provisions for retirement benefits and jubilee awards are measured at the present value of the estimated future cash outflows using interest rates of high-quality securities that are denominated in the currency in which the benefits will be paid (Note 27).

Provisions for legal proceedings represent the Company management's best estimates of the expenditures required to settle such obligations (Note 27).

Contingent liabilities are not recognized in the financial statements. They are disclosed (Note 35) unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

2.23. 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 tax and 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 due to its employees by the Pension Fund of the Republic of Serbia upon their retirement.

Tax and contributions payable on behalf of the employee and employer are charged to expenses in the period in which they arise.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.23. Employee Benefits (Continued)

(b) Obligations for Retirement Benefits and Jubilee Anniversary Awards

Pursuant to the Company's signed collective bargaining agreements, the Company is obligated to pay retirement benefits in an amount equal to three monthly salaries earned by the employee in the month prior to the payment of his/her terminal wage, which is not to be less than three times the average gross salary effective in the Company in the month prior to the payment of his/her terminal wage. Furthermore, the Company provides between one half and three average monthly salaries to be paid out as a jubilee employment anniversary award.

The number of monthly salaries for jubilee employment anniversary awards corresponds to the total number of the employee's years of service in the Company or in JP PTT (except for the ten-year jubilee award, which is related only to the years of service in the Company) as presented in the table below:

Total Number of Service Years	Number of Salaries
10	1/2
20	1
30	2
35	3

The Company recognizes long-term liabilities for retirement benefits and employment anniversary awards by discounting expected future payments to its present value, based on the actuarial calculation. Since these are long-term employee benefits, and not post employment benefits, actuarial gains and losses as well as past service cost are recognized in the period in which they arise.

(c) Termination of Employment (Voluntary Resignations from the Company)

At its LIX regular meeting held on 13 July 2011, the Company's Managing Board adopted the Business policy for stimulating the voluntary resignation of employees from the Company.

Funds for this purpose are planned in the Revised Business Plan for 2011.

In addition, on 18 November 2011, the Company's Managing Board brought the Amendments to the Business policy for stimulating the voluntary resignation of employees from the Company with certain changes in the part related to employees' rights to apply for the contest.

Contests were conducted and completed throughout 31 December 2011. The total of 597 employees left the Company on this basis.

It has been envisaged that certain categories of employees who wish to voluntarily terminate their employment contract and at the same time do not fulfil the regular retirement requirements, could exercise their right to a specific termination benefit.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.23. Employee Benefits (Continued)

(c) Termination of Employment (Voluntary Resignations from the Company) (Continued)

The benefit amount is determined based on the number of remaining months until regular retirement, multiplied by the gross salary amount, but not to exceed approximately 20 to 55 monthly gross salaries, as summarized in the table below:

Categories	Number of Years Until Retirement	Number of Maximum Gross Salaries
I	Requirement fulfilled	20
II	< 1	25
	1 – 2	30
	2 – 3	35
	3 – 4	40
	4 – 8	45
III	> 8	55

The maximum individual amount of one-off payment cannot exceed EUR 25,000.

Benefits for voluntary employment termination are recorded as an expense during the period in which employees have entered the contest and fulfilled the contest requirements, i.e. for those who have left the Company at the reporting date and consequently have no further receivables from the Company.

In 2010, there were no voluntary employee resignations from the Company.

(d) Short-Term Compensated Absences

Accumulating compensated absences may be carried forward and used in future periods if the current period's entitlement has not been fully used. The expected cost of accumulated compensated absences is recognized in the amount that is expected to be paid as a result of the unused entitlement that has accumulated as of the reporting date. In the instance of non-accumulating compensated absences, no liability or expense is recognized until the time of the absence.

(e) Employee Profit-Sharing

Pursuant to the decision of the competent statutory Company's body or other relevant management's decision, the Company recognizes a liability and an expense for employee profit-sharing.

Employee profit-sharing include both fixed and variable component, with a variable component being based on the management estimate on the contribution of each employee to the Company's performance and operating result.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.24. Taxes and Contributions

(a) Income Taxes

Current Income Tax

Current income tax is calculated and paid in accordance with the effective Law on Corporate Income Tax ("RS Official Gazette", no. 25/2001, 80/2002, 43/2003, 84/2004 and 18/2010) and by-laws. Income tax is payable at the rate of 10% on the tax base reported in the annual corporate income tax return, and can be reduced by any applicable tax credits. The tax base includes the taxable profit, determined by adjusting the taxpayer's result (profit or loss) reported in the income statement, in the manner prescribed by this Law.

In accordance with the Law on Corporate Income Tax, tax credit is recognized in the amount equal to 20% of the investments in own property and equipment used to perform the core activities and the activities registered in the Memorandum of Association or other document of the taxpayer, but it cannot exceed 50% of a tax liability in the year in which the investment was made.

The non-utilised part of the tax credit in respect of investments in property and equipment can be carried forward to the profit tax account in the future accounting periods, but not for longer than ten years. In each year, the tax credit deriving from investments made in that year is to be applied first, and thereafter, the carried forward tax credits from previous years are to be used in the order of investment, up to the limit of 50% of calculated tax in a stated year.

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

Deferred Income Tax

Deferred income taxes are provided for the temporary differences arising between the tax bases of assets and liabilities and their carrying values in the financial statements. The currently-enacted tax rates or the substantively-enacted rates at the reporting date are used to determine the deferred income tax amount.

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

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

Current and deferred taxes are recognized as expense or income and are included in the profit for the reporting period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.24. Taxes and Contributions (Continued)

(b) Taxes, Contributions and Other Duties Not Related to Operating Result

Taxes, contributions and other duties that are not related to the Company's operating result include property taxes, and various other taxes and contributions paid pursuant to republic and municipal regulations. These taxes and contributions are included within other operating expenses (Note 10).

2.25. Earning per Share

The Company discloses basic earning per share. Basic earning per share is calculated by dividing net profit attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding during the period (Note 26).

2.26. Dividends on Ordinary Shares

Dividends on ordinary shares are recognized as a liability and deducted from equity in the period in which they are approved by the Company's shareholders. Dividends for the year that are declared after the reporting period are disclosed as an event after the reporting period.

2.27. 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 has 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. Outstanding balances of receivables and liabilities at the reporting date, as well as transactions occurred during the reporting periods with related parties are separately disclosed in notes to the financial statements (Note 33).

2.28. Operating Segment Information

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses (including inter group transactions), whose operating results are regularly reviewed by the Company's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Common costs allocation is based on the Company's management best estimation.

The segment information for the reportable operating segments, based on the Company's organization of business activities, is disclosed in Note 36 to the financial statements.

3. FINANCIAL RISK MANAGEMENT

In the ordinary course of business, the Company is exposed to a different extent to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), liquidity risk and credit risk.

The Company's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial position and performance. Risk management has been defined by the Company's accounting and financial policies as adopted by the Managing Board. There have been no changes in the risk management policies during the year ended 31 December 2011.

Categories of financial instruments, presented at their carrying amounts as of 31 December 2011 and 2010, are summarized in the table below:

	2011	2010
Financial assets		
Other long-term placements	1,675,100	1,239,511
Trade and other receivables, excluding prepayments and accrued income	13,009,766	13,252,741
Cash and cash equivalents	14,018,543	7,949,392
	28,703,409	**22,441,644**
Financial liabilities at amortized cost		
Borrowings	45,655,783	63,089,375
Payables and other current liabilities, excluding accruals	17,206,891	7,684,220
	62,862,674	**70,773,595**

No trading transactions with financial instruments, such as interest rate swaps or forwards, were undertaken by the Company during the year ended 31 December 2011 and 2010, but it entered into agreements on covered forward transactions.

There were no reclassifications of financial assets during the year ended 31 December 2011.

The summary of significant accounting policies and methods applied, including the basis for measurement and recognition of income and expenses for each category of financial assets, financial liabilities and equity instruments, are disclosed in Note 2 to the financial statements.

3.1. Market Risk

(a) Currency Risk

The Company 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 denominated in foreign currency.

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1. Market Risk (Continued)

(a) Currency Risk (Continued)

Management has set up a policy to manage its foreign exchange risk against its functional currency. Contracting a foreign currency clause with domestic suppliers is possible only for a contract which comprises credit line and lease agreements as well.

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. In addition, during the current reporting period the Company entered into agreements on forward transactions.

At 31 December 2011, if the local currency (RSD) has strengthened/weakened by 10% against all currencies other than functional currency (i.e. RSD/EUR exchange rate was RSD 94.1768/115.1050 for EUR 1) with all other variables held constant, profit after tax for the year 2011 would have been RSD 3,471,237 thousand (2010: RSD 5,672,626 thousand) higher/lower, mainly as a result of foreign exchange gains/losses on translation of borrowings denominated in foreign currencies and receivables/liabilities from international settlement.

Profit is less sensitive to fluctuations in foreign currency rates during the year ended 31 December 2011 than in 2010 due to increase in value of RSD toward EUR, which was additionally affected by the decrease in foreign currency denominated liabilities, influencing consequently equity at 31 December 2011.

At 31 December 2011, financial assets in the amount of RSD 12,350,765 thousand (31 December 2010: RSD 8,028,908 thousand) are denominated in EUR, which represents 96.8% (2010: 96.9%) of the total financial assets of the Company denominated in foreign currencies.

At 31 December 2011, financial liabilities denominated in EUR amount to RSD 41,252,901 thousand (31 December 2010: RSD 57,933,386 thousand), which represents 99.1% (2010: 99.4%) of the total financial liabilities of the Company denominated in foreign currencies.

(b) Interest Rate Risk

The Company is exposed to risk from changes in interest rates, which, through changes in the level of market interest rates, affect its financial position, operating results and cash flows.

As the Company has no significant interest-bearing assets, the Company’s income and operating cash flows are substantially independent of changes in market interest rates.

The Company’s interest rate risk arises mainly from long-term borrowings from banks and suppliers. 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.

During 2011 and 2010, the majority of the Company’s borrowings (99%) were granted at variable interest rates, which are tied to Euribor. The Company’s borrowings at variable rate were mainly denominated in the foreign currency (EUR).

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1. Market Risk (Continued)

(b) Interest Rate Risk (Continued)

Gross interest rate accrued on loans granted by suppliers cannot exceed the rate equal to Euribor increased by margin up to 2% per annum; while for contracts stated in domestic currency, adjustment of prices is performed on the basis of consumer price index (CPI) growth over 5% only during the grace period.

The Company analyses its interest rate exposure on a dynamic basis, taking into consideration alternative resources of financing and refinancing, primarily for long-term borrowings as they represent the major interest-bearing position.

The Company does not yet manage its cash flow interest rate risk by using floating-to-fixed interest rate swaps due to the existing legislation and undeveloped financial market, but undertakes adequate measures to provide loans from banks at the most favourable conditions.

At 31 December 2011, if interest rates on currency-denominated borrowings at that date (both from banks and suppliers) had been 0.1 percentage point higher/lower on an annual basis with all other variables held constant, profit after tax for the year 2011 would have been RSD 35,417 thousand (2010: RSD 61,505 thousand) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

At 31 December 2011, if interest rates on RSD-denominated commodity loans had been 0.1 percentage point higher/lower on an annual basis with all other variables held constant, profit after tax for the year 2011 would have been RSD 6,700 thousand (2010: RSD 4,467 thousand) lower/higher, mainly as a result of higher/lower interest expense.

(c) Price Risk

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

On the other hand, the Company is exposed to services price risk, due to intense competition in mobile telephony, internet services and multimedia, as well as appearance of competitive operators in fixed telephony services. The Company strives to mitigate this risk by introducing various services to its customers.

Furthermore, as stated in Note 1 to the financial statements, the Republic Agency for Electronic Communications (the “Agency”) imposed, among others, price control obligation for certain markets on which the Company has been declared as the operator with the significant market power.

Pursuant to the Decision of the Managing Board of the Agency dated 16 June 2011, starting from 1 August 2011, the subscription fee for a direct fixed telephony connection has been increased to RSD 430 and includes 300 free pulses (instead of the previous 150).

Local calls rates were increased, whereas long distance call rates were reduced. In addition, pursuant to the Agency’s Decision, the rates for termination in the fixed network for traffic coming from the mobile network were reduced, while rates for termination of traffic coming from other fixed networks were increased and brought to cost basis.

3. FINANCIAL RISK MANAGEMENT (Continued)

3.2. Liquidity Risk

Liquidity management is centralized in the Company. The Company manages its assets and liabilities in such a way that it can fulfil its due obligations at all times.

The Company has sufficient highly liquid funds (cash and cash equivalents), as well as a continuous inflow of cash from services rendered, to meet its commitments on due dates. The Company generally does not use financial derivatives.

In order to manage liquidity risk, the Company has adopted financial policy which defines the maximal amount of advance payments to constructors and suppliers of equipment, grace period and repayment period which depends on the agreed procurement value.

In addition, pursuant to the Company's internal policy, dispersion in authorities in respect of decision making process in procurement of goods and services has been made.

This dispersion has been provided by setting up the prescribed limits up to which authorized person or management bodies may decide.

The following limits have been determined: the coordinator of sections in Technical Affairs Division and Corporative Affairs Division at the territory level of organization may decide independently on purchases up to EUR 3,000; the Manager of the Function may independently decide on purchases up to EUR 30,000; the Chief Officer of the Division may independently decide on purchases up to EUR 50,000; Deputy Director General may independently decide on purchases up to EUR 80,000; Director General may independently decide on purchases up to EUR 2.5 million, while the purchases exceeding the amount of EUR 2.5 million are approved by the Managing Board.

3. FINANCIAL RISK MANAGEMENT (Continued)

3.2. Liquidity Risk (Continued)

The following table details the Company's remaining contractual maturity for its non-derivative financial assets and liabilities at 31 December 2011 and 2010.

The table has been drawn up based on the undiscounted cash flows of financial assets (in the gross amount) and liabilities based on the earliest date on which the Company can be required to pay its debt or receive amounts due to the Company. The table includes both interest and principal cash flows.

	Up to 3 month	From 3 to 12 months	From 1 to 2 years	From 2 to 5 years	Over 5 years	Total
Financial assets						
At 31 December 2011						
Non-interest bearing	24,088,974	262,041	228,732	677,526	1,368,957	26,626,230
Fixed interest rate instruments	14,024,809	21,168	28,225	84,674	126,012	14,284,888
Total	**38,113,783**	**283,209**	**256,957**	**762,200**	**1,494,969**	**40,911,118**
At 31 December 2010						
Non-interest bearing	23,509,637	400,909	94,285	282,623	1,245,432	25,532,886
Fixed interest rate instruments	7,948,790	-	-	82,317	160,468	8,191,575
Total	**31,458,427**	**400,909**	**94,285**	**364,940**	**1,405,900**	**33,724,461**
Financial liabilities						
At 31 December 2011						
Non-interest bearing	10,000,847	7,206,628	429	925	1,884	17,210,713
Fixed interest rate instruments	65,772	-	-	-	-	65,772
Fluctuating interest rate instruments	2,215,263	27,133,550	7,218,279	10,776,061	221,061	47,564,214
Total	**12,281,882**	**34,340,178**	**7,218,708**	**10,776,986**	**222,945**	**64,840,699**
At 31 December 2010						
Non-interest bearing	7,684,776	-	3,748	-	-	7,688,524
Fixed interest rate instruments	67,744	69,226	66,310	-	-	203,280
Fluctuating interest rate instruments	4,945,278	17,693,678	27,936,613	13,780,563	1,107,148	65,463,280
Total	**12,697,798**	**17,762,904**	**28,006,671**	**13,780,563**	**1,107,148**	**73,355,084**

Maturity structure of borrowings is presented in Note 28(b), while liabilities towards suppliers (Note 29) are payable within 12 months after the reporting period.

3. FINANCIAL RISK MANAGEMENT (Continued)

3.2. Liquidity Risk (Continued)

The table below analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts discloses in the table are the contractual undiscounted payments.

	Up to 3 month	From 3 to 12 months	From 1 to 2 years	From 2 to 5 years	Over 5 years	Total
At 31 December 2011						
Interest-bearing loans and borrowings	2,281,181	27,133,988	7,218,708	10,776,986	222,945	47,633,808
Accounts payable	6,633,782	-	-	-	-	6,633,782
Other current Liabilities	3,366,919	7,206,190	-	-	-	10,573,109
Total	**12,281,882**	**34,340,178**	**7,218,708**	**10,776,986**	**222,945**	**64,840,699**
At 31 December 2010						
Interest-bearing loans and borrowings	5,013,578	17,762,904	28,006,671	13,780,563	1,107,148	65,670,864
Accounts payable	5,652,194	-	-	-	-	5,652,194
Other current liabilities	2,032,026	-	-	-	-	2,032,026
Total	**12,697,798**	**17,762,904**	**28,006,671**	**13,780,563**	**1,107,148**	**73,355,084**

The Company has regularly repaid its borrowings in the past, and intends to repay its borrowings according to the contractual repayment plans.

3.3. Credit Risk

Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions.

The Company is exposed to credit risk to a limited degree. Credit risk is managed by taking certain measures and activities on the Company basis. In case of default in payments, the Company disables further rendering of services to the customers. In addition, the Company has no significant concentrations of credit risk, due to its customer base being large, with individually small amounts, and unrelated. Besides disabling further rendering of services, in order to secure payments, the Company also carries out the following measures: rescheduling of debts, compensations with corporate customers, initializing lawsuit, out-of-court settlements and other.

Receivables from roaming and international settlement are not directly influenced by the local market conditions. These receivables are based on firm bilateral agreements, which presume simultaneous and mutual rendering of services.

Information on credit risk exposure with respect to these receivables is disclosed in Note 23 to the financial statements.

Repayment of loans granted to the Company's employees is secured through the administrative ban on salaries, i.e. a salary deduction in the appropriate amount of the instalment.

3. FINANCIAL RISK MANAGEMENT (Continued)

3.4. Capital Risk Management

The Company has adopted a financial capital concept and its maintenance pursuant to which the capital has been defined on the basis of nominal cash units. According to the foundation method, the Company is a closed joint stock entity (Note 26).

Pursuant to the Conclusion 05 no. 023-9705/2010 dated 23 December 2010, the Government of the Republic of Serbia recommended to the Company to undertake all activities necessary in order to convert the Company from closed into an open joint stock entity.

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's strategy in respect of capital risk management has remained unchanged from the previous year.

The Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital.

The gearing ratios at 31 December 2011 and 2010 were as follows:

	2011	2010
Total non-current and current borrowings	45,655,783	63,089,375
Less: Cash and cash equivalents	(14,018,543)	(7,949,392)
Net debt*	**31,637,240**	**55,139,983**
Total equity	131,002,886	122,294,139
Total capital**	**162,640,126**	**177,434,122**
Gearing ratio	**19.5%**	**31.1%**

* *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.*

The decrease in the gearing ratio at 31 December 2011 resulted primarily from repayment borrowings, as well as from increase in equity due to a net profit realized for the year ended 31 December 2011.

3. FINANCIAL RISK MANAGEMENT (Continued)

3.5. Judgements on the Effects of the Global Financial Crisis

The effects of the ongoing global financial crisis that had started to become felt in the Republic of Serbia in the last quarter of 2008, have continued to cause the liquidity problems, fluctuations in the exchange rate of the Dinar against foreign currencies and decrease in the commercial activities and the purchasing power of the population and economy in 2010 and 2011.

Due to the second wave of the global crisis, currently intensively present in most of the European economies and its effects on local economic activities, it seems that business entities will probably operate in a more difficult and uncertain economic environment in 2012, and possibly beyond. At present, it is impossible to fully predict the impact of the crisis on the economic situation in the country and business activities of legal entities, and therefore an element of general uncertainty is present.

The Company's management anticipates that the effects of the crisis to the economic environment in the country will affect the scope of economic activities, import prices, degree of collection of receivables, as well as the possibility of securing new loans or refinancing the existing ones. The Company continuously examines the economic parameters and assumptions necessary for further coordination of its activities with the complex economic situation and environment in which it operates. These examinations encompass the impact of the crisis on the following most important areas:

- *The effect of the crisis to the current and future liquidity* (primarily by the end of 2012) from the standpoint of collection of receivables from debtors whose liquidity and solvency cannot be estimated at present; the Company's ability to settle liabilities toward suppliers and creditors; and the possibility of obtaining favourable sources of financing for overcoming critical situations. The Company's management does not expect significant problems in collection of its receivables in the future period and in cash flows, but considers that the liquidity risk management and securing the appropriate sources of financing will be the key determination of the management and the governing bodies of the Company in future.

- *The effect of the crisis to the settlement of liabilities arising from loans extended in dinars, and, especially, in foreign currencies.* Although the Company's current liabilities as of 31 December 2011 exceed its current assets by RSD 24,374,273 thousand, the Company does not have liquidity problems, and/or problems with settlement of its liabilities. During 2011, the Company repaid the borrowing per Arrangement A from Citibank N.A., London in the amount of EUR 69.96 million. As of 31 December 2011, the Company completely repaid borrowings from Deutsche Bank A.G., London branch and Banca Intesa a.d., Belgrade. Moreover, the Company has considerable equity, which can also mitigate market risks. The management expects that the Company will be able to fulfil all its contracted liabilities arising from extended loans in accordance with the contracted terms.

The effects of the global financial crisis so far have had a limited impact on the Company's operations and its performance. One of the reasons for such situation is that despite the fact that the information-communication technology sector is not among the most affected sectors, the Company has undertaken measures in accordance with its risk management policies for the purposes of maintaining the satisfactory level of collection of receivables, liquidity and securing appropriate sources of financing, primarily for the settlement of borrowings in the future period.

In addition, the Company has expanded its activities by introducing new services, such as combined service packages (fixed telephony, ADSL, mobile telephony, IPTV), new additional services in fixed and mobile telephony, WEB TV, etc.

3. FINANCIAL RISK MANAGEMENT (Continued)

3.5. Judgements on the Effects of the Global Financial Crisis (Continued)

The management deems that, in the given circumstances, it undertakes all necessary measures in order to secure the sustainable growth and development of the Company in the future.

Furthermore, the management cannot reliably estimate the further effects of the crisis to the economic environment in the Republic of Serbia, or the impact on the financial position and the results of the Company's operations, but they consider that the crisis cannot jeopardize the Company's ability to continue as a going concern.

3.6. Fair Value of Financial Assets and Liabilities

It is a policy of the Company to disclose the fair value information of those components of assets and liabilities for which published or quoted market prices are readily available, and of those for which the fair value may be materially different than their recorded amounts. A market price, where an active market exists, is the best evidence of the fair value of a financial instrument. However, market prices are not available for a significant number of financial assets and liabilities held by the Company. Therefore, for financial instruments where no market price is available, the fair values of financial assets and liabilities are estimated using present value or other estimation and valuation techniques based on current prevailing market conditions.

Since in the Republic of Serbia, sufficient market experience, stability and liquidity do not exist for the purchase and sale of receivables and other financial assets or liabilities, published market prices are presently not readily available. As a result, fair value cannot readily or reliably be determined in the absence of an active market. The Company's management assesses its overall risk exposure, and in instances in which it estimates that the value of assets stated in its books may not have been realized, it recognizes a provision.

The following methods and assumptions were used to estimate the fair values of the Company's financial instruments as of 31 December 2011 and 2010:

The Company does not have financial assets or financial liabilities carried at fair value in the balance sheet. The fair values of cash and short-term deposits, trade receivables, other receivables, trade payables and other current liabilities approximate their current amounts largely due to the short-term maturities of these instruments.

The fair value of financial assets measured at amortized cost (loans to employees) is estimated by discounting cash flows using a rate based on the market interest rate at which the Company could obtain long-term loans, and which approximates the effective interest rate. The Company's management considers that the carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of long-term borrowings is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company for similar financial instruments. Such fair value does not significantly differ from the carrying amount of long-term borrowings stated in the Company's books of account.

The fair values of financial assets and financial liabilities at the reporting date approximate their carrying amounts disclosed in Note 3 to the financial statements. The fair value of borrowings is disclosed in Note 28(a) to the financial statements.

The Company's management considers that the reported carrying amounts are the most valid and useful reporting values under the present market conditions.

4. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation and presentation of the financial statements requires the Company's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date, as well as income and expenses for the reporting period. These estimations and related assumptions are based on information available as of the reporting date. Actual results could differ from those estimates. These estimates and underlying assumptions are reviewed on an ongoing basis, and changes in estimates are recognized in the periods in which they become known.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Useful Lives of Intangible Assets, Property and Equipment

The determination of the useful lives of intangible assets, property and equipment is based on historical experience with similar assets as well as any anticipated technological development and changes in broad economic or industry factors. The appropriateness of the estimated useful lives is reviewed annually, or whenever there is an indication of significant changes in the underlying assumptions.

The management believes that the accounting estimate related to the determination of the useful lives of intangible assets, property and equipment is a critical accounting estimate since it involves assumptions about technological development in an innovative industry. Further, due to the significant weight of long-lived assets in the total assets, the impact of any changes in these assumptions could be material to the Company's financial position, and the results of its operations. As an example, if the Company was to shorten the average useful life for 10%, this would result in additional depreciation expense of approximately RSD 1,572,643 thousand for the twelve-month period.

Impairment of Non-Financial Assets

The Company's management reviews the carrying amounts of the Company's intangible assets and property and equipment presented in the financial statements at each reporting date. If there is any indication that such assets have been impaired, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying value, the carrying amount of the asset is reduced to its recoverable amount. An impairment review requires management to make subjective judgements concerning the cash flows, growth rates and discount rates of the cash generating units under review.

Impairment of Accounts Receivable and Other Receivables

The Company calculates impairment for doubtful receivables based on estimated losses resulting from the inability of its customers to make required payments. The Company bases its estimate on the aging 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.

The actual level of receivables collected may differ from the estimated levels of recovery, which could impact operational results positively or negatively.

4. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Income and Expenses from International Traffic

The Company has entered into numerous agreements on international traffic in fixed and mobile telephony. The respective income and expenses, as well as receivables and payables resulting from these agreements are presented in the accompanying financial statements, and are associated with revenues and expenses generated on all incoming and outgoing international calls realized with countries with which the Company has direct international settlement.

A portion of the income earned or expenses incurred with respect to international traffic is recorded on the basis of an estimate made in accordance with the internal settlements for realized traffic.

Accounting for Provisions and Contingencies

The Company is subject to a number of claims incidental to the normal conduct of its business, relating to and including commercial, contractual and employment matters, which are handled and defended in the ordinary course of business. The Company routinely assesses the likelihood of any adverse judgements or outcomes to these matters as well as ranges of probable and reasonable estimated losses.

Reasonable estimates involve judgement made by the Company’s management after considering information including notifications, settlements, estimates performed by legal department, available facts, identification of other potentially responsible parties and their ability to contribute, and prior experience. A provision is recognised when it is probable that an obligation exists for which a reliable estimate can be made after careful analysis of the individual matter. The required provision may change in the future due to new developments and as additional information becomes available.

Matters that are either possible obligations or do not meet the recognition criteria for a provision are disclosed, unless the possibility of transferring economic benefits is remote.

Deferred Tax Assets

Deferred tax assets are recognized for all tax credits to the extent to which taxable profit will be available against which the unused tax credits can be utilized.

Significant estimate of the management is necessary to determine the amount of deferred tax assets which can be recognized, based on the period in which it was created and the amount of future taxable profits (Note 16(c)).

Retirement and Other Post-Employment Benefits to Employees

The costs of defined employee benefits payable upon the termination of employment, i.e. retirement in accordance with the legal requirements, and the costs of jubilee awards 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 increases in post-employment benefits. As these plans are long-term ones, significant uncertainties influence the outcome of the assessment. The actuarial valuation assumptions are disclosed in Note 27 to the financial statements.

Were the discount rate used to differ by 1 percentage point from management’s estimates, the provision for retirement benefits and anniversary awards would be an estimated RSD 107,208 thousand lower or RSD 121,880 thousand higher.

5. SALES

	2011	2010
Fixed telephony services:		
- Domestic market	37,077,062	36,639,231
- Foreign market	6,705,300	6,839,204
- Related parties	1,574,635	1,694,568
	45,356,997	**45,173,003**
Mobile telephony services:		
- Domestic market	32,726,550	32,773,528
- Foreign market	710,134	1,259,375
- Related parties	153,067	227,865
	33,589,751	**34,260,768**
Retail of internet services:		
- Domestic market	7,016,898	4,965,955
- Related parties	249	142
	7,017,147	**4,966,097**
Multimedia services (IPTV):		
- Domestic market	812,907	357,794
- Related parties	6	24
	812,913	**357,818**
Sales of handsets:		
- Domestic market	2,185	23,140
- Related parties	-	1,972
	2,185	**25,112**
Total	**86,778,993**	**84,782,798**

Pursuant to the Decision of the Managing Board of the Agency dated 12 February 2010, the subscription fee for a direct fixed telephony connection was increased to RSD 388 starting from 1 April 2010.

As disclosed in Note 3.1(c) to the financial statements, starting from 1 August 2011, the subscription fee has been increased to RSD 430 and 300 free pulses have been included in the above fee for residential customers (instead of the previous 150 pulses).

Furthermore, local call rates were increased, whereas long distance call rates were reduced. According to the Decision of the Agency, the rates for termination in the fixed network for traffic coming from the mobile network were reduced, while rates for termination of traffic coming from other fixed networks were increased and brought to cost basis.

5. SALES (Continued)

Structure by sales category is presented in the table below:

	2011	2010
Fixed telephony services:		
Domestic market:	*37,081,681*	*36,910,787*
Traffic	15,326,037	17,468,400
Subscription	14,511,177	12,466,533
Leased circuit and data services	2,633,306	3,081,097
Connection and installation services	958,434	694,320
Interconnection	1,330,154	861,244
Wholesale of internet services	1,436,775	1,603,343
CDMA services	643,475	558,831
Other	242,323	177,019
Foreign market:	*8,275,316*	*8,262,216*
Traffic	7,320,117	6,899,690
Leased circuit and data services	652,183	1,050,026
Internet transit	303,016	312,500
	45,356,997	**45,173,003**
Mobile telephony services:		
Domestic market:	*32,783,686*	*32,889,996*
Prepaid services	13,012,966	14,012,016
Postpaid services:	*13,941,449*	*13,483,947*
- Traffic	7,337,202	7,565,509
- Subscription	6,604,247	5,918,438
Interconnection	5,800,833	5,154,940
National roaming – VIP Mobile d.o.o., Belgrade	28,438	239,093
Foreign market:	*806,065*	*1,370,772*
Roaming	775,708	1,338,254
Other	30,357	32,518
	33,589,751	**34,260,768**
Retail of internet services	**7,017,147**	**4,966,097**
Multimedia services (IPTV)	**812,913**	**357,818**
Sales of handsets:		
Fixed devices	146	85
Mobile phones	2,039	25,027
	2,185	**25,112**
Total	**86,778,993**	**84,782,798**

6. OTHER OPERATING INCOME

	2011	2010
Granted assets:		
- Intangible assets and equipment (Note 31(f))	400,348	414,352
- Other	2,395	13,363
	402,743	**427,715**
Rental income	84,782	85,197
Other	20,333	22,886
Total	**507,858**	**535,798**

7. COST OF MATERIAL

	2011	2010
Material for rendering services	3,379,928	2,285,356
Fuel and energy	1,132,071	943,893
SIM cards	125,955	83,845
Spare parts	212,071	432,224
ADSL modems	384,501	713,843
Inventories for mobile internet access	53,049	116,349
Tools and inventories	27,554	25,488
Other	700,201	698,623
Total	**6,015,330**	**5,299,621**

8. WAGES, SALARIES AND OTHER PERSONNEL EXPENSES

	2011	2010
Gross salaries	9,151,728	8,466,012
Contributions on behalf of the employer	1,633,549	1,511,836
	10,785,277	**9,977,848**
Employee profit-sharing	1,302,793	1,434,249
Withholding tax	144,755	159,361
	1,447,548	**1,593,610**
Retirement benefits for voluntary termination	1,558,095	-
Other personnel expenses	1,167,718	1,087,560
Total	**14,958,638**	**12,659,018**

In accordance with the Revised Business Plan for 2011, approved by the Company's Managing Board at its meeting held on 13 July 2011, funds for employee profit-sharing, which would be paid out in 2012, were anticipated. The budgeted amount consists of fixed and variable component.

9. DEPRECIATION, AMORTIZATION AND PROVISIONS

	2011	2010
Amortization charge (Note 17)	1,582,612	1,789,742
Depreciation charge (Note 18)	15,801,530	15,147,463
	17,384,142	**16,937,205**
Provision for litigations (Note 27)	8,869	24,147
	8,869	**24,147**
Total	**17,393,011**	**16,961,352**

10. OTHER OPERATING EXPENSES

	2011	2010
Network operators:		
Interconnection:		
- Fixed telephony	3,231,533	3,157,106
- Mobile telephony	3,814,924	3,245,942
International settlement and leased circuits	4,249,943	4,470,225
Roaming	1,042,124	1,369,026
	12,338,524	**12,242,299**
Telecommunication license fees, approvals and frequency fees:		
License for mobile telephony (a)	44,675	296,145
License for fixed telephony (b)	40,870	40,750
Radio frequency RRL, RBS and other fees	257,603	333,957
	343,148	**670,852**
Rental expenses	4,284,260	4,281,029
Maintenance	3,790,142	3,592,794
Marketing, advertisement and sponsorship fees	1,730,823	2,045,166
Transport expenses	940,784	1,009,432
Broadcast content fees	779,945	511,696
Consignment sale fees	530,286	469,666
Public utility services and heating	281,898	260,927
Software license	212,347	202,153
Data processing fees	93,296	37,200
Research and development costs	991	9,470
Other production services	357,136	536,619
Hygiene and security services	947,302	940,191
Indirect taxes	939,989	938,041
Insurance premiums	540,327	501,243
Fees and charges	342,019	811,284
Bank charges	227,577	265,824
Youth employment expenses	100,180	128,435
Audit fee and other professional services	98,909	117,245
Education and professional training	90,288	104,185
Entertainment	39,969	55,348
Other general expenses	363,011	244,443
Total	**29,373,151**	**29,975,542**

10. OTHER OPERATING EXPENSES (Continued)

(a) The mobile telephony license fee amounting to RSD 44,675 thousand (2010: RSD 296,145 thousand) relates to the license for public mobile telecommunication network and services for public mobile telecommunication network in accordance with GSM/GSM1800 and UMTS/IMT-2000 standards, granted by the RATEL on 28 July 2006.

For 2011, the license fee is calculated in the amount of 0.5% of the revenues earned from the sales in the commercial year for which the fee is paid pursuant to the new Rule Book on fees for the performance of electronic communications activities ("RS Official Gazette", no. 93 dated 8 December 2010), effective from 1 January 2011.

For 2010, the license fee was calculated in the amount of 0.9% of the total revenues earned in the commercial year for which the fee was to be paid.

(b) The fixed telephony license fee amounting to RSD 40,870 thousand (2010: RSD 40,750 thousand) relates to the license for construction, possessing and exploitation of public fixed telecommunication network and rendering public fixed telecommunication services that was issued for the period throughout 9 June 2017, and the Company may, in six months notice prior to the expiration of this period, submit the request for extension of the existing license.

Pursuant to the new Rule Book on fees for the performance of electronic communications activities, effective from 1 January 2011, the license fee for 2011 was calculated in the amount of 0.08% of the revenues earned from the sales in the commercial year for which the fee is being paid, for the public fixed telecommunications network services provided via operator's own access network (voice service, data transmission, Internet access, media content transmission, etc.).

For 2010, the license fee was calculated in the amount of 0.1% of the total revenue earned from services the license was issued for.

11. FINANCIAL INCOME

	2011	2010
Interest income	1,201,409	1,092,595
Dividend income (Note 20(a))	3,484,546	4,716,916
Foreign exchange gains	2,375,112	1,669,364
Gains from foreign currency clause application	328,250	287,920
Other financial revenues	119,464	246
Total	**7,508,781**	**7,767,041**

Interest income on impaired financial assets amount to RSD 151,209 thousand (2010: RSD 101,324 thousand).

12. FINANCIAL EXPENSES

	2011	2010
Interest expenses	1,620,111	2,002,108
Foreign exchange losses	1,291,636	7,289,860
Losses from foreign currency clause application	341,717	656,509
Total	**3,253,464**	**9,948,477**

Interest expenses on borrowings abroad, incurred during the year ended 31 December 2011, include the amount of RSD 727,997 thousand, representing interest expense for the current reporting period, arising from the syndicated loan granted by Citibank N.A., London (2010: RSD 818,251 thousand).

13. OTHER INCOME

	2011	2010
Reversal of impairment losses (Note 14)	1,933,045	1,599,626
Customer contract cancelation	441,071	498,090
Revenue from charged court dispute	189,896	178,516
Gains on sale of material and waste material	115,875	121,896
Release of provision for retirement benefits and jubilee awards (Note 27)	93,340	138,563
Penalties	74,460	59,088
Fair value adjustment – employee loans	52,978	-
Release of provision for litigations (Note 27)	6,122	11,096
Damage compensations	18,211	19,264
Gains on sale of intangible assets, property and equipment	1,801	8,439
Recoveries of bad debts	84	464
Other income	560,155	592,610
Total	**3,487,038**	**3,227,652**

14. OTHER EXPENSES

	2011	2010
Allowances for impairment of receivables and advances paid	3,283,226	3,914,309
Losses on sale and disposal of intangible assets, property and equipment	172,587	164,377
Impairment of placements (Note 20)	167,610	85,529
Grants and donations	121,755	158,016
Fair value adjustment – employee loans	-	57,025
Write-down of material (Note 22)	21,709	15,776
Direct write-off of material and goods	160,168	384,965
Other	93,125	401,392
Total	**4,020,180**	**5,181,389**

Movements in the allowance for impairment of advances paid and receivables during the years ended 31 December 2011 and 2010 were as follows:

	Advances for intangible assets	Advances for property and equipment (Note 19)	Advances for goods and services	Accounts receivable (Note 23)	Total
Balance as of 1 January 2010	**265**	**81,983**	**40,908**	**8,435,717**	**8,558,873**
Charge for the year	-	17,802	69,603	3,826,904	3,914,309
Reversal of impairment losses (Note 13)	-	(55,613)	(33,436)	(1,510,577)	(1,599,626)
Transfer out of the books based on year-end count	-	-	-	(306,252)	(306,252)
Other movements	-	(463)	(1,347)	41,390	39,580
Balance as of 31 December 2010	**265**	**43,709**	**75,728**	**10,487,182**	**10,606,884**
Charge for the year	2,110	38,486	101,726	3,140,904	3,283,226
Reversal of impairment losses (Note 13)	-	(58,319)	(93,147)	(1,781,579)	(1,933,045)
Transfer out of the books based on year-end count	-	(73)	-	(386,008)	(386,081)
Transfer (from)/to other long-term placements (Note 21)	-	-	20,433	(446,279)	(425,846)
Transfer (from)/to	-	-	-	397	397
Other movements	-	(492)	(424)	(3,128)	(4,044)
Balance as of 31 December 2011	**2,375**	**23,311**	**104,316**	**11,011,489**	**11,141,491**

15. NET LOSS FROM DISCONTINUED OPERATIONS

In accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", in 2011 the Company's management assessed that the effects of error adjustments from previous period were not material, and therefore, the prior year information were not restated. Such adjustments were recorded in the current reporting period.

Total negative effect of error adjustments charged to the income statement for the year ended 31 December 2011, and recognized within Net loss from discontinued operations, amounted to RSD 145,224 thousand.

16. INCOME TAXES

(a) Components of Income Taxes

	2011	2010
Current tax expense	1,102,616	633,518
Deferred tax income	(228,051)	(258,256)
Total income tax expense	**874,565**	**375,262**

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

	2011	2010
Profit before tax	**23,148,767**	**16,164,691**
Income tax at statutory rate of 10%	**2,314,877**	**1,616,469**
Non-deductible expenses	291,484	248,591
Income reconciliation	76,459	84,700
Reduction based on dividends	(352,819)	(470,490)
Utilized tax credits	(1,455,436)	(1,104,008)
Income tax expense	**874,565**	**375,262**
Effective tax rate	*3.8%*	*2.3%*

16. INCOME TAXES (Continued)

(c) Deferred Tax Assets

Deferred tax assets entirely relate to the temporary differences arising between the carrying values of property, equipment and intangible assets and their tax base, and then to unpaid accrued public fees, provisions, retirement benefits and impairment of assets.

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

	2011	2010
Balance as of 1 January	**1,108,440**	**850,184**
Effects of temporary differences arising from different depreciation rates credited to the income statement	170,353	188,408
Effects of temporary differences arising from retirement benefits credited to the income statement	53,961	65,214
Effects of other temporary differences	3,737	4,634
Balance as of 31 December	**1,336,491**	**1,108,440**

Unrecognized Deferred Tax Assets

The Company did not recognize deferred tax assets arising on not utilized tax credits carried forward amounting to RSD 13,006,002 thousand as of 31 December 2011 (31 December 2010: RSD 12,090,541 thousand).

This is due to uncertainty regarding utilization of credits carried forward. According to the past experience, tax credits from the current period arising from investments in equipment are significantly above the available amounts for utilization, and therefore, the Company has not been able to use tax credits carried forward.

The Company also expects significant investments in equipment and corresponding tax credit in the forthcoming periods.

The aforementioned tax credits expire as follows:

Date of origin/ Tax credit carry forwards	Expiration date	2011	2010
2003	2013	1,130,339	1,130,414
2004	2014	1,898,932	1,899,006
2005	2015	1,592,525	1,592,599
2006	2016	1,026,961	1,027,036
2007	2017	1,552,021	1,552,096
2008	2018	1,559,955	1,560,029
2009	2019	1,024,608	1,024,682
2010	2020	2,304,605	2,304,679
2011	2021	916,056	-
Total		**13,006,002**	**12,090,541**

17. INTANGIBLE ASSETS

	Licenses	Software	Other intangible assets	Intangible assets under development	Total
Cost					
as of 1 January 2010	**9,318,231**	**10,851,431**	**605,409**	**943,249**	**21,718,320**
Additions	-	-	-	1,083,202	1,083,202
Transfer from intangible assets under development	21,112	697,457	3,004	(721,573)	-
Transfer (from)/to	-	-	-	(402,296)	(402,296)
Disposals	-	(408,363)	-	-	(408,363)
Other movements	-	(26,738)	-	14,930	(11,808)
Balance as of 31 December 2010	**9,339,343**	**11,113,787**	**608,413**	**917,512**	**21,979,055**
Additions	-	-	-	676,076	676,076
Transfer from intangible assets under development	-	551,590	5,795	(557,385)	-
Transfer (from)/to	-	-	-	(35,323)	(35,323)
Disposals	(2,346)	(30,430)	(1,747)	-	(34,523)
Balance as of 31 December 2011	**9,336,997**	**11,634,947**	**612,461**	**1,000,880**	**22,585,285**
Accumulated amortization					
as of 1 January 2010	**3,395,819**	**9,454,408**	**438,695**	**20,097**	**13,309,019**
Costs of long-term rent	-	-	48,664	-	48,664
Amortization (Note 9)	984,621	772,261	465	32,395	1,789,742
Transfer (from)/to	-	-	-	(1,235)	(1,235)
Disposals	-	(407,650)	-	-	(407,650)
Other movements	282	15,597	21	(18,862)	(2,962)
Balance as of 31 December 2010	**4,380,722**	**9,834,616**	**487,845**	**32,395**	**14,735,578**
Costs of long-term rent	-	-	44,734	-	44,734
Amortization (Note 9)	899,946	590,461	-	92,205	1,582,612
Transfer (from)/to	-	27,741	-	(32,395)	(4,654)
Disposals	(2,346)	(30,362)	(1,316)	-	(34,024)
Other movements	-	1,356	-	-	1,356
Balance as of 31 December 2011	**5,278,322**	**10,423,812**	**531,263**	**92,205**	**16,325,602**
Net book value as of:					
- 31 December 2011	**4,058,675**	**1,211,135**	**81,198**	**908,675**	**6,259,683**
- 31 December 2010	**4,958,621**	**1,279,171**	**120,568**	**885,117**	**7,243,477**

Licenses relate to the licenses for mobile telephony (software license, license for capacity extension and other), license for CDMA and other licenses. As of 31 December 2011, the carrying value of the aforementioned licenses for mobile telephony amounts to RSD 3,951,262 thousand (31 December 2010: RSD 4,795,637 thousand), while the carrying value of other licenses amounts to RSD 69,365 thousand (31 December 2010: RSD 119,863 thousand). The carrying value of the license for CDMA amounts to RSD 38,048 thousand as of 31 December 2011 (31 December 2010: RSD 43,121 thousand).

Other intangible assets as of 31 December 2011 relate to long-term rentals in the amount of RSD 81,198 thousand (31 December 2010: RSD 120,568 thousand).

The Company's management estimates there are no indications that intangible assets are impaired at the reporting date.

18. PROPERTY, PLANT AND EQUIPMENT

	Land, telephone lines, cable sewers and flats	Switches and transmitting devices	Other equipment	Investments in PP&E not owned by the Company	Construction in progress	Total
Cost as of 1 January 2010	**74,958,944**	**89,156,714**	**7,893,595**	**9,152,703**	**20,393,870**	**201,555,826**
Additions	-	-	-	-	14,560,211	14,560,211
Transfer from construction in progress	5,196,013	9,296,600	723,155	603,510	(15,819,278)	-
Grants (Note 31(f))	-	-	-	-	67,680	67,680
Transfer (from)/to	(4,235)	(2,877)	7,112	-	402,296	402,296
Disposals	(337,069)	(1,675,593)	(376,208)	(91,311)	(14,500)	(2,494,681)
Balance as of 31 December 2010	**79,813,653**	**96,774,844**	**8,247,654**	**9,664,902**	**19,590,279**	**214,091,332**
Additions	-	-	-	-	10,102,594	10,102,594
Transfer from construction in progress	2,710,204	10,257,130	703,867	364,339	(14,035,540)	-
Grants (Note 31(f))	-	-	-	-	26,010	26,010
Transfer (from)/to	(2,475)	2,430	45	-	35,323	35,323
Disposals	(129,676)	(2,299,110)	(208,274)	(11,624)	(8,671)	(2,657,355)
Balance as of 31 December 2011	**82,391,706**	**104,735,294**	**8,743,292**	**10,017,617**	**15,709,995**	**221,597,904**
Accumulated depreciation as of 1 January 2010	**28,018,731**	**49,994,203**	**5,356,155**	**6,929,543**	**706,355**	**91,004,987**
Transfer from construction in progress	70,495	327,977	23,250	29,641	(451,363)	-
Depreciation (Note 9)	3,370,350	9,262,500	839,125	993,490	681,998	15,147,463
Transfer (from)/to	(2,896)	883	2,013	-	1,235	1,235
Disposals	(252,389)	(1,029,689)	(368,751)	(60,961)	-	(1,711,790)
Other movements	-	-	-	-	(225,441)	(225,441)
Balance as of 31 December 2010	**31,204,291**	**58,555,874**	**5,851,792**	**7,891,713**	**712,784**	**104,216,454**
Transfer from construction in progress	67,907	376,841	37,236	19,939	(501,923)	-
Depreciation (Note 9)	3,492,712	9,889,398	881,292	810,664	727,464	15,801,530
Transfer (from)/to	(1,025)	1,040	(15)	-	4,654	4,654
Disposals	(92,701)	(1,531,888)	(205,680)	(11,664)	(281,494)	(2,123,427)
Balance as of 31 December 2011	**34,671,184**	**67,291,265**	**6,564,625**	**8,710,652**	**661,485**	**117,899,211**
Net book value as of:						
- 31 December 2011	**47,720,522**	**37,444,029**	**2,178,667**	**1,306,965**	**15,048,510**	**103,698,693**
- 31 December 2010	**48,609,362**	**38,218,970**	**2,395,862**	**1,773,189**	**18,877,495**	**109,874,878**

18. PROPERTY, PLANT AND EQUIPMENT (Continued)

Cost of fully-depreciated property, equipment and intangible assets still in use amounts to RSD 43,184,155 thousand as of 31 December 2011 (31 December 2010: RSD 35,528,732 thousand).

Construction in progress includes completed investments not yet transferred to property and equipment amounting to RSD 6,923,885 thousand as of 31 December 2011 (31 December 2010: RSD 6,138,669 thousand). The Company has charged depreciation for these investments.

Cost of construction in progress without any additions/investments for more than one year amounts to RSD 699,892 thousand as of 31 December 2011 (31 December 2010: RSD 1,512,152 thousand).

Pursuant to the Decision of the Serbian Business Registers Agency no. 6969/06 dated 21 November 2006, telecommunication equipment was pledged in favour of Ericsson Credit A.B., Sweden. In December 2007, the aforementioned loan passed from Ericsson Credit A.B., Sweden to BNP Paribas, branch London, and the Company was informed. The substitution of pledgee has not yet been registered in the Register of pledges with the Serbian Business Registers Agency. On 14 June 2010 and 3 December 2010, the requests had been submitted to the Register for the substitution of the pledge, which were rejected. Subsequently, the complaint was submitted, but it has not been resolved until the reporting date. The carrying value of pledged equipment amounts RSD 1,919,433 thousand as of 31 December 2011 (31 December 2010: RSD 2,294,672 thousand).

Capital expenditure contracted for at the reporting date but not yet incurred, representing capital commitments, amount to RSD 3,318,794 thousand (Note 34).

Property and equipment lease rentals amounting to RSD 4,284,260 thousand (2010: RSD 4,281,029 thousand), mostly relating to the lease of business premises, warehouses and premises for radio base stations are included in the income statement within other operating expenses (Note 10).

The Company's management estimates there are no indications that property and equipment are impaired at the reporting date.

19. ADVANCES FOR PROPERTY AND EQUIPMENT

	2011	2010
Payments in advance for property and equipment:		
- in RSD	165,203	364,103
- in foreign currency	153,660	136,129
Payments in advance for investments in property and equipment not owned by the Company	3,738	8,963
	322,601	**509,195**
Less: Allowance for impairment (Note 14)	(23,311)	(43,709)
Balance as of 31 December	**299,290**	**465,486**

20. EQUITY INVESTMENTS

	Interest in capital	2011	2010
Investments in subsidiaries:			
- Telekom Srpske a.d., Banja Luka (a)	65%	56,933,380	56,933,380
- Mtel d.o.o., Podgorica (b)	51%	2,255,339	2,255,339
- Telus a.d., Belgrade	100%	9,030	9,030
- FiberNet d.o.o., Podgorica (c)	100%	631,642	799,252
- TS:NET BV, Amsterdam (d)	100%	274,388	214,332
- HD-WIN d.o.o., Belgrade (e)	51%	790,476	-
Total		**60,894,255**	**60,211,333**
Investments in other legal entities	Less than 1%	2,783	-
Balance as of 31 December		**60,897,038**	**60,211,333**

(a) On 19 January 2007, the Company signed a Share Purchase Agreement (SPA) with the seller, the Republic of Srpska, represented by the Directorate for Privatization. Subject of the sale was 65.005851% of total share capital of “Telekom Srpske”. The agreed sales price amounting to EUR 646 million was paid in total through escrow account 3 days prior to the closing date of the transaction, i.e. 18 June 2007.

On 6 June 2011, the Shareholders’ Assembly of the subsidiary “Telekom Srpske” passed the Decision on payment of dividends to its shareholders from retained earnings from 2010 in the amount of KM 56,986,124. Dividend attributable to the Company amounted to KM 37,044,314 (RSD 1,857,646 thousand).

On 5 December 2011, the Shareholders’ Assembly of the mentioned subsidiary passed the Decision on payment of preliminary dividends to its shareholders from net profit realized for the six-month period ended 30 June 2011 in the amount of KM 47,317,446. Dividend attributable to the Company amounted to KM 30,759,108 (RSD 1,626,900 thousand).

Until the reporting date, the aforementioned subsidiary fully settled dividends payable toward the Company.

According to the latest available data as of 31 December 2011, total assets of “Telekom Srpske” amount to KM 893,579,921 (RSD 47,808,313 thousand), equity to KM 695,163,191 (RSD 37,192,621 thousand) and net profit for the year ended 31 December 2011 amounts to KM 107,406,416 (RSD 5,603,629 thousand).

(b) In the consortium with Ogalar B.V., Amsterdam, Holland, in 2007 the Company founded a new entity “Mtel” d.o.o., Podgorica, which was registered with the Central Register of the Commercial Court in Podgorica on 4 April 2007.

On 1 February 2010, the subsidiary “Telekom Srpske” a.d., Banja Luka signed an Agreement on the purchase of 49% equity interest in the company “Mtel” from the minority founder Ogalar B.V., Amsterdam, the Netherlands.

In addition, in accordance with the Company’s Managing Board Decision on the increase of founding capital of the subsidiary “Mtel” dated 12 March 2010, subscribed capital of “Mtel” was increased by the amount of EUR 40 million.

20. EQUITY INVESTMENTS (Continued)

(b) By 15 March 2010, the owners paid in the aforementioned amount in proportion to their interest in the capital of "Mtel", i.e., the Company, holding 51% of interest, paid in the amount of EUR 20.4 million (RSD 2,036,142 thousand), while the subsidiary "Telekom Srpske", holding 49% of interest, paid in the amount of EUR 19.6 million.

(c) On 8 July 2008, the Company signed a Joint Venture Agreement with the Railways of Montenegro for placement, utilization and maintenance of the optical and power cable along the railway Bar-Vrbnica. Accordingly, on 3 December 2008, the Company's Managing Board passed the Decision on founding the subsidiary "FiberNet" d.o.o., Podgorica.

As of 31 December 2011, the total founding capital of the above mentioned subsidiary, after additional contributions (to the founding capital) made in 2009 and 2010, amounts to EUR 9.6 million.

(d) On 5 February 2010, a new subsidiary "TS:NET" B.V. was registered with its office in Amsterdam, the Netherlands. The founding capital amounts to EUR 1,228,388, and it consists of contribution in cash in the amount of EUR 61,274 and contribution in kind in the amount of EUR 1,167,114.

Mentioned subsidiary has been founded as a closed joint stock company with limited liability. Principal business activities of the subsidiary are lease of telecommunication equipment and other operating activities in order to create conditions for construction and exploitation of international transport network of the Company.

As of 31 December 2011, the total founding capital of the aforementioned subsidiary, after additional contributions (to the founding capital) made in 2010 and 2011, amounts to EUR 2.7 million (RSD 274,388 thousands).

(e) The Company's Managing Board at its regular LIX meeting held on 13 July 2011 brought the Decision on acquisition of the Telecommunications Company "HD-WIN" d.o.o., Belgrade, which is entitled for sport broadcasting rights on the territory of the Republic of Serbia, Bosnia and Herzegovina, Montenegro and Croatia.

On 2 August 2011 the Company paid in the contribution in the amount of EUR 7.7 million (RSD 790,476 thousand) and acquired ownership of 51% of the subsidiary's capital, as well as managing rights.

21. OTHER LONG-TERM FINANCIAL PLACEMENTS

	2011	2010
Loans to employees:		
- Housing (residential)	1,796,075	1,942,516
- For repurchase of apartments and vehicles	14,837	14,999
	1,810,912	1,957,515
Less: Fair value adjustment	(665,417)	(719,433)
Total loans to employees	**1,145,495**	**1,238,082**
Other long-term placements	952,668	-
Less: Fair value adjustment	(425,846)	-
	526,822	**-**
Placements to employees with respect to solidarity purposes	-	1,429
Balance as of 31 December	**1,672,317**	**1,239,511**

Loans granted to the Company's employees include the following types of loans:

/i/ Employee housing loans are associated with the non-interest-bearing loans granted to the Company's employees to address housing needs. The principal amount of the loans is expressed in EUR and is adjusted bi-annually to account for the changes in RSD/EUR foreign exchange rates. Such loans are repayable in monthly instalments, and in most instances have a 25-year maturity.

/ii/ In 2006, the Managing Board of the Company passed the Business policy of resolving housing needs of employees. In cooperation with selected banks, the employees are granted the following loans: one-off loans for a down payment for the loan with a 5-year grace period, a 7-year repayment period after the expiry of the grace period, contracted foreign currency clause and interest rate of 0.1% per annum, and instalment loans for down payment of interest with the grace period of 20 (10) years, a 5-year repayment period after the expiry of the grace period, without foreign currency clause and interest rate of 0.1% per annum.

The management of the Company considers that the carrying amount of the above disclosed loans to employees reasonably approximates their fair value.

The fair value of loans to employees is based on cash flows discounted using a rate based on the market interest rate at which the Company could obtain long-term loans and that reflect market rate for similar financial instruments in the current reporting period – 5.71% per annum (year ended 31 December 2010: 5.36% per annum).

The maximum exposure to credit risk at the reporting date is the nominal value of loans to employees. The exposure is however limited due to the fact that collection of loans from employees is secured through the administrative ban on their salaries. None of the loans to employees is either past due or impaired.

Other long-term placements relate to the Company's long-term receivables arising with respect to the Advertising Space Lease Contract for the seven-year period that the Company concluded with the company "Stampa sistem" d.o.o., Belgrade.

22. INVENTORIES

	2011	2010
Material and fuel	3,465,973	3,403,512
Spare parts	1,939,497	1,993,282
Tools	3,019,655	2,742,523
Waste material	15,716	105,639
	8,440,841	8,244,956
Less: Allowance for impairment		
Material and spare parts	(21,709)	(15,776)
Tools in use	(2,416,762)	(2,217,273)
Waste material	(15,716)	(105,639)
	5,986,654	**5,906,268**
Goods in warehouses	14,452	13,195
Goods in retail	19,602	858
	34,054	**14,053**
Balance as of 31 December	**6,020,708**	**5,920,321**

The amount of write-down of inventories of material recognized as an expense and included in other expenses (Note 14) totalled RSD 21,709 thousand (2010: RSD 15,776 thousand).

The cost of tools in use recognized as an expense is included in cost of material (Note 7).

23. ACCOUNTS RECEIVABLE

	2011	2010
Domestic accounts receivable:		
Fixed telephony, Internet and data services	9,132,221	8,243,649
Mobile telephony	10,224,686	10,691,440
Interconnection	947,144	748,241
Other receivables	13,642	8,767
	20,317,693	**19,692,097**
Foreign accounts receivable:		
International settlement of fixed telephony	1,361,079	1,706,052
Roaming	288,622	404,555
	1,649,701	**2,110,607**
Receivables from related parties (Note 33(a)):		
OTE	2,876	7,629
Telekom Srpske	83,803	67,736
Mtel	159,263	62,041
Telus	815	1,042
HD-WIN	730	-
	247,487	**138,448**
Other receivables from sales	248,171	310,089
Interest receivables	48,980	35,563
Receivables from employees	238,604	159,118
Prepaid taxes and contributions	32,557	20,655
Receivables for war damages on property and equipment and inventories	139,202	139,202
Receivables from the state institutions	96,537	90,325
Other receivables	373,742	186,375
	1,177,793	**941,327**
Gross accounts receivable	**23,392,674**	**22,882,479**
Less: Allowance for impairment (Note 14)		
Accounts receivable	(10,414,957)	(9,892,544)
Other receivables from sales	(246,289)	(245,914)
Interest receivables	(6,147)	(6,157)
Receivables from employees	(4,384)	(4,117)
Receivables for war damages on property and equipment and inventories	(139,202)	(139,202)
Receivables from the state institutions	(87,450)	(85,412)
Other receivables	(113,060)	(113,836)
	(11,011,489)	**(10,487,182)**
Balance as of 31 December	**12,381,185**	**12,395,297**

23. ACCOUNTS RECEIVABLE (Continued)

Trade receivables are predominantly non-interest bearing.

The Company accrues the statutory penalty interest to its service users for all receivables the maturity period of which has expired. The statutory penalty interest is accrued for each day the payment is overdue. The calculation of interest is performed automatically and the amount of the accrued interest is presented on each telephone bill issued to the service users.

The average collection period during the year ended 31 December 2011 was 50 days (year ended 31 December 2010: 54 days).

The Company holds promissory notes as collateral for payments made in advance.

The ageing structure of gross accounts receivable as of 31 December 2011 and 2010 was as follows:

	2011	2010
Up to 30 days	8,857,486	8,662,411
From 30 to 60 days	2,419,850	2,522,962
From 60 to 180 days	2,015,681	2,994,278
From 180 to 360 days	1,940,426	2,800,963
Over 360 days	8,159,231	5,901,865
Total	**23,392,674**	**22,882,479**

As of 31 December 2011, receivables of RSD 12,381,185 thousand (31 December 2010: RSD 12,395,297 thousand) were considered to be fully performing.

Receivables that are less than two months past due are not considered impaired.

As of 31 December 2011, receivables from domestic fixed and mobile telephony traffic in the amount of RSD 1,927,287 thousand (31 December 2010: RSD 1,885,004 thousand) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

As of 31 December 2011, receivables in the amount of RSD 11,011,489 thousand (31 December 2010: RSD 10,487,182 thousand) were impaired and provided for in the amount of RSD 11,011,489 thousand (31 December 2010: RSD 10,487,182 thousand). It was assessed that a part of the receivables is expected to be recovered.

23. ACCOUNTS RECEIVABLE (Continued)

As of 31 December 2011 and 2010, the carrying amounts of the Company's accounts receivables were denominated in the following currencies:

	2011	2010
RSD	10,572,067	10,261,854
EUR	1,553,663	1,901,553
Other currencies	255,455	231,890
Total	**12,381,185**	**12,395,297**

Concentrations of credit risk with respect to accounts receivable are limited due to the Company's customer base being large, with individually small amounts, and unrelated. Due to this, the Company's management believes there is no further credit risk provision required in excess to the allowance for bad and doubtful debts.

Therefore, the maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The fair value of trade and other receivables is approximately equal to their book value net of related allowance for impairment.

Out of RSD 23,392,674 thousand, representing gross outstanding balance of accounts receivable as of 31 December 2011, the amount of RSD 619,335 thousand has not been reconciled with the debtors in 2011, mainly due to the impossibility to perform the reconciliation procedure.

24. CASH AND CASH EQUIVALENTS

For the purpose of the statement of cash flows, cash and cash equivalents comprise the followings:

	2011	2010
Current accounts	3,109,154	1,909,913
Foreign currency accounts with domestic banks	10,908,594	6,038,877
Cash coupons	795	602
Balance as of 31 December	**14,018,543**	**7,949,392**

25. VALUE ADDED TAX, PREPAYMENTS AND ACCRUED INCOME

	2011	2010
Deferred value added tax	**621,795**	**550,814**
Prepaid expenses:		
- Banks' commissions for syndicated loan (a)	73,618	281,921
- Rental	81,185	70,280
- Insurance premiums	28,145	37,438
- Licenses and frequencies fees	31,146	-
- Other	25,132	38,135
	239,226	**427,774**
Accrued income:		
- International settlement (b)	508,228	633,457
- Roaming (c)	1,423,659	992,197
- Other accrued income	82,088	39,786
	2,013,975	**1,665,440**
Balance as of 31 December	**2,874,996**	**2,644,028**

(a) As of 31 December 2011, banks' commissions in respect to the withdrawal of the syndicated loan for acquisition of shares of "Telekom Srpske" relate to the arrangement fee paid to Citibank N.A., London in the amount of RSD 72,965 thousand (EUR 697,288) and agency fee paid to EFG EuroBank Ergasias S.A., Athens in the amount of RSD 653 thousand (EUR 6,246).

(b) As of 31 December 2011, accrued income arising from fixed telephony international settlement comprises uninvoiced revenue from international settlement for November and December 2011 in the estimated amount of RSD 418,246 thousand and unsettled international traffic settlements for the period prior to November 2011 amounting to RSD 89,982 thousand.

(c) As of 31 December 2011, accrued income from mobile telephony traffic comprises accrued income from roaming services for November and December of 2011 estimated to RSD 147,707 thousand and uninvoiced income arising from International GSM roaming contracts – Network operators' discounts amounting to RSD 1,275,952 thousand.

26. EQUITY

Share Capital

The Company is a closed joint stock entity, which subscribed, authorized, issued and fully paid-in capital consists of 1,080,000 voting shares with an individual par value of RSD 10 thousand.

Pursuant to the Conclusion 05 no. 023-9705/2010 dated 23 December 2010, the Government of the Republic of Serbia recommended to the Company to undertake all activities necessary in order to convert the Company from closed into an open joint stock entity.

In 2010, there was a change in the Company's shareholder structure. In accordance with the Conclusion of the Government of the Republic of Serbia 05 no. 023-6816 dated 21 September 2010 and the Decision on the transfer of the shares in the Company to the Republic of Serbia without compensation of the Board of Directors of JP PTT saobracaja "Srbija", Belgrade dated 20 September 2010, on 24 September 2010 JP PTT saobracaja "Srbija", Belgrade and the Government of the Republic of Serbia concluded the Agreement on the transfer of the shares of Telekom Srbija a.d., Belgrade without compensation – Gift. Pursuant to this Agreement, the Republic of Serbia became the major shareholder and the legal owner of 80% of the Company's shares, represented by 864,000 ordinary shares with the nominal value of RSD 10 thousand per share, i.e., with the total nominal value amounting to RSD 8,640,000 thousand.

On 28 September 2010, the Republic of Serbia was inscribed in the register of the Serbian Business Registers Agency and the Central Securities Depository and Clearing House as the holder of 80% of the Company's shares.

The Company's share capital structure at 31 December 2011 and 2010 was as follows:

	2011		2010	
	Number of shares	**In %**	**Number of shares**	**In %**
Republic of Serbia	864,000	80.00	864,000	80.00
Hellenic Telecommunications Organisation A.E. ("OTE"), Athens	216,000	20.00	216,000	20.00
Total	**1,080,000**	**100.00**	**1,080,000**	**100.00**

Weighted average amount of shares in use for the purpose of calculating earnings per share amounts to 1,080,000, since the number of shares did not change during the year ended 31 December 2011 and 2010, respectively.

Share capital was revalued each year throughout 31 December 2003, by applying official revaluation coefficients based on retail price index, in accordance with the Republic of Serbia accounting regulations prevailing at that time. Accumulated revaluation effects, credited to reserves, were allocated to the share capital as of 1 January 2004, being IAS/IFRS transition date. Carrying value of share capital determined in such manner, and recorded in the Company's financial statements totals RSD 82,512,552 thousand.

The share capital registered with the Serbian Business Registers Agency (no. 3309/2005 dated 21 February 2005) amounts to EUR 1,462,514,772.16, whereas the registered structure of share capital corresponds to the above presented structure recorded in the Company's books of account.

26. EQUITY (Continued)

Share Capital (Continued)

On 30 December 2011, a Share Purchase Agreement was concluded related to the sale of all shares owed by OTE. The Agreement provides that the contractual parties shall conduct the sale and transfer of shares on the date which shall be determined by the contractual parties ("closing date"), but not later than 30 March 2012. After the closing date, OTE ceases to be the shareholder of the Company.

The fee for this transaction amounts to EUR 380 million in RSD counter value (Note 37(c)). At the Company's Shareholders Meeting held on 29 December 2011, a special permission was given to the Company to enter into this Agreement.

The Agreement stipulates that, following the adoption of the audited financial statements for the year ended 31 December 2011, the final dividends, as reduced by the interim dividend, will be paid to the shareholders. Payment of the interim dividend was approved by the Company's Shareholders Assembly at its session held on 29 December 2011 (Note 30).

Other Capital

Other capital amounting to RSD 8,588 thousand as of 31 December 2011 and 2010 was created in prior years by a mandatory allocation of employees' contributions to the Fund for financing solidarity housing.

Reserves

Reserves amounting to RSD 589,634 thousand as of 31 December 2011 and 2010 were created in prior years as a result of the Company's obligation to allocate at least 5% of the profit after tax to reserves in accordance with the previously valid Company Law.

Basic Earnings per Share

	2011	2010
Profit attributable to equity holders of the Company (A)	22,274,202	15,789,429
Weighted average number of ordinary shares in issue (B)	1,080,000	1,080,000
Basic earnings per share (A/B)	**20.62**	**14.62**

27. LONG-TERM PROVISIONS

	2011	2010
Provisions for retirement benefits and jubilee anniversary awards	1,488,452	1,717,289
Provision for litigations	125,931	131,577
Balance as of 31 December	**1,614,383**	**1,848,866**

Movements in the provisions during the year were as follows:

	Retirement benefits	Jubilee anniversary awards	Litigations	Total
Balance as of 1 January 2010	**738,897**	**1,206,770**	**121,540**	**2,067,207**
Charge for the year (Note 9)	-	-	24,147	24,147
Utilized	(5,141)	(84,674)	(3,014)	(92,829)
Release of provision (Note 13)	(81,616)	(56,947)	(11,096)	(149,659)
Balance as of 31 December 2010	**652,140**	**1,065,149**	**131,577**	**1,848,866**
Charge for the year (Note 9)	-	-	8,869	8,869
Utilized	(20,429)	(115,068)	(8,393)	(143,890)
Release of provision (Note 13)	(92,100)	(1,240)	(6,122)	(99,462)
Balance as of 31 December 2011	**539,611**	**948,841**	**125,931**	**1,614,383**

Provisions for employees' retirement benefits and anniversary awards have been recorded on the basis of the Report of an independent actuary as of 31 December 2011, and they are stated in the amount of discounted present value of future payments.

When determining the present value of the expected outflow at 31 December 2011, the discount rate of 9% has been used, as it corresponds to the long-term rates of return on the high-performance debt securities, i.e. bonds of the Republic of Serbia, treasury bills of the National bank of Serbia and corporate shares from the A listing traded on the Belgrade Stock Exchange. This rate represents an appropriate rate according to the IAS 19 "Employee Benefits" in the absence of a developed market for high quality corporate bonds.

The liability for employee benefits was determined in line with the Company's Collective Agreement and the assumption of 6% nominal salary increase rate per annum, which reflects the projected long-term inflation rate, the median value of employees' service promotion and employee fluctuation rate ranging from 2% to 7% per annum.

Provision for litigations was recognized based on the best estimate of probable adverse effects of charges brought against the Company (Note 35(a)). This estimate is based on the professional opinion of the Company's Corporative Affairs Division.

28. BORROWINGS

(a) Structure of Borrowings

	2011	2010
Long-term borrowings		
Financial loans from:		
- Domestic banks	-	65,936
- Foreign banks	512,740	20,996,252
	512,740	**21,062,188**
Commodity loans from:		
- Domestic suppliers	2,417,460	3,379,384
- Foreign suppliers	14,383,222	17,274,318
	16,800,682	**20,653,702**
Total long-term borrowings	**17,313,422**	**41,715,890**
Current portion of long-term borrowings		
Loans from domestic banks	100,098	1,221,836
Loans from foreign banks	20,312,892	12,022,575
Commodity loans from domestic suppliers	2,640,366	2,775,288
Commodity loans from foreign suppliers	5,285,183	5,349,482
Total	**28,338,539**	**21,369,181**
Current portion of other long-term liabilities	584	556
Total short-term borrowings	**28,339,123**	**21,369,737**
Balance as of 31 December	**45,652,545**	**63,085,627**

The fair value of non-current borrowings, which is based on cash flows discounted using a rate based on the interest rate of 5.71% per annum (2010: 5.36% per annum), amounts to RSD 16,307,027 thousand as of 31 December 2011 (31 December 2010: RSD 39,340,441 thousand).

The fair value of short-term borrowings equals their carrying amount.

(b) Maturity of Borrowings

	2011	2010
Up to 1 year – current portion of long-term borrowings	28,339,123	21,369,737
From 1 to 2 years	6,751,660	27,296,602
From 2 to 3 years	5,021,558	5,653,814
From 3 to 4 years	3,853,556	4,404,016
From 4 to 5 years	1,468,201	3,265,970
Over 5 years	218,447	1,095,488
Balance as of 31 December	**45,652,545**	**63,085,627**

28. BORROWINGS (Continued)

(c) Detailed Breakdown of Borrowings per Creditors

	Currency	31 December 2011 In foreign currency	31 December 2011 In RSD thousand	31 December 2010 In foreign currency	31 December 2010 In RSD thousand
/i/ Loans from domestic banks					
Banca Intesa a.d., Belgrade	EUR	-	-	10,000,000	1,054,982
Vojvodjanska banka a.d., Novi Sad – Belgrade branch	EUR	625,000	65,401	1,875,000	197,809
Beobanka a.d., Belgrade - in bankruptcy	EUR	331,582	34,697	331,582	34,981
		956,582	**100,098**	**12,206,582**	**1,287,772**
/ii/ Loans from foreign banks					
Citibank N.A., London	EUR	190,120,000	19,894,328	260,080,000	27,437,972
EFG New Europe Funding, the Netherlands	EUR	8,900,000	931,304	12,900,000	1,360,927
Deutche Bank A.G., London branch	EUR	-	-	40,000,000	4,219,928
		199,020,000	**20,825,632**	**312,980,000**	**33,018,827**
/iii/ Foreign commodity loans					
BNP Paribas, London branch	EUR	27,579,945	2,885,990	36,603,641	3,861,618
KfW, Germany	EUR	1,336,952	139,900	6,155,993	649,448
Nokia Siemens, Finland and Austria	EUR	49,470,465	5,176,634	53,971,912	5,693,940
Ericsson Credit A.B., Sweden	EUR	30,727,666	3,215,371	26,100,027	2,753,506
Credit Agricole Cib Sverige, Sweden	EUR	27,175,632	2,843,683	33,436,635	3,527,505
Huawei Technologies Co. Ltd., China	EUR	12,406,590	1,298,237	30,672,618	3,235,906
Huawei International Pte. Ltd., Singapore	EUR	4,006,279	419,221	3,121,582	329,321
Alcatel Lucent S.A., France	EUR	5,517,363	577,342	5,379,712	567,550
OTP Bank Plc, Hungary	EUR	1,062,414	111,172	1,328,017	140,103
Sitronics, Czech Republic	EUR	1,013,430	106,046	1,772,548	187,001
Intracom S.A., Greece	EUR	5,499,327	575,454	6,085,017	641,958
EuroBank EFG Factors S.A., Greece	EUR	139,480	14,595	758,391	80,009
Alcatel Lucent Italia S.p.A., Italy	EUR	790,003	82,666	1,106,004	116,681
China Development Bank, Shenzhen branch	EUR	14,778,749	1,546,462	-	-
Skandinaviska Enskilda Bank Stockholm, Sweden	EUR	6,089,686	637,230	7,382,367	778,826
NEC Europe Ltd., Hungary	EUR	-	-	100,943	10,649
Elsag Datamat S.p.A., Italy	EUR	366,987	38,402	471,841	49,779
		187,960,968	**19,668,405**	**214,447,248**	**22,623,800**
/iv/ Domestic commodity loans	RSD		**5,057,826**		**6,154,672**
Total borrowings			**45,651,961**		**63,085,071**
Less: Current portion of long-term borrowings					
/i/ Loans from domestic banks			(100,098)		(1,221,836)
/ii/ Loans from foreign banks			(20,312,892)		(12,022,575)
/iii/ Foreign commodity loans			(5,285,183)		(5,349,482)
/iv/ Domestic commodity loans			(2,640,366)		(2,775,288)
			(28,338,539)		**(21,369,181)**
Total long-term borrowings			**17,313,422**		**41,715,890**

28. BORROWINGS (Continued)

(c) Detailed Breakdown of Borrowings per Creditors (Continued)

Interest rates on loans granted by banks and foreign suppliers range from Euribor increased by 1% to Euribor increased by 2% per annum. Commodity loans from domestic suppliers earn interest at rates ranging from Euribor increased by 1.8% to Euribor increased by 2% per annum.

Bank borrowings mature until 2014, while domestic commodity loans and commodity loans from abroad mature until 2017. The Company regularly fulfils its due obligations in accordance with the terms of the loans agreements and determined annuity plans. Management expects that the Company will be able to meet all contractual obligations from borrowings on a timely basis going forward.

The Company has not entered into hedging arrangements in respect of its foreign currency obligations (except forward transactions) or interest rate exposures.

/i/ As of 31 December 2011, the Company has no outstanding debts towards Banca Intesa a.d., Belgrade. Namely, in May 2011 the Company fully repaid the remaining debts towards Banca Intesa a.d., Belgrade, that relate to the Loan Agreement entered into in order to provide funds for refinancing the repayment of the Arrangement C of the syndicated loan granted by Citibank N.A., London.

Financial liabilities towards Beobanka a.d., Belgrade in bankruptcy, ("Beobanka") in the amount of RSD 34,697 thousand as of 31 December 2011, relate to a loan settled by the former National Bank of Yugoslavia ("NBY") toward LHB Bank, Frankfurt on behalf of Beobanka, as guarantor and the Company, as ultimate debtor. The NBY offset the aforesaid loan with the amount held at its account with LHB Bank. Since the NBY deposits are subject to succession and due to the fact that repayment pattern of the outstanding balance of the loan has not yet been agreed, the Company cannot settle its liabilities even though it requested the settlement permission from Beobanka.

Domestic banks' loans are secured with 17 blank promissory notes issued by the Company (Note 32).

/ii/ In order to provide funds for financing the purchase of 65% of shares in "Telekom Srpske" (Note 20(a)), on 24 May 2007, the Company entered into the "Term and Revolving Facilities Agreement" (a syndicated loan) with Citibank N.A., London (arranger), financial institutions (original creditors – 21 banks) and EFG EuroBank Ergasias S.A., Athens (agent). The syndicated loan totals EUR 700 million, out of which Arrangements A and C amounted to EUR 300 million, respectively, and the Revolving Arrangement EUR 100 million. Repayment period for the Arrangement A and Revolving Arrangement is 60 months after the signing date of the Agreement and for the Arrangement C 24 months after the signing date of the Agreement.

During 2011, the Company repaid a part of the debt per Arrangement A in the total amount of EUR 69.96 million.

The Loan Agreement with Citibank N.A., London defines the commitment of the Company to submit audited annual consolidated financial statements and audited annual financial statements, as well as financial statements for certain interim periods. The credit agreement is subject to covenant clauses, whereby the Company is required to meet the prescribed level of the performance indicators of Debt coverage and Interest coverage. As of 31 December 2011, the Company fulfilled the required ratios.

28. BORROWINGS (Continued)

(c) Detailed Breakdown of Borrowings per Creditors (Continued)

/ii/ In order to provide funds for refinancing the repayment of the Arrangement C of the syndicated loan granted by Citibank N.A., London, on 18 May 2009 the Company entered into the Facility Agreement with Alpha Bank A.E., London (coordinator), financial institutions (original creditors – 6 banks) and EFG EuroBank Ergasias S.A., Athens (agent). In 2010, the loan was transferred from Alpha Bank A.E., London to the new creditor - Deutsche Bank A.G., London branch, of which the Company was informed. As of 31 December 2011, the aforesaid loan was fully repaid.

As of 31 December 2011, liabilities to EFG New Europe Funding, the Netherlands in the amount to RSD 931,304 thousand relate to approved loan in order to provide funds for telecommunication network investments. The Company withdrew the total available funds in the amount of EUR 20 million. The loan repayment period is 84 months from the date of each withdrawal of funds, including grace period. The loan is also secured with 10 blank promissory notes issued by the Company (Note 32).

/iii/ As of 31 December 2011, liabilities to BNP Paribas, London branch, amount to RSD 2,885,990 thousand. The loan was initially granted by Ericsson Credit A.B., Sweden, and it has been secured with assigned collateral rights on the Company's equipment (Note 18). Collateral right is registered at the Register of pledges with the Agency for Commercial Registers of the Republic of Serbia, based on the Agreement and Commercial Register Agency' Decisions. In 2006 and 2007, the long-term borrowing from Ericsson Credit A.B., Sweden was transferred from Ericsson Credit A.B., Sweden to BNP Paribas, London branch. The substitution of a pledgee has not yet been registered in the Register of pledges.

The credit agreements with Ericsson Credit A.B., Sweden and BNP Paribas, London branch, are subject to covenant clauses, whereby the Company is required to meet certain key performance indicators. As of 31 December 2011, the Company fulfilled the required ratios.

/iv/ Domestic commodity loans totalling RSD 5,057,826 thousand as of 31 December 2011 (31 December 2010: RSD 6,154,672 thousand) mostly relate to the financing of work on the construction and purchase of equipment, and have been approved by domestic suppliers.

The total contract value of the work is principally financed with 10 percent advances, whereas 90 percent is financed from the loans provided by the project contractors. Repayment period of the aforementioned loans, as well as grace period depends on contracted value of the particular loan. Commodity loans provided on this basis are primarily secured by the appropriate number of blank promissory notes issued in favour of the beneficiary, the construction contractor (Note 32).

/v/ Undrawn commodity loans amount to RSD 3,318,794 thousand as of 31 December 2011 (31 December 2010: RSD 2,429,785 thousand). The majority of these loans have been granted at variable interest rates.

The facilities expiring within one year amount to RSD 487,781 thousand as of 31 December 2011 (31 December 2010: RSD 417,929 thousand), while the facilities expiring from one up to 5 years amount to RSD 2,626,615 thousand (31 December 2010: RSD 2,011,856 thousand) and the facilities expiring over five years amount to RSD 204,398 thousand.

29. ACCOUNTS PAYABLE

	2011	2010
Domestic trade payables	5,412,560	4,159,171
Foreign trade payables:		
- Fixed telephony	432,460	657,442
- Mobile telephony	134,696	240,438
Related parties' trade payables (Note 33(a))	590,830	434,902
Advances received	63,236	160,241
Balance as of 31 December	**6,633,782**	**5,652,194**

As of 31 December 2011, accounts payable amounting to RSD 1,004,000 thousand (31 December 2010: RSD 1,317,335 thousand) are denominated in foreign currency, mainly in EUR.

Trade payables are non-interest bearing. The Company regularly settles its due obligations to suppliers. The average payment period during the year ended 31 December 2011 was 51 days (year ended 31 December 2010: 51 days).

The management of the Company considers that the carrying amounts disclosed above reasonably approximate fair values at the reporting date.

As of 31 December 2011, out of RSD 6,633,782 thousand and RSD 5,057,826 thousand, representing outstanding balance of accounts payable and commodity loans from domestic suppliers (Note 28), respectively, the amount of RSD 245,820 thousand has not been reconciled with the suppliers/creditors in 2011, mainly due to the impossibility to perform the reconciliation procedure.

30. OTHER CURRENT LIABILITIES

	2011	2010
Gross salaries	424,013	418,109
Dividends payable	8,894,476	-
Liabilities to employees	16,689	13,519
Other liabilities	239,744	254,725
Balance as of 31 December	**9,574,922**	**686,353**

As of 31 December 2011, dividends payable totalling RSD 8,894,476 thousand relate to the liabilities to Company's shareholders: the Republic of Serbia in the amount of RSD 7,115,581 thousand and OTE, Athens in the amount of RSD 1,778,895 thousand.

On 29 December 2011, the Company's Shareholders Assembly passed the Decision on distribution of the interim dividends based on the Company's financial statements for the nine-month period ended 30 September 2011. It is envisaged that the above mentioned liability to the shareholder OTE should be settled by the end of January 2012. The final amount of dividends that belongs to the shareholders will be determined subsequent to the adoption of the Company's financial statements for the year ended 31 December 2011 (Notes 26 and 37(b)).

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

	2010	2009
Accruals		
Accrued expenses:		
International settlement (a)	266,133	263,764
Roaming (b)	1,355,814	953,612
	1,621,947	**1,217,376**
Accrued other expenses:		
Employee profit-sharing (c)	1,484,533	1,678,713
Accumulated absences (vacation)	429,193	448,443
Accrued interest expenses (d)	261,177	271,054
Accrued other expenses (e)	5,744,502	6,008,156
	7,919,405	**8,406,366**
Deferred income:		
Mobile phone services	547,098	515,372
Chip cards	16,994	39,342
Fixed telephony subscription	1,221,782	1,123,221
Lease	402,912	173,931
Subscription for special telephone services	73,675	79,225
Other deferred income	-	144
	2,262,461	**1,931,235**
Deferred income (f):		
Donations	122,545	111,560
Grants from local municipalities	1,661,615	1,843,526
Grants from mobile telephony suppliers	873,458	1,306,991
Grants from other suppliers	162,261	177,505
	2,819,879	**3,439,582**
Deferred liabilities for value added tax	128,580	56,225
Value added tax and other tax liabilities	907,578	1,345,673
Balance as of 31 December	**15,659,850**	**16,396,457**

(a) As of 31 December 2011, accrued expenses arising from fixed international traffic totalling RSD 266,133 thousand comprise uninvoiced expenses for November and December 2011 in the estimated amount of RSD 221,551 thousand and unreconciled liabilities arising from international traffic settlements for the period until November 2011 in the amount of RSD 44,582 thousand.

(b) As of 31 December 2011, accrued roaming expenses totalling RSD 1,355,814 thousand relate to uninvoiced roaming services for November and December 2011, estimated to RSD 141,128 thousand and uninvoiced expenses based on the International GSM roaming contract – Network operators' discounts amounting to RSD 1,214,686 thousand.

(c) Employee profit-sharing as of 31 December 2011 amounting to RSD 1,484,533 thousand and consist of fixed and variable component. Funds for this purpose are planned in accordance with the Revised Business Plan for 2011 adopted at the Company's Managing Board meeting held on 13 July 2011.

31. VALUE ADDED TAX AND OTHER TAX LIABILITIES, ACCRUALS AND DEFERRED INCOME (Continued)

(d) Accrued interest expenses as of 31 December 2011 include the amount of RSD 96,792 thousand, representing interest expense arising from the syndicated loan granted by Citibank N.A., London (31 December 2010: RSD 100,336 thousand).

(e) Accrued other expenses amounting to RSD 5,744,502 thousand as of 31 December 2011 mostly relate to estimated uninvoiced expenses for services provided by suppliers during the year ended 31 December 2011.

(f) Movements in deferred income during the year were as follows:

	2011	2010
Balance as of 1 January	**3,439,582**	**3,786,375**
Grants received during the year (Note 18)	26,010	67,680
Released to the income statement (Note 6)	(400,348)	(414,352)
Other movements	(245,365)	(121)
Balance as of 31 December	**2,819,879**	**3,439,582**

Other movements during the year ended 31 December 2011 in amount of RSD 245,365 thousand mostly relate to the adjustment of value of assets received free of charge from the suppliers. The value of equipment delivered upon the delivery agreement has been reduced pro rata, since granted assets could have been allocated to the specific purchases.

There are no unfulfilled conditions or contingencies attached to these grants.

The management of the Company considers that the carrying amounts disclosed above reasonably approximate fair values at the reporting date.

The Company received grants from the following suppliers and legal entities:

	2011	2010
Municipalities	20,054	-
Ericsson A.B., Sweden	1,087	7,761
Other	4,869	59,919
Total	**26,010**	**67,680**

32. OFF-BALANCE SHEET ITEMS

	2011	2010
Issued promissory notes	2,304,692	3,210,085
Property and equipment in liquidation	1,141,475	2,072,932
Other	35,414	38,909
Balance as of 31 December	**3,481,581**	**5,321,926**

Promissory notes were issued as collateral for securing regular and timely repayment of financial and commodity loans from domestic banks and suppliers, including other liabilities from ordinary course of business.

Breakdown of issued promissory notes is presented in the table below:

	2011	2010
Issued promissory notes in favour of:		
- Banks	2,114,869	2,500,187
- Suppliers	189,823	709,898
Balance as of 31 December	**2,304,692**	**3,210,085**

33. RELATED PARTY DISCLOSURES

A number of transactions are entered into with shareholders, subsidiaries and other related parties in the ordinary course of business.

(a) **Outstanding balances of receivables and liabilities** as of 31 December 2011 and 2010, arising from the purchase and/or sale of goods/services from/to the Company's shareholders (Note 26) and the subsidiaries (Note 20) are summarized below:

	31 December 2011	31 December 2010
RECEIVABLES		
Gross accounts receivable (Note 23):		
- OTE	2,876	7,629
- Telekom Srpske	83,803	67,736
- Mtel	159,263	62,041
- Telus	815	1,042
- HD-WIN	730	-
Total	**247,487**	**138,448**
Advances paid for services		
- HD-WIN	14,141	-
	14,141	-
Total	**261,628**	**138,448**
Other receivables and accrued income:		
OTE:		
- accrued income from international settlement	14,299	5,217
	14,299	5,217
Telekom Srpske:		
- accrued income from international settlement and roaming	77,020	67,034
- other	969	14,165
	77,989	81,199
Mtel:		
- accrued income from international settlement and roaming	25,474	24,590
- other	7,621	70,535
	33,095	95,125
Total	**125,383**	**181,541**
Total receivables and accrued income	**387,011**	**319,989**

The receivables from related parties arise mainly from sale transactions and are due three months after the date of sales, i.e. rendering of services, at the latest. The receivables are unsecured in nature and bear no interest.

33. RELATED PARTY DISCLOSURES (Continued)

(a) Receivables and Liabilities (Continued)

	31 December 2011	31 December 2010
LIABILITIES		
Accounts payable:		
- OTE	2,119	3,015
- Telekom Srpske	173,736	181,482
- Mtel	80,630	54,383
- Telus	295,632	196,022
- HD-WIN	38,713	-
Total (Note 29)	**590,830**	**434,902**
Other current liabilities and accruals:		
OTE:		
- dividends	1,778,895	-
- accrued expenses from international settlement	1,560	16,576
	1,780,455	16,576
Telekom Srpske:		
- accrued expenses from international settlement and roaming	7,055	7,212
- other	52	117
	7,107	7,329
Mtel:		
- accrued expenses from international settlement and roaming	3,882	4,006
- other	333	366
	4,215	4,372
Telus:		
- deferred income – TT services	19	75
	19	75
HD-WIN:		
- deferred income – TT services	18	-
	18	-
Total	**1,791,814**	**28,352**
Total liabilities and accruals	**2,382,644**	**463,254**

The payables to related parties arise mainly from purchase transactions and are due three months after the date of purchase, i.e. rendering of services, at the latest. The payables bear no interest.

The above stated balances of receivables and liabilities, as well as reported amounts of income and expenses arising from transactions with the related parties are the result of ordinary business activities.

33. RELATED PARTY DISCLOSURES (Continued)

(b) Transactions with the shareholders and the subsidiaries, i.e. **revenues and expenses** for the years ended 31 December 2011 and 2010, respectively, are summarized below:

	2011	2010
JP PTT		
Revenues:		
Income from fixed telephony, internet and other services	-	264,812
Income from mobile telephony	-	61,458
Reversal of impairment loss	-	-
Mobile phones	-	1,972
	-	**328,242**
Expenses:		
Rents	-	(2,028,129)
Cost of delivery and collection of phone bills and telegrams	-	(776,595)
Printing services	-	(2,009)
Electricity	-	(246,160)
Electronic data processing	-	(37,200)
City land rental fee	-	(992)
Postal services	-	(20,680)
Utilities	-	(28,311)
Maintenance	-	(33,025)
CALL centre services	-	(12,085)
Fees and commissions	-	(7,392)
Other	-	(9,145)
	-	**(3,201,723)**
Net expenses	**-**	**(2,873,481)**
OTE		
Revenues:		
International settlement	207,399	96,511
	207,399	**96,511**
Expenses:		
International settlement	(26,361)	(30,738)
	(26,361)	**(30,738)**
Net revenues	**181,038**	**65,773**

Income and expenses presented for the year ended 31 December 2010, arising from transactions with JP PTT, relate to the period from January to September 2010, when, subsequent to the transfer of the shares to the Republic of Serbia, JP PTT ceased to be the shareholder of the Company (Note 26).

33. RELATED PARTY DISCLOSURES (Continued)

(b) Revenues and Expenses (Continued)

	2011	2010
TELUS		
Revenues:		
Income from fixed telephony and other services	4,628	6,912
Income from mobile telephony	1,807	1,899
	6,435	**8,811**
Expenses:		
Physical and technical security	(507,061)	(503,376)
Cleaning	(440,241)	(436,815)
Other	(45,476)	(44,405)
	(992,778)	**(984,596)**
Net expenses	**(986,343)**	**(975,785)**
MTEL		
Revenues:		
International settlement, internet and other services	499,508	517,708
Roaming and other mobile telephony revenues	53,039	54,391
Reversal of impairment loss	-	164,793
Other	84	534
	552,631	**737,426**
Expenses:		
International settlement	(413,579)	(408,638)
Roaming	(176,081)	(175,597)
Consignment sales fee	(5,280)	(5,559)
	(594,940)	**(589,794)**
Net (expenses)/revenues	**(42,309)**	**147,632**
TELEKOM SRPSKE		
Revenues:		
International settlement, internet and other services	863,109	808,793
Roaming and other mobile telephony revenues	97,316	110,115
Dividends	3,484,546	4,716,916
Revenues from software sales	-	13,205
Other	7,217	6,464
	4,452,188	**5,655,493**
Expenses:		
International settlement	(996,838)	(965,287)
Roaming	(89,560)	(89,341)
Other	(655)	(636)
	(1,087,053)	**(1,055,264)**
Net revenues	**3,365,135**	**4,600,229**

33. RELATED PARTY DISCLOSURES (Continued)

(b) Revenues and Expenses (Continued)

	2011	2010
TS:NET		
Expenses:		
Leased capacities for international transit	(51,684)	(20,930)
Net expenses	**(51,684)**	**(20,930)**
HD-WIN		
Revenues:		
Fixed telephony and other services	246	-
Mobile telephony	905	-
	1,151	**-**
Expenses:		
Broadcast content fee	(86,319)	-
Other	(12,800)	-
	(99,119)	**-**
Net expenses	**(97,968)**	**-**
Total revenues, net	**2,367,869**	**943,438**

(c) **Salaries and other benefits** of directors and other key management personnel of the Company (General Manager, Deputy General Manager, Chief Officers, Function and Department Managers), for the years ended 31 December 2011 and 2010, respectively, were as follows:

	2011	2010
Gross salaries	330,812	298,677
Compensations for business trips	26,142	22,485
Employee profit-sharing	90,554	87,570
Residential housing loans	144,796	149,845
Loans for repurchase of vehicles	27,989	28,791
Other benefits	3,164	2,994
Total	**623,457**	**590,362**

The housing loans to key management personnel are repayable monthly over at most 25 years and have been granted under the same conditions as for other Company's employees (Note 21). No provision has been required for the loans made to key management personnel.

34. COMMITMENTS

Commitments comprise the following:

	2011	2010
Operating lease commitments (a)	8,076,271	7,567,589
Construction of the mobile and fixed-line telecommunication network (b)	3,318,794	2,429,785
Balance as of 31 December	**11,395,065**	**9,997,374**

(a) The Company has entered into commercial leases on certain business premises, land and RBS devices. Lease terms are between 1 and 99 years, and the majority of lease agreements are renewable at the end of the lease period at market rate.

The future minimum lease payments under operating leases are as follows:

	2011	2010
Operating lease commitments (a)	8,076,271	7,567,589
Construction of the mobile and fixed-line telecommunication network (b)	3,318,794	2,429,785
Balance as of 31 December	**11,395,065**	**9,997,374**

Operating lease commitments disclosed above do not include commitments arising from lease of property from JP PTT, given that the Lease Agreement has been signed for indefinite period of time. Monthly rental expenses, as determined by this Agreement, amount to EUR 2,034,284.

(b) Commitments with respect to the construction of the mobile and fixed-line network are associated with the construction and upgrade of the mobile and fixed–line capacities that have been committed under contractual arrangements with domestic and foreign suppliers and creditors. Commitments are in fact contracted, unrealized deliveries at the reporting date. The majority of these obligations include maturity periods ranging from one to five years.

35. CONTINGENT LIABILITIES

(a) Litigations

As of 31 December 2011, the total estimated value of potential damage claims arising from legal proceedings filed against the Company and still in course amounts to RSD 786,282 thousand (31 December 2010: RSD 732,947 thousand), excluding penalty interest that may arise thereto.

In addition, the corporation “Herm Multinational Corporation”, the United States of America, filed a lawsuit in the amount of RSD 65,657,383 thousand against “Jat Airways” a.d., Belgrade, the Company and the Republic of Serbia. The damage claim arises from the plaintiff’s allegations that the corporation is the legal successor of the company “Slovenj Gradec” d.o.o., Slovenia, and that the liabilities to it have not been settled in accordance with the Agreement on the construction of the commercial building in no. 16, Bulevar umetnosti, Novi Beograd.

35. CONTINGENT LIABILITIES (Continued)

(a) Litigations (Continued)

The Agreement on the construction of the aforementioned building was concluded for the first phase by “Jat Airways” a.d., Belgrade in 1988, and for the second phase of construction by “Jat Airways” a.d., Belgrade and JP PTT saobracaja “Srbija”, Belgrade in 1994, i.e., significantly before the incorporation of the Company. In November 2011, the dispute was concluded by the court decision which determined that the lawsuit had been withdrawn. In January 2012, the Company submitted to the court the request for the issuance of the certificate of finality of judgment on the decision to withdraw the lawsuit.

The final outcome of the legal proceedings still in course is uncertain. As disclosed in Note 27 to the financial statements, as of 31 December 2011, the Company recognized the amount of RSD 125,931 thousand (31 December 2010: RSD 131,577 thousand) for potential losses that might arise as a result of the aforementioned legal claims. The Company’s management considers that no material liabilities will arise as a result of the remaining legal proceedings still in course, other than those provided for.

(b) Tax Risks

Tax system in the Republic of Serbia is undergoing continuous amendments. Tax period in the Republic of Serbia is considered to be open in the five-year period. In different circumstances, tax authorities could have different approach to some issues, and could detect additional tax liabilities together with related penalty interest and fines. The Company’s management believes that tax liabilities recognized in the accompanying financial statements are fairly presented.

36. OPERATING SEGMENT INFORMATION

(a) Information about Profit or Loss, Assets and Liabilities

At 31 December 2011, for management purposes, the Company’s activities are organized into four reportable operating segments based on their products and services as follows:

- Mobile telephony;
- Internet;
- Multimedia services;
- Fixed telephony and other services, including CDMA services.

Although the segments internet and multimedia services do not meet the quantitative thresholds required by IFRS 8 “Operating Segments”, management has concluded that these segments should be reported, as they are closely monitored by the management as potential growth activities and are expected to materially contribute to the Company’s performance in the future.

The accounting policies of the reportable segments are the same as the Company’s accounting policies disclosed in Note 2 to the financial statements.

Reportable segment’s profit or loss represent profit earned or loss incurred by each operating segment with allocation of all costs made, based on the Company’s management best estimation. This is the measure reported to and regularly reviewed by chief operating decision makers for the purposes of adequate recourse allocation and assessment of the segments’ performance.

36. OPERATING SEGMENT INFORMATION (Continued)

(a) Information about Profit or Loss, Assets and Liabilities (Continued)

The reportable segments' results for the year ended 31 December 2011 are as follows:

	Mobile telephony	Internet	Multimedia services	Fixed telephony and other services	Total
Sales	33,591,790	7,017,147	812,913	45,357,143	86,778,993
Other operating income	2,348,257	90,823	32,719	1,555,628	4,027,427
Inter-segment settlement	3,692,462	-	-	6,730,162	10,422,624
Operating income	**39,632,509**	**7,107,970**	**845,632**	**53,642,933**	**101,229,044**
Wages, salaries and other personnel expenses	(2,554,351)	(1,575,003)	(899,494)	(9,929,790)	(14,958,638)
Charges of other network operators	(4,857,048)	-	-	(7,481,476)	(12,338,524)
Cost of material and maintenance	(5,612,764)	(615,727)	(170,223)	(4,354,978)	(10,753,692)
Depreciation and amortization	(5,679,331)	(212,355)	(768,905)	(10,723,551)	(17,384,142)
Rental costs	(1,468,706)	(340,140)	(198,672)	(2,276,742)	(4,284,260)
Other operating expenses	(5,463,402)	(475,074)	(1,138,755)	(5,116,483)	(12,193,714)
Inter-segment settlement	(3,638,554)	(2,781,908)	-	(4,002,162)	(10,422,624)
Operating expenses	**(29,274,156)**	**(6,000,207)**	**(3,176,049)**	**(43,885,182)**	**(82,335,594)**
Operating profit/ (loss)	**10,358,353**	**1,107,763**	**(2,330,417)**	**9,757,751**	**18,893,450**
Interest income	489,721	53,701	6,401	651,586	1,201,409
Interest expense	(861,978)	(39,792)	(52,082)	(666,259)	(1,620,111)
Foreign exchange gains, net	525,685	19,412	11,036	513,876	1,070,009
Dividends	1,836,356	-	-	1,648,190	3,484,546
Other financial income	-	-	-	119,464	119,464
	1,989,784	**33,321**	**(34,645)**	**2,266,857**	**4,255,317**
Profit/(loss) before tax	**12,348,137**	**1,141,084**	**(2,365,062)**	**12,024,608**	**23,148,767**
Income tax expense	(423,271)	(39,114)	-	(412,180)	(874,565)
Profit/(loss) for the year	**11,924,866**	**1,101,970**	**(2,365,062)**	**11,612,428**	**22,274,202**

36. OPERATING SEGMENT INFORMATION (Continued)

(a) Information about Profit or Loss, Assets and Liabilities (Continued)

The reportable segments' results for the year ended 31 December 2010 are as follows:

	Mobile telephony	Internet	Multimedia services	Fixed telephony and other services	Total
Sales	34,285,795	4,966,097	357,818	45,173,088	84,782,798
Other operating income	1,753,416	48,280	21,966	1,939,788	3,763,450
Inter-segment settlement	4,079,884	-	-	5,544,091	9,623,975
Operating income	**40,119,095**	**5,014,377**	**379,784**	**52,656,967**	**98,170,223**
Wages, salaries and other personnel expenses	(2,168,595)	(1,001,697)	(657,211)	(8,831,515)	(12,659,018)
Charges of other network operators	(4,614,968)	-	-	(7,627,331)	(12,242,299)
Cost of material and maintenance	(4,583,703)	(844,926)	(174,439)	(4,338,026)	(9,941,094)
Depreciation and amortization	(5,478,462)	(131,773)	(447,481)	(10,879,489)	(16,937,205)
Rental costs	(1,548,052)	(195,574)	(135,883)	(2,401,520)	(4,281,029)
Other operating expenses	(8,001,966)	(374,679)	(805,259)	(4,957,572)	(14,139,476)
Inter-segment settlement	(2,969,750)	(2,324,840)	-	(4,329,385)	(9,623,975)
Operating expenses	**(29,365,496)**	**(4,873,489)**	**(2,220,273)**	**(43,364,838)**	**(79,824,096)**
Operating profit/ (loss)	**10,753,599**	**140,888**	**(1,840,489)**	**9,292,129**	**18,346,127**
Interest income	363,048	32,748	2,480	694,319	1,092,595
Interest expense	(854,023)	(25,209)	(28,621)	(1,094,255)	(2,002,108)
Foreign exchange losses, net	(2,697,949)	(29,275)	(44,045)	(3,217,816)	(5,989,085)
Dividends	2,485,815	-	-	2,231,101	4,716,916
Other financial income	-	-	-	246	246
	(703,109)	**(21,736)**	**(70,186)**	**(1,386,405)**	**(2,181,436)**
Profit/(loss) before tax	**10,050,490**	**119,152**	**(1,910,675)**	**7,905,724**	**16,164,691**
Income tax expense	(208,658)	(2,474)	-	(164,130)	(375,262)
Profit/(loss) for the year	**9,841,832**	**116,678**	**(1,910,675)**	**7,741,594**	**15,789,429**

Inter-segment revenues and expenses are eliminated on consolidation. The reportable operating segments derive their revenue from sales of fixed and mobile telephony services, internet retail services, multimedia, CDMA and other services to external customers. A detailed breakdown of the sales by category, i.e. from all services is disclosed in Note 5 to the financial statements.

The sale revenue from external customers reported to the management is measured in a manner consistent with that in the Company's income statement.

36. OPERATING SEGMENT INFORMATION (Continued)

(a) Information about Profit or Loss, Assets and Liabilities (Continued)

The reportable segments' assets and liabilities at 31 December 2011 and capital expenditure for the year then ended are as follows:

	Mobile telephony	Internet	Multimedia services	Fixed telephony and other services	Total
Assets	47,644,364	3,880,452	1,479,380	94,994,490	**147,998,686**
Liabilities	39,521,512	2,488,271	2,413,546	34,715,391	**79,138,720**
Capital expenditure (Notes 17 and 18)	4,114,967	216,995	884,259	5,562,449	**10,778,670**

Segments' assets and liabilities do not include equity investments in subsidiaries and other legal entities (RSD 60,897,038 thousand), deferred tax assets (RSD 1,336,491 thousand) and income tax payable (RSD 90,609 thousand), respectively, as these assets and liabilities are managed on the Company's level.

Capital expenditure consists of additions of intangible assets and property and equipment.

The reportable segments' assets and liabilities at 31 December 2010 and capital expenditure for the year then ended are as follows:

	Mobile telephony	Internet	Multimedia services	Fixed telephony and other services	Total
Assets	45,608,885	2,658,847	1,436,346	98,613,343	**148,317,421**
Liabilities	44,969,620	1,714,214	1,782,368	39,207,043	**87,673,245**
Capital expenditure (Notes 17 and 18)	5,231,876	2,225,878	1,117,345	7,068,314	**15,643,413**

Segments' assets do not include investments in subsidiaries (RSD 60,211,333 thousand), deferred tax assets (RSD 1,108,440 thousand), and receivables for prepaid income tax (RSD 330,190 thousand) as these assets are managed on the Company's level.

36. OPERATING SEGMENT INFORMATION (Continued)

(b) Information about Geographical Areas

The country of origin of the Company, which is also the main operating territory, is the Republic of Serbia. Sale revenues are allocated on the basis of the country in which the service is provided. The Company's sale revenues are predominantly generated in the Republic of Serbia (89%).

The remaining revenues relate to international settlement services, roaming and other services on foreign markets.

Total assets are allocated based on where the assets are located. The total of non-current assets other than financial instruments, i.e. other long-term financial placements (there are no employment benefit assets and right arising under insurance contracts) located in the Republic of Serbia amounts to RSD 110,867,544 thousand as of 31 December 2011 and represents 64.7% of total non-current assets (31 December 2010: RSD 117,278,697 thousand or 65.9%).

The total of these non-current assets located in other countries amounts to RSD 60,431,850 thousand or 35.3% (31 December 2010: RSD 60,574,254 thousand or 34.1%).

(c) Information about Major Customers

The Company has a large customer base, unrelated, and with individually small amounts of revenue. There are no revenues from transactions with a single external customer amounting to 10% of the Company's sales during the year ended 31 December 2011.

37. EVENTS AFTER THE REPORTING PERIOD

(a) The Loan Agreement for the Payment of the Minority Shareholder OTE Share in the Company's Capital

In order to finance the payment of the share of the minority shareholder OTE in the Company's capital, as well as to refinance the existing liabilities related to the "Term and Revolving Facilities Agreement" (Note 28(c)/ii/), on 9 January 2012 the Company entered into a "Term Facilities Agreement" with the financial institutions (original creditors – 19 banks), whereby Unicredit Bank AG, London branch acts as a facility agent and Unicredit Bank Srbija a.d., Belgrade as a payment agent.

The total loan amounts to EUR 470 million and consists of two arrangements (A and B). The repayment period of both arrangements is 36 months from the date of the first withdrawal of the Arrangement A.

The above mentioned Term Facilities Agreement defines the commitment of the Company to submit audited annual consolidated financial statements and audited annual financial statements, as well as financial statements for certain interim (three-month) periods. In addition, the Company is required to meet the prescribed level of the performance indicators of Debt coverage and Interest coverage.

On 25 January 2012, the Company withdrew the funds per the Arrangement A in the total amount of EUR 320 million.

37. EVENTS AFTER THE REPORTING PERIOD (Continued)

(b) Payment of the Interim Dividend to the Minority Shareholder OTE

On 25 January 2012, the Company paid EUR 17 million as the interim dividend to the minority shareholder OTE, based on the Decision of the Shareholders' Assembly.

The interim dividend distribution was approved based on the Company's financial statements for the nine-month period ended 30 September 2011. The final amount of dividend will be determined subsequent to the adoption of the Company's financial statements for the year ended 31 December 2011 (Notes 26 and 30).

(c) Purchase of the Minority Shareholder OTE Share in the Company's Capital

On 25 January 2012, the Company paid EUR 380 million to the minority shareholder OTE for its share in the Company's capital in the following way: EUR 320 million from the loan and EUR 60 million from its own funds. Subsequent to the above mentioned date, OTE ceased to be the shareholder of the Company (Note 26).

38. 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 2011 and 2010 into the functional currency (RSD) were as follows:

	2011	In RSD 2010
EUR	104.6409	105.4982
USD	80.8662	79.2802
BAM (KM)	53.5020	53.9404
SDR	124.1606	122.3420

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