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

Financial Statements for the
Year Ended 31 December 2012
in Accordance with Accounting Regulations
of the Republic of Serbia

and

Independent Auditor's Report

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

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and the Supervisory 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 2012, 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, 111/2009 and 99/2011), 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 2012, 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.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and the Supervisory 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 2012, the estimated contingent liabilities arising from lawsuits filed against the Company amount to RSD 1,526,124 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 competent legal departments, the provision for potential losses arising from pending litigations recognized in the Company’s financial statements amounts to RSD 130,245 thousand as of 31 December 2012 (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 2013

Milovan Popovic
Certified Auditor

Društvo za reviziju BDO d.o.o. Beograd

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 2012, set out on pages 4 to 87, 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, 111/2009 and 99/2011) have been followed.

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

Predrag Culibrk
Director General

Prof. dr Milenko Dzeletovic
Finance Executive Director

INCOME STATEMENT
For the Year Ended 31 December 2012
In RSD thousand

	Note	2012	2011
OPERATING INCOME			
Sales	5	88,058,336	86,863,661
Own-work and goods capitalized		45,978	32,531
Other operating income	6	442,401	423,190
		88,546,715	**87,319,382**
OPERATING EXPENSES			
Cost of goods sold		(4,530)	(7,436)
Cost of material	7	(6,663,368)	(6,015,330)
Wages, salaries and other personnel expenses	8	(12,961,304)	(14,958,638)
Depreciation, amortization and provisions	9	(17,105,137)	(17,393,011)
Other operating expenses	10	(32,037,650)	(29,373,151)
		(68,771,989)	**(67,747,566)**
OPERATING PROFIT		**19,774,726**	**19,571,816**
Financial income	11	7,001,762	7,508,781
Financial expenses	12	(12,466,791)	(3,253,464)
Other income	13	2,399,729	3,487,038
Other expenses	14	(6,144,505)	(4,020,180)
PROFIT FROM OPERATIONS BEFORE TAX		**10,564,921**	**23,293,991**
NET LOSS FROM DISCONTINUED OPERATIONS	15	(154,320)	(145,224)
PROFIT BEFORE TAX		**10,410,601**	**23,148,767**
INCOME TAXES	16		
Current tax expense		(392,579)	(1,102,616)
Deferred tax income		1,233,133	228,051
PROFIT FOR THE YEAR		**11,251,155**	**22,274,202**
EARNINGS PER SHARE			
Basic earnings per share	26	**0.01**	**20.62**

The accompanying notes on pages 13 to 87
are an integral part of these financial statements.

The accompanying financial statements were authorised for issue by the Supervisory Board of the Company on 28 February 2013 and were signed on its behalf by:

Predrag Culibrk
Director General

Prof. dr Milenko Dzeletovic
Finance Executive Director

BALANCE SHEET
As of 31 December 2012
In RSD thousand

	Note	31 December 2012	31 December 2011
ASSETS			
Non-current assets			
Intangible assets	17	6,352,594	6,259,683
Advances for intangible assets		40,446	144,690
Property, plant and equipment	18	95,730,631	103,698,693
Advances for property and equipment	19	238,593	299,290
Equity investments	20	60,910,876	60,897,038
Other long-term financial placements	21	2,002,451	1,672,317
		165,275,591	**172,971,711**
Current assets			
Inventories	22	5,829,140	6,020,708
Non-current assets held for sale		17,115	-
Advances to suppliers		403,935	627,334
Accounts receivable	23	12,471,431	12,381,185
Receivables for overpaid income tax		941,570	-
Short-term financial placements		291,603	1,247
Cash and cash equivalents	24	10,862,273	14,018,543
Value added tax, prepayments and accrued income	25	3,747,462	2,874,996
		34,564,529	**35,924,013**
Deferred tax assets	16(c)	**2,569,624**	**1,336,491**
TOTAL ASSETS		**202,409,744**	**210,232,215**
EQUITY AND LIABILITIES			
Equity	26		
Share capital		100,000,000	82,512,552
Other capital		8,588	8,588
Reserves		589,634	589,634
Treasury shares		(16,502,510)	-
Retained earnings		15,910,105	47,892,112
		100,005,817	**131,002,886**
Long-term provisions and long-term liabilities			
Long-term provisions	27	1,771,220	1,614,383
Long-term borrowings	28	46,654,917	17,313,422
Other long-term liabilities		3,090	3,238
		48,429,227	**18,931,043**
Current liabilities			
Short-term borrowings	28	29,931,023	28,339,123
Accounts payable	29	6,907,677	6,633,782
Other current liabilities	30	850,144	9,574,922
Value added tax and other tax liabilities, accruals and deferred income	31	16,285,856	15,659,850
Income tax payable		-	90,609
		53,974,700	**60,298,286**
TOTAL EQUITY AND LIABILITIES		**202,409,744**	**210,232,215**
OFF-BALANCE SHEET ITEMS	32	**3,789,507**	**3,481,581**

The accompanying notes on pages 13 to 87
are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
For the Year Ended 31 December 2012
In RSD thousand

	Share capital	Other capital	Reserves	Treasury shares	Retained earnings	Total
Balance as of 1 January 2011	**82,512,552**	**8,588**	**589,634**	**-**	**39,183,365**	**122,294,139**
Dividends declared and paid	-	-	-	-	(13,565,455)	(13,565,455)
Profit for the year ended 31 December 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**
Dividends paid	-	-	-	-	(2,286,436)	(2,286,436)
Transfer (from)/to	17,487,448	-	-	-	(17,487,448)	-
Treasury shares	-	-	-	(16,502,510)	(23,459,278)	(39,961,788)
Profit for the year ended 31 December 2012	-	-	-	-	11,251,155	11,251,155
Balance as of 31 December 2012	**100,000,000**	**8,588**	**589,634**	**(16,502,510)**	**15,910,105**	**100,005,817**

The accompanying notes on pages 13 to 87
are an integral part of these financial statements.

STATEMENT OF CASH FLOWS
For the Year Ended 31 December 2012
In RSD thousand

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and advances received	106,034,450	105,392,310
Other receipts from operating activities	1,043,959	970,688
Payments to suppliers and advance payments to suppliers	(50,005,667)	(44,625,945)
Payments for wages, salaries and other personnel expenses	(14,778,240)	(14,782,726)
Interest paid	(3,221,737)	(1,611,472)
Income tax paid	(1,424,758)	(594,208)
Other public charges paid	(9,653,529)	(9,652,300)
Net cash flows from operating activities	**27,994,478**	**35,096,347**
CASH FLOWS FROM INVESTING ACTIVITIES		
Receipts from sale of intangible assets and property and equipment	79,173	1,983
Other financial placements (net inflows)	-	147,997
Interest received	534,722	738,969
Dividends received	4,127,243	3,484,546
Purchase of equity instruments – HD-WIN d.o.o., Belgrade	-	(790,476)
Purchase of intangible assets and property and equipment	(12,207,837)	(10,778,670)
Other financial placements (net outflows)	(791,135)	-
Net cash flows used in investing activities	**(8,257,834)**	**(7,195,651)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Receipts from borrowings (net inflows)	30,933,537	-
Purchase of own equity instruments (treasury shares)	(39,961,788)	-
Repayments of borrowings and other liabilities (net outflows)	(290)	(17,433,592)
Dividends paid	(11,137,101)	(4,736,829)
Net cash flows used in financing activities	**(20,165,642)**	**(22,170,421)**
Net (decrease)/increase in cash and cash equivalents	(428,998)	5,730,275
Cash and cash equivalents at beginning of year	14,018,543	7,949,392
Foreign exchange (losses)/gains on translation of cash and cash equivalents, net	(2,727,272)	338,876
Cash and cash equivalents at end of year (Note 24)	**10,862,273**	**14,018,543**

The accompanying notes on pages 13 to 87
are an integral part of these financial statements.

STATISTICAL ANNEX
For the Year Ended 31 December 2012
In RSD thousand

I GENERAL CORPORATE INFORMATION

	2012	2011
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
Average number of employees, based on the number at the end of each month (whole number)	9,061	9,354

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	22,732,349	(16,327,976)	6,404,373
Additions during the year	2,344,664	-	2,344,664
Disposals	(615,633)	-	(2,355,997)
Revaluation	-	-	-
Balance at end of year	**24,461,380**	**(18,068,340)**	**6,393,040**
2. Property, plant, equipment and biological assets			
Balance at beginning of year	221,920,505	(117,922,522)	103,997,983
Additions during the year	10,056,269	-	10,056,269
Disposals	(7,071,404)	-	(18,085,028)
Revaluation	-	-	-
Balance at end of year	**224,905,370**	**(128,936,146)**	**95,969,224**

III INVENTORY STRUCTURE

	2012	2011
Material	5,821,325	5,986,654
Work in progress	-	-
Finished goods	-	-
Merchandise	7,815	34,054
Non-current assets held for sale	17,115	-
Payments in advance	403,935	627,334
Total	**6,250,190**	**6,648,042**

STATISTICAL ANNEX (Continued)
For the Year Ended 31 December 2012
In RSD thousand

IV CAPITAL STRUCTURE

	2012	2011
Share capital	100,000,000	82,512,552
Out of which: foreign capital	-	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	**100,008,588**	**82,521,140**

V SHARE CAPITAL STRUCTURE

	2012	2011
Ordinary shares		
Number of ordinary shares	1,000,000,000	1,080,000
Nominal value of ordinary shares – total	100,000,000	82,512,552
Preference shares		
Number of preference shares	-	-
Nominal value of preference shares – total	-	-
Total – nominal value of shares	**100,000,000**	**82,512,552**

VI RECEIVABLES AND LIABILITIES

	2012	2011
Trade receivables (balance at end of year)	12,265,016	11,799,924
Accounts payable (balance at end of year)	6,875,202	6,566,710
Receivables from insurance companies for damage compensations during the year (debit turnover without opening balance)	3,674	219
Value added tax – previous tax (annual amount as per tax returns)	8,507,395	7,705,457
Accounts payable (credit turnover without opening balance)	96,487,639	87,177,081
Liabilities for net salaries and fringe benefits (credit turnover without opening balance)	7,235,896	7,847,546
Liabilities for payroll taxes born by the employee (credit turnover without opening balance)	1,109,038	1,188,479
Liabilities for payroll contributions born by the employee (credit turnover without opening balance)	1,780,918	1,663,418
Liabilities for dividends, profit-sharing and personal income of the employer (credit turnover without opening balance)	2,242,625	13,631,305
Liabilities to individuals for services rendered based on agreements (credit turnover without opening balance)	294,718	377,994
Liabilities for VAT (annual amount as per tax returns)	16,365,495	15,603,502
Control total	**153,167,616**	**153,561,635**

STATISTICAL ANNEX (Continued)
For the Year Ended 31 December 2012
In RSD thousand

VII OTHER EXPENSES

	2012	2011
Fuel and energy	1,302,660	1,132,071
Gross salaries and fringe benefits	10,110,403	10,681,104
Payroll taxes and contributions born by the employer	1,803,028	1,662,268
Gross benefits of individuals for services rendered based on agreements	468,652	591,219
Gross remuneration to the Managing Board's and Supervisory Board's members	8,034	5,687
Other personal expenses	571,187	2,018,360
Production services	27,723,536	25,683,580
Rental expenses	4,751,679	4,284,217
Land-rental expenses	-	-
Research and development costs	22,853	991
Depreciation/amortization charge	16,802,202	17,384,142
Insurance premium costs	572,731	540,327
Bank charges and payment operations costs	474,164	227,577
Membership fees	69,732	63,351
Taxes	1,238,347	939,989
Contributions	-	-
Interest expenses	4,253,792	1,620,111
Interest expenses and a portion of financial expenses	4,253,792	1,620,111
Interest expenses on borrowings from banks and other financial institutions	3,492,376	861,801
Costs of humanitarian, cultural, health, educational, scientific and religious purposes, environmental protection and sports purposes	172,793	121,755
Control total	**78,091,961**	**69,438,661**

VIII OTHER INCOME

	2012	2011
Income from sale of goods	4,588	2,185
Premiums, subventions, subsidies, regress, compensations and recovery of tax duties	-	-
Conditional donations	408,396	402,743
Land-rental income	-	-
Membership fees	-	-
Interest income	1,063,524	1,201,409
Interest income on accounts and deposits held with banks and other financial institutions	510,126	764,573
Dividend income	4,127,243	3,484,546
Control total	**6,113,877**	**5,855,456**

STATISTICAL ANNEX (Continued)
For the Year Ended 31 December 2012
In RSD thousand

IX OTHER INFORMATION

	2012	2011
Excise duties (as per annual calculation of excise duties)	-	-
Customs and other import duties (annual total as per calculation)	826,153	481,125
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
Entrepreneurs' personal income from net profit (to be completed only by entrepreneurs)	-	-
Control total	**826,153**	**482,212**

STATISTICAL ANNEX (Continued)
For the Year Ended 31 December 2012
In RSD thousand

X DEFERRED NEGATIVE NET EFFECTS OF FOREIGN CURRENCY CLAUSES AND EXCHANGE DIFFERENCES	2012	2011
Opening balance of deferred net effect of foreign currency clause	-	-
Deferred net effect of foreign currency clause	-	-
Proportional part of reversed deferred net effect of foreign currency clause	-	-
Remaining amount of deferred net effect of foreign currency clause	-	-
Opening balance of deferred net effect of exchange differences	-	-
Deferred net effect of exchange differences	-	-
Proportional part of reversed deferred net effect of exchange differences	-	-
Remaining amount of deferred net effect of exchange differences	-	-

XI DEFERRED POSITIVE NET EFFECTS OF FOREIGN CURRENCY CLAUSES AND EXCHANGE DIFFERENCES	2012	2011
Opening balance of deferred net effect of foreign currency clause	-	-
Deferred net effect of foreign currency clause	-	-
Proportional part of reversed deferred net effect of foreign currency clause	-	-
Remaining amount of deferred net effect of foreign currency clause	-	-
Opening balance of deferred net effect of exchange differences	-	-
Deferred net effect of exchange differences	-	-
Proportional part of reversed deferred net effect of exchange differences	-	-
Remaining amount of deferred net effect of exchange differences	-	-

The accompanying notes on pages 13 to 87
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, the Company 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 Company is a joint stock entity, which is founded for indefinite period of time.

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. At that time, 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 the inscription number Fi. 7276/97.

On 20 February 2003, JP PTT concluded the Share Purchase Agreement (“SPA”) with the seller, STET, whereby JP PTT purchased additional 29 percent of the share capital owned by STET and subsequently became the owner of 80 percent of the Company’s share capital.

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 percent of the Company’s shares.

On 30 December 2011, a Share Purchase Agreement was concluded related to the sale of all shares owned by OTE in the Company. On 25 January 2012, the Company fully paid the funds for the share of the minority shareholder OTE in the Company’s capital. Since that date, OTE has ceased to be the shareholder of the Company and the Company became the owner of 20 percent of its own shares.

In June 2011, the Company Law entered into force (“RS Official Gazette”, no. 36 dated 27 May 2011), effective from 1 February 2012. The Law on Amendments and Supplements to the Company Law (“RS Official Gazette”, no. 99 dated 27 December 2011) provided for postponement of its application until 30 June 2012, by when companies were obliged to adjust their by-laws and bodies to the new Company Law, and the Company acted accordingly.

1. CORPORATE INFORMATION (Continued)

In this regard, at its 43rd regular session held on 20 April 2012, the Company's Shareholders Assembly passed the Articles of Association of "Telekom Srbija" a.d. The Articles of Association define the new bodies of the Company, which, in addition to the Shareholders Assembly, comprise the Supervisory Board and Executive Board. In addition, the Articles of Association provide for the appointment of the Company's Secretary.

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.

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 lasted until 9 June 2005, when, pursuant to the previously applicable Law on Telecommunications of the Republic of Serbia, such market position was legally rescinded.

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"), and accordingly all fees concerning the license and frequencies are payable to RATEL (Note 10).

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 and frequencies are payable to RATEL (Note 10). The license is issued for a period up to 9 June 2017 and the Company may apply for the license renewal not later than six months before the expiry of this deadline.

In addition, in 2008, RATEL issued approvals to the operators and providers for the provision of voice transmission service over the Internet, for public telecommunication networks and for international interconnection of a public telecommunication network. The list of the granted authorizations by RATEL was extended during 2011 and 2012.

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, "Orion Telekom" d.o.o., Belgrade also possesses this license.

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.

In October 2012, the company "Serbia Broadband" d.o.o., Belgrade commenced providing fixed-line telephony services.

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.

1. CORPORATE INFORMATION (Continued)

According to the provisions of the aforementioned Law, RATEL (the “Republic Agency for Electronic Communications” or “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 network elements and attributable assets (including the shared and full 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.

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 of (physical) access to network elements and attributable assets (including the shared and full unbundled access to the local loop), wholesale market of broadband access, wholesale market for leased lines and retail market for publicly available telephone service from fixed location.

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.

In November 2012, RATEL postponed until further notice the beginning of the implementation of the Rule Book on number portability in the public telephone networks at a fixed location (“RS Official Gazette”, no. 52/11), which was scheduled for 1 December 2012.

1. CORPORATE INFORMATION (Continued)

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 2012, the Company had 9,042 employees (31 December 2011: 9,048 employees).

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

- The Joint Stock Telecommunications Company "Telekomunikacije Republike Srpske" a.d., Banja Luka, the Republic of Srpska (65% of share capital);
- The Limited Liability Company "Mtel" d.o.o., Podgorica, Montenegro (51% of capital);
- The Joint Stock Company "Telus" a.d., Belgrade, the Republic of Serbia (100% of share capital);
- The Limited Liability Company "FiberNet" d.o.o., Podgorica, Montenegro (100% of capital);
- The Closed Joint Stock Company "TS:NET" B.V., Amsterdam, the Netherlands (100% of capital); and
- The 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 Supervisory Board of the Company on 28 February 2013.

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, 111/2009 and 99/2011) 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 (RSD) 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, 101/2012 and 118/2012), 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 2011, except for the adoption of new standards and interpretations, noted below.

(a) New Standards, Amendments and Interpretations to existing Standards Mandatory for the First Time for the Financial Year beginning on 1 January 2012

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 2012, 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:

- Amendments to IAS 12 "Income Taxes" - Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after 1 January 2012).

  IAS 12 "Income Taxes" currently requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40 "Investment Property".

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(a) New Standards, Amendments and Interpretations to existing Standards Mandatory for the First Time for the Financial Year beginning on 1 January 2012 (Continued)

This amendment therefore introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC 21 "Income Taxes – Recovery of revalued non-depreciable assets", will no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn. The amendments did not have any impact on the financial position or performance of the Company.

- 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).

  These amendments include two changes to IFRS 1. The first replaces references to a fixed date of 1 January 2004 with 'the date of transition to IFRSs', thus eliminating the need for entities adopting IFRSs for the first time to restate derecognition transactions that occurred before the date of transition to IFRSs. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with IFRSs after a period when the entity was unable to comply with IFRSs because its functional currency was subject to severe hyperinflation. These amendments are not relevant to the Company, as it is an existing IFRS preparer.

- Amendments to IFRS 7 "Financial Instruments: Disclosures" - Transfer of Financial Assets (effective for annual periods beginning on or after 1 July 2011). The new disclosure requirements apply to transferred financial assets.

  The amendments promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial assets. These amendments had no impact on the accompanying financial statements of the Company.

(b) New Standards, Amendments and Interpretations 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 2012. They have not been early adopted and the Company is in the process of assessing their 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).
- 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).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

- Revised IAS 28 “Investments in Associates and Joint Ventures” (effective for annual periods beginning on or after 1 January 2013).
- Revised IAS 32 “Financial Instruments: Presentation” (effective for annual periods beginning on or after 1 January 2014).
- Amendment to IFRS 1 “First-time Adoption of IFRS” - Government Loans (effective for annual periods beginning on or after 1 January 2013).
- Amendment to IFRS 7 “Financial Instruments: Disclosures” – Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2013).
- 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).
- IFRIC 20 “Stripping Costs in the Production Phase of a Surface Mine” (effective for annual periods beginning on or after 1 January 2013).
- Amendments to various standards (IFRS 1, IAS 1, IAS 16, IAS 32, and IAS 34), which are part of the IASB’s Annual Improvements to IFRSs, 2009-2011 Cycle, issued in May 2012. These amendments result primarily in removal of inconsistencies, clarifications and terminology or editorial changes (effective for annual periods beginning on or after 1 January 2013).
- “Investment Entities” Amendments to IFRS 10, IFRS 12 and IAS 27 (effective for annual periods beginning on or after 1 January 2014).

2.2. Comparative Figures

Comparative figures represent the audited financial statements for the year ended 31 December 2011, 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 comparative figures was performed. The total negative effect of error adjustments charged to the accompanying income statement for the year ended 31 December 2012 amounts to RSD 154,320 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 used 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 to the network.

(d) Income from Other Telecommunication Services

This income primarily includes lease of telephony capacities - telephone lines, data transfer 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 primarily relates to prepaid and postpaid services, such as spent call minutes, text and multimedia messages, monthly fees, data transfer services, income from sales of mobile telephones and other services.

Income from sale is recorded at the invoiced value, less effective discounts and 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 for post-paid services 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 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 national 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 charges from other network operators.

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, income from incoming international traffic from foreign operators' networks, which, through the networks of other national operators, terminates in the Company's network, as well as income from transiting outgoing international traffic from networks of other national operators which, through the Company's network, terminates in networks of other foreign operators.

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 (profit and loss) in the period to which they relate.

Operating lease expenses 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 relate 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 recognized in the Company's income statement (Note 10).

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 funds.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10. Dividend Income

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

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

The items included in the Company’s 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 financial income (Note 11), i.e., financial expense (Note 12).

Income or expenses arising upon the translation of assets and liabilities with the contracted foreign currency clause are also credited or debited as appropriate, to the income statement, as part of financial income (Note 11), i.e., financial expense (Note 12).

2.12. Property, Plant and Equipment

Property, plant and equipment of the Company at 31 December 2012 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, repairs and maintenance that extend the useful life of an asset are capitalized; otherwise they are recognized as expenses as incurred (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”.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.13. Intangible Assets

As of 31 December 2012, intangible assets consist of software, licenses and other rights. Intangible assets are stated at cost less accumulated amortization and accumulated impairment losses, if any.

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

Research and development costs are recognised 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 competent Company's managing body. Competent departments of the Company revise the useful life of property and equipment 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.

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 of 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, 18/2010, 101/2011 and 119/2012) 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 lower 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 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. By stimulating and enhancing the sale of different services to the package users, the Company expects to compensate for the cost of a mobile telephone which it sells at lower prices.

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 that legal entity. 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 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 assets 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 long-term placements.

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 be unable 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 or financial reorganisation, 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 recognised 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 a 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 non-application of effective interest rate as required by IAS 39 "Financial Instruments: Recognition and Measurement", have no material effect on the interim 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 (long-term).

(b) Operating Liabilities

Trade payables and other current 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 relate to computed and unbilled income for services performed during the current reporting period, as well as prepaid expenses.

Computed and uninvoiced expenses for services and works performed during the current reporting 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 the discount rate which reflects interest rate of high-quality securities that are denominated in the currency in which liabilities will be settled (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 contingent only on the years of service in the Company) as presented in the table below:

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 59th 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.

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 in 2011.

On 16 November 2012, the Executive Board of the Company passed the Decision number 345501/1, laying down the conditions for exercising the right to the benefit – severance pay for the full time employees who suffer from a serious illness that permanently impairs their ability to work. The severance pay is calculated in an amount determined in the manner of and in accordance with the criteria for the calculation of a one-off payment according to the Business policy for stimulating the voluntary resignation from July 2011.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.23. Employee Benefits (Continued)

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

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.

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.

(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 Contribution to Operating Results

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 contribution to the Company’s operating result (2011: employee profit-sharing).

Employee profit-sharing includes 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, 18/2010, 101/2011 and 119/2012) 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.

Pursuant to the Law on Amendments and Supplements to the Corporate Income Tax Law (“RS Official Gazette”, no. 119/2012), the increased income tax rate of 15% shall be applied starting from January 2013. 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, for large-sized and medium-sized entities 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 five 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 net 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 tax regulations. These taxes and contributions are included within other operating expenses (Note 10).

2.25. Earning per Share

The Company discloses basic earnings per share. Basic earnings 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 the Company has a possibility to control these entities or has the right to govern the financial and business operations of same entities, 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 reviewed by the Company's chief operating decision makers in order 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 competent Company's managing body. There have been no changes in the risk management policies during the year ended 31 December 2012.

Categories of financial instruments, presented at their carrying amounts as of 31 December 2012 and 2011, are summarized in the table below:

	2012	2011
Financial assets		
Other long-term placements and assets	2,003,889	1,675,100
Payments in advance, trade and other receivables, excluding prepayments and accrued income	13,816,936	13,008,519
Short-term financial placements	291,603	1,247
Cash and cash equivalents	10,862,273	14,018,543
	26,974,701	**28,703,409**
Financial liabilities at amortized cost		
Borrowings and other long-term liabilities	76,589,030	45,655,783
Payables and other current liabilities, excluding accruals and deferred income	8,655,414	17,206,891
	85,244,444	**62,862,674**

No trading transactions with financial instruments, such as interest rate swaps or forwards, were undertaken by the Company during the year ended 31 December 2012. The Company entered into agreements on covered forward transactions during the year ended 31 December 2011.

There were no reclassifications of financial assets during the year ended 31 December 2012.

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)

The management of the Company 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 for 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.

At 31 December 2012, 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 102.3465/125.0901 for EUR 1) with all other variables held constant, profit after tax for the year 2012 would have been RSD 6,798,869 thousand (2011: RSD 3,471,237 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 more sensitive to fluctuations in foreign currency rates during the year ended 31 December 2012 than in 2011 due to the significant decline in value of RSD toward EUR, which was additionally affected by the increase in foreign currency denominated liabilities, influencing consequently equity at 31 December 2012.

At 31 December 2012, financial assets in the amount of RSD 10,710,709 thousand (31 December 2011: RSD 12,350,765 thousand) are denominated in EUR, which represents 98.2% (2011: 96.8%) of the total financial assets of the Company denominated in foreign currencies.

At 31 December 2012, financial liabilities denominated in EUR amount to RSD 59,078,473 thousand (31 December 2011: RSD 41,252,901 thousand), which represents 99.6% (2011: 99.1%) 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 2012 and 2011, 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 denominated in the foreign currency (EUR), i.e., foreign currency clause tied to 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, an 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 2012, if interest rates on currency-denominated borrowings (both from banks and suppliers) at that date had been 0.1 percentage point higher/lower on an annual basis with all other variables held constant, profit after tax for the year 2012 would have been RSD 65,115 thousand (2011: RSD 35,417 thousand) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

At 31 December 2012, if interest rates on RSD-denominated loans from suppliers and banks had been 0.1 percentage point higher/lower on an annual basis with all other variables held constant, profit after tax for the year 2012 would have been RSD 52,491 thousand (2011: RSD 6,700 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 investments classified in the balance sheet either as available-for-sale or at fair value through profit or loss, which effects of changes in fair value are recognised through profit or loss (income statement). 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”) has 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 was increased to RSD 430 (VAT excluded) and included 300 free pulses (instead of the previous 150).

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1. Market Risk (Continued)

(c) Price Risk (Continued)

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 a cost basis.

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 and services, 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 authorizations in relation to contracts, transactions and other activities that are performed for the account and on behalf of the Company as follows: the coordinator of sections at the territorial level of organization is limited to the monetary value of up to EUR 3,000, the Function Managers, the Manager of Internal Supervision and the Company's Secretary up to EUR 10,000 and Executive Directors up to EUR 50,000 per legal transaction at the middle exchange rate of the National Bank of Serbia prevailing at the date of legal transaction.

The Director General may conclude legal transactions worth from EUR 50,000 to EUR 2.5 million, after being approved by the Executive Directors.

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 2012 and 2011.

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 2012						
Non-interest bearing	25,340,630	733,698	381,232	1,051,822	1,440,487	28,947,869
Fixed interest rate instruments	10,867,779	23,018	30,690	91,293	142,443	11,155,223
Total	**36,208,409**	**756,716**	**411,922**	**1,143,115**	**1,582,930**	**40,103,092**
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**
Financial liabilities						
At 31 December 2012						
Non-interest bearing	8,655,615	241	321	965	1,804	8,658,946
Fluctuating interest rate instruments	10,643,896	22,875,256	29,878,501	19,253,061	32,907	82,683,621
Total	**19,299,511**	**22,875,497**	**29,878,822**	**19,254,026**	**34,711**	**91,342,567**
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**

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 (including 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
At 31 December 2012						
Interest-bearing loans and borrowings	10,644,097	22,875,497	29,878,822	19,254,026	34,711	82,687,153
Accounts payable	6,907,677	-	-	-	-	6,907,677
Other current Liabilities	1,747,737	-	-	-	-	1,747,737
Total	**19,299,511**	**22,875,497**	**29,878,822**	**19,254,026**	**34,711**	**91,342,567**
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**

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 loans granted to the employees 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 the joint stock entity (Note 26).

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 2012 and 2011 were as follows:

	2012	2011
Total long-term and short-term borrowings and other long-term liabilities - total	76,589,030	45,655,783
Less: Cash and cash equivalents	(10,862,273)	(14,018,543)
Net debt*	**65,726,757**	**31,637,240**
Total equity	100,005,817	131,002,886
Total capital**	**165,732,574**	**162,640,126**
Gearing ratio	**39.7%**	**19.5%**

* *Net debt is calculated as total borrowings (including short-term and long-term 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 increase in the gearing ratio at 31 December 2012 resulted primarily from the increase of long-term borrowings, from one side, and purchase of own equity instruments, i.e., treasury shares, from the other side.

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, further 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 during the years 2011 and 2012.

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 the following year, and most probably 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 favourable 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 2013) 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; as well as 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 2012 exceed its current assets by RSD 19,410,171 thousand, the Company does not have liquidity problems, and problems with settlement of its liabilities. In May 2012, the Company completely repaid borrowings from Citibank N.A., London. 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 it considers 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 2012 and 2011:

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 and long-term placements) 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 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 of the financial statements in accordance with the accounting regulations prevailing in the Republic of Serbia 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 1,653,234 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 for Litigation 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 or 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 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, employee fluctuation rates and mortality rates. 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 113,476 thousand lower or RSD 128,784 thousand higher.

5. SALES

	2012	2011
Fixed telephony services:		
- Domestic market	35,154,561	37,165,826
- Foreign market	5,917,444	5,622,323
- Related parties	995,173	1,052,666
	42,067,178	**43,840,815**
Mobile telephony services:		
- Domestic market	33,996,181	32,726,550
- Foreign market	1,896,156	1,793,111
- Related parties	724,887	675,036
	36,617,224	**35,194,697**
Retail of Internet services:		
- Domestic market	8,120,948	7,012,802
- Related parties	343	249
	8,121,291	**7,013,051**
Multimedia services (IPTV):		
- Domestic market	1,248,040	812,907
- Related parties	15	6
	1,248,055	**812,913**
Sales of handsets:		
- Domestic market	4,588	2,185
	4,588	**2,185**
Total	**88,058,336**	**86,863,661**

As disclosed in Note 3.1(c) to the financial statements, starting from 1 August 2011, the subscription fee was increased to RSD 430 (VAT excluded) and 300 free pulses were included in the fee (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 a cost basis.

5. SALES (Continued)

Structure by sales category is presented in the table below:

	2012	2011
Fixed telephony services:		
Domestic market:	*35,158,906*	*37,170,445*
Traffic	13,151,657	15,326,008
Subscription	15,225,780	14,515,273
Leased circuit and data transfer services	2,810,794	2,717,974
Connection and installation services	490,742	958,463
Interconnection	1,294,066	1,330,154
Wholesale of Internet services	1,368,415	1,436,775
CDMA services	634,542	643,475
Other	182,910	242,323
Foreign market:	*6,908,272*	*6,670,370*
Traffic	6,281,772	5,711,651
Leased circuit and data transfer services	451,809	655,703
Internet transit	174,691	303,016
	42,067,178	**43,840,815**
Mobile telephony services:		
Domestic market:	*34,059,967*	*32,783,686*
Prepaid services	11,448,088	13,012,966
Postpaid services:	*15,405,420*	*13,397,200*
- Traffic	7,248,916	6,792,953
- Subscription	8,156,504	6,604,247
Interconnection	6,367,784	5,800,833
National roaming – VIP Mobile d.o.o., Belgrade	-	28,438
Other services	838,675	544,249
Foreign market:	*2,557,257*	*2,411,011*
Roaming	593,217	775,708
Incoming international traffic that terminates in the mobile network of Telekom Srbija	1,937,420	1,604,946
Other	26,620	30,357
	36,617,224	**35,194,697**
Retail of Internet services	**8,121,291**	**7,013,051**
Multimedia services (IPTV)	**1,248,055**	**812,913**
Sales of handsets:		
Fixed devices	63	146
Mobile phones	4,525	2,039
	4,588	**2,185**
Total	**88,058,336**	**86,863,661**

6. OTHER OPERATING INCOME

	2012	2011
Granted assets:		
- Intangible assets and equipment (Note 31(e))	403,016	400,348
- Other	5,380	2,395
	408,396	**402,743**
Rental income	118	114
Other	33,887	20,333
Total	**442,401**	**423,190**

7. COST OF MATERIAL

	2012	2011
Material for rendering services	4,136,860	3,379,928
Fuel and energy	1,302,660	1,132,071
SIM cards	80,929	125,955
Spare parts	143,872	212,071
ADSL modems	239,894	384,501
Inventories for mobile Internet access	40,552	53,049
Tools and inventories	20,120	27,554
Other	698,481	700,201
Total	**6,663,368**	**6,015,330**

8. WAGES, SALARIES AND OTHER PERSONNEL EXPENSES

	2012	2011
Gross salaries	9,635,484	9,151,728
Contributions on behalf of the employer	1,732,170	1,633,549
	11,367,654	**10,785,277**
Employee contributions to operating results	503,596	1,447,548
Retirement benefits for voluntary termination	42,181	1,558,095
Other personnel expenses	1,047,873	1,167,718
Total	**12,961,304**	**14,958,638**

In December 2012, the payment was made to employees for the employee contribution to the operating results of the Company for 2012. The total amount of funds for this purpose was defined by the Revised Business Plan for 2012 and included the attributable taxes and contributions payable by both the employees and the employer.

9. DEPRECIATION, AMORTIZATION AND PROVISIONS

	2012	2011
Amortization charge (Note 17)	1,741,263	1,582,612
Depreciation charge (Note 18)	15,060,939	15,801,530
	16,802,202	**17,384,142**
Provision for retirement benefits and anniversary awards (Note 27)	282,512	-
Provision for litigations (Note 27)	20,423	8,869
	302,935	**8,869**
Total	**17,105,137**	**17,393,011**

10. OTHER OPERATING EXPENSES

	2012	2011
Network operators:		
Interconnection:		
- Fixed telephony	3,391,301	3,231,533
- Mobile telephony	4,623,290	3,814,924
International settlement and leased circuits	3,478,058	3,519,330
Outgoing international traffic from the mobile network of Telekom Srbija	858,407	727,472
Roaming	647,811	1,042,124
	12,998,867	**12,335,383**
Telecommunication license fees, approvals and frequency fees:		
License for mobile telephony (a)	183,095	44,675
License for fixed telephony (b)	21,900	40,870
Radio frequency RRL, RBS and other fees	282,934	257,603
	487,929	**343,148**
Rental expenses	4,751,679	4,284,217
Maintenance	3,851,342	3,788,013
Marketing, advertisement and sponsorship fees	1,618,014	1,730,823
Broadcast content fees	1,622,515	779,945
Transport expenses	970,059	940,784
Hygiene and security services	935,366	947,302
Consignment sale fees	391,928	530,286
Public utility services	315,748	281,898
Software license	214,370	212,347
Data processing fees	94,989	93,296
Research and development costs	22,853	991
Other production services	383,243	362,449
Indirect taxes	1,238,347	939,989
Insurance premiums	572,731	540,327
Bank charges	474,164	227,577
Fees and charges	374,871	342,019
Education and professional training	98,517	90,288
Audit fee and other professional services	97,466	98,909
Youth employment expenses	68,540	100,180
Entertainment	60,197	39,969
Other general expenses	393,915	363,011
Total	**32,037,650**	**29,373,151**

10. OTHER OPERATING EXPENSES (Continued)

(a) The mobile telephony license fee amounting to RSD 183,095 thousand (2011: RSD 44,675 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 (Note 1).

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 payable pursuant to the Rule Book on fees for the performance of electronic communications activities ("RS Official Gazette", no. 93 dated 8 December 2010).

(b) The fixed telephony license fee amounting to RSD 21,900 thousand (2011: RSD 40,870 thousand) relates to the license for construction, possessing and exploitation of public fixed telecommunication network and rendering public fixed telecommunication services (Note 1).

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

11. FINANCIAL INCOME

	2012	2011
Interest income	1,063,524	1,201,409
Dividend income (Note 20(a))	4,127,243	3,484,546
Foreign exchange gains	1,529,527	2,375,112
Gains from foreign currency clause application	281,326	328,250
Other financial revenues	142	119,464
Total	**7,001,762**	**7,508,781**

Interest income on impaired financial assets in 2012 amount to RSD 106,405 thousand (2011: RSD 151,209 thousand).

12. FINANCIAL EXPENSES

	2012	2011
Interest expenses:	*4,253,792*	*1,620,111*
- on borrowings in the country	2,196,887	206,475
- on borrowings abroad	2,019,051	1,403,883
- penalty interest	37,854	9,753
Foreign exchange losses	6,264,210	1,291,636
Losses from foreign currency clause application	1,948,789	341,717
Total	**12,466,791**	**3,253,464**

Interest expenses on domestic borrowings incurred during the year ended 31 December 2012 include the amount of RSD 2,047,171 thousand, representing interest expense for the current reporting period arising from the syndicated loan granted by domestic banks (as a part of the syndicated loan granted by Unicredit Bank A.G., London branch).

Interest expenses on borrowings abroad incurred during the year ended 31 December 2012 include the amount of RSD 1,146,353 thousand, representing interest expense for the current reporting period arising from the syndicated loan granted by foreign banks (as a part of the syndicated loan granted by Unicredit Bank A.G., London branch).

Interest expenses on borrowings abroad incurred during the year ended 31 December 2012 also include the amount of RSD 280,180 thousand, representing interest expense for the period January – May 2012 arising from the syndicated loan granted by Citibank N.A., London (2011: RSD 727,997 thousand), which was repaid in May 2012 (Note 28(c)/ii/).

13. OTHER INCOME

	2012	2011
Reversal of impairment losses (Note 14(a))	1,356,411	1,933,045
Compensations for customers' contract cancellation	492,422	441,071
Write-off of liabilities	165,653	1,103
Revenue from charged court dispute	127,262	189,896
Fair value adjustment of other long-term placements	58,312	-
Gains on sale of material and waste material	44,604	115,875
Damage compensations	29,713	18,211
Release of provision for litigations (Note 27)	10,634	6,122
Penalties	10,094	74,460
Gains on sale of intangible assets, property and equipment	3,013	1,801
Release of provision for retirement benefits and jubilee awards (Note 27)	-	93,340
Fair value adjustment – employee loans	-	52,978
Recoveries of bad debts	342	84
Other income	101,269	559,052
Total	**2,399,729**	**3,487,038**

14. OTHER EXPENSES

	2012	2011
Allowances for impairment of advances paid and receivables (a)	2,904,612	3,283,226
Losses on disposal and sale of intangible assets, property and equipment (b)	2,697,920	212,150
Grants and donations	172,793	121,755
Loss on disposal of material and goods:		
- Write-down of material (Note 22)	221,879	21,709
- Direct write-off of material and goods	17,680	147,456
Fair value adjustment – employee loans	19,753	-
Impairment of placements	-	167,610
Other expenses	109,868	66,274
Total	**6,144,505**	**4,020,180**

(a) Movements in the allowance for impairment of advances paid and receivables during the year 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 2011					
Charge for the year	**265**	**43,709**	**75,728**	**10,487,182**	**10,606,884**
Reversal of impairment losses (Note 13)	2,110	38,486	101,726	3,140,904	3,283,226
Transfer out of the books based on year-end count	-	(58,319)	(93,147)	(1,781,579)	(1,933,045)
Transfer (from)/to other long-term placements (Note 21)	-	(73)	-	(386,008)	(386,081)
Transfer (from)/to	-	-	20,433	(446,279)	(425,846)
Other movements	-	-	-	397	397
Balance as of	-	(492)	(424)	(3,128)	(4,044)
31 December 2011					
	2,375	**23,311**	**104,316**	**11,011,489**	**11,141,491**
Charge for the year	-	11,196	67,482	2,825,934	2,904,612
Reversal of impairment losses (Note 13)	(574)	(18,728)	(60,363)	(1,276,746)	(1,356,411)
Transfer out of the books based on year-end count	-	(422)	(26,781)	(539,991)	(567,194)
Transfer from long-term placements	-	-	(30,265)	(178,883)	(209,148)
Transfer (from)/to	-	-	(50)	50	-
Other movements	-	-	290	(30,640)	(30,350)
Balance as of 31 December 2012	**1,801**	**15,357**	**54,629**	**11,811,213**	**11,883,000**

14. OTHER EXPENSES (Continued)

(b) The Company carried out the mobile network modernization during 2011 and 2012. The estimated cost arising from write-off of replaced radio base stations (RBS) amounts to RSD 2,539,812 thousand.

15. NET LOSS FROM DISCONTINUED OPERATIONS

In 2012, 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 2012, and recognized within Net loss from discontinued operations, amounted to RSD 154,320 thousand.

16. INCOME TAXES

(a) Components of Income Taxes

	2012	2011
Current tax expense	392,579	1,102,616
Deferred tax income	(1,233,133)	(228,051)
Total tax (income)/expense	**(840,554)**	**874,565**

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

	2012	2011
Profit before tax	**10,410,601**	**23,148,767**
Income tax expense at statutory rate of 10%	**1,041,060**	**2,314,877**
Non-deductible expenses	93,617	291,484
Income reconciliation	104,237	76,459
Effect of change in income tax rate	(856,541)	-
Reduction based on dividends	(415,174)	(352,819)
Utilized tax credits	(807,753)	(1,455,436)
Total tax (income)/expense	**(840,554)**	**874,565**
Effective tax rate	*-*	*3.8%*

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:

	2012	2011
Balance as of 1 January	**1,336,491**	**1,108,440**
Effects of temporary differences arising from different depreciation rates credited to the income statement	1,190,404	170,353
Effects of temporary differences arising from retirement benefits credited to the income statement	39,813	53,961
Effects of other temporary differences	2,916	3,737
Balance as of 31 December	**2,569,624**	**1,336,491**

Unrecognized Deferred Tax Assets

The Company did not recognize deferred tax assets arising from unutilized tax credits carried forward amounting to RSD 13,645,558 thousand as of 31 December 2012 (31 December 2011: RSD 13,006,002 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 have been 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	2012	2011
2003	2013	1,064,661	1,130,339
2004	2014	1,833,253	1,898,932
2005	2015	1,526,846	1,592,525
2006	2016	961,282	1,026,961
2007	2017	1,486,342	1,552,021
2008	2018	1,494,276	1,559,955
2009	2019	958,929	1,024,608
2010	2020	2,238,926	2,304,605
2011	2021	850,377	916,056
2012	2022	1,230,666	-
Total		**13,645,558**	**13,006,002**

17. INTANGIBLE ASSETS

	Licenses	Software	Other intangible assets	Intangible assets under development	Total
Cost					
as of 1 January 2011	**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**
Additions	-	-	-	2,344,664	2,344,664
Transfer from intangible assets under development	154,896	749,013	5,681	(909,590)	-
Transfer (from)/to	(48,002)	(2,639)	-	(135,713)	(186,354)
Disposals	(37,010)	(285,310)	(2,142)	-	(324,462)
Balance as of 31 December 2012	**9,406,881**	**12,096,011**	**616,000**	**2,300,241**	**24,419,133**
Accumulated amortization					
as of 1 January 2011	**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**
Costs of long-term rent	-	-	36,934	-	36,934
Transfer from intangible assets under development	6,804	265,422	41	(272,267)	-
Amortization (Note 9)	903,779	618,111	-	219,373	1,741,263
Transfer (from)/to	(25,074)	(1,639)	-	(19,765)	(46,478)
Disposals	(33,309)	(176,291)	(2,142)	-	(211,742)
Other movements	-	-	-	220,960	220,960
Balance as of 31 December 2012	**6,130,522**	**11,129,415**	**566,096**	**240,506**	**18,066,539**
Net book value as of:					
- 31 December 2012	**3,276,359**	**966,596**	**49,904**	**2,059,735**	**6,352,594**
- 31 December 2011	**4,058,675**	**1,211,135**	**81,198**	**908,675**	**6,259,683**

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 2012, the carrying value of the aforementioned licenses for mobile telephony amounts to RSD 3,105,447 thousand (31 December 2011: RSD 3,951,262 thousand), while the carrying value of other licenses amounts to RSD 137,937 thousand (31 December 2011: RSD 69,365 thousand). The carrying value of the license for CDMA amounts to RSD 32,975 thousand as of 31 December 2012 (31 December 2011: RSD 38,048 thousand).

Other intangible assets as of 31 December 2012 relate to long-term rentals in the amount of RSD 49,904 thousand (31 December 2011: RSD 81,198 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 2011	**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(e))	-	-	-	-	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**
Additions	-	-	-	-	9,863,173	9,863,173
Transfer from construction in progress	2,903,984	7,206,595	719,093	335,130	(11,164,802)	-
Grants (Note 31(e))	100,013	-	-	-	(100,013)	-
Transfer (from)/to	(2,670)	50,848	(69)	2,532	135,713	186,354
Disposals	(34,046)	(6,739,912)	(198,666)	(30,129)	-	(7,002,753)
Other movements	-	-	-	-	6,742	6,742
Balance as of 31 December 2012	**85,358,987**	**105,252,825**	**9,263,650**	**10,325,150**	**14,450,808**	**224,651,420**
Accumulated depreciation as of 1 January 2011	**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**
Transfer from construction in progress	60,708	568,533	29,269	30,688	(689,198)	-
Depreciation (Note 9)	3,570,275	9,633,237	818,921	637,612	400,894	15,060,939
Transfer (from)/to	(597)	26,873	(69)	506	19,765	46,478
Disposals	(29,185)	(3,950,111)	(194,952)	(16,977)	-	(4,191,225)
Other movements	-	-	-	-	105,386	105,386
Balance as of 31 December 2012	**38,272,385**	**73,569,797**	**7,217,794**	**9,362,481**	**498,332**	**128,920,789**
Net book value as of:						
- 31 December 2012	**47,086,602**	**31,683,028**	**2,045,856**	**962,669**	**13,952,476**	**95,730,631**
- 31 December 2011	**47,720,522**	**37,444,029**	**2,178,667**	**1,306,965**	**15,048,510**	**103,698,693**

18. PROPERTY, PLANT AND EQUIPMENT (Continued)

Cost of fully-depreciated property, equipment and intangible assets still in use amounts to RSD 41,986,231 thousand as of 31 December 2012 (31 December 2011: RSD 43,184,155 thousand).

Construction in progress includes completed investments not yet transferred to property and equipment amounting to RSD 6,200,471 thousand as of 31 December 2012 (31 December 2011: RSD 6,923,885 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 2,359,283 thousand as of 31 December 2012 (31 December 2011: RSD 699,892 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, London branch, and the Company was informed of this (Note 28(c)/iii/). The substitution of pledgee has not yet been registered in the Register of pledges with the Serbian Business Registers Agency. During 2010, the requests had been submitted to the Register for the substitution of the pledge, which were rejected. Subsequently submitted complaints were rejected until the reporting date. The carrying value of pledged equipment amounts RSD 1,552,036 thousand as of 31 December 2012 (31 December 2011: RSD 1,919,433 thousand).

Capital expenditure contracted for at the reporting date but not yet incurred, representing capital commitments, amounts to RSD 2,406,874 thousand (Note 34).

Property and equipment lease rentals amounting to RSD 4,751,679 thousand (2011: RSD 4,284,217 thousand), mostly relating to the lease of business premises, warehouses and premises for radio base stations are included in the income statement within 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

	2012	2011
Payments in advance for property and equipment:		
- in RSD	115,692	168,941
- in foreign currency	138,258	153,660
	253,950	**322,601**
Less: Allowance for impairment (Note 14(a))	(15,357)	(23,311)
Balance as of 31 December	**238,593**	**299,290**

20. EQUITY INVESTMENTS

	Interest in capital	2012	2011
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	631,642
- TS:NET BV, Amsterdam (d)	100%	289,571	274,388
- HD-WIN d.o.o., Belgrade (e)	51%	790,476	790,476
		60,909,438	**60,894,255**
Investments in other legal entities	Less than 1%	1,438	2,783
Balance as of 31 December		**60,910,876**	**60,897,038**

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

On 27 April 2012, the Shareholders’ Assembly of the subsidiary “Telekom Srpske” passed the Decision on payment of dividends to its shareholders from retained earnings from 2011 in the amount of KM 56,857,453. Dividend attributable to the Company amounted to KM 36,960,672 (RSD 2,113,862 thousand).

On 6 December 2012, the Shareholders’ Assembly of the mentioned subsidiary passed the Decision on payment of preliminary dividends to its shareholders in the amount of KM 53,153,045. Dividend attributable to the Company amounted to KM 34,552,589 (RSD 2,013,381 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 2012, total assets of “Telekom Srpske” amount to KM 834,610,426 (RSD 48,526,921 thousand), equity to KM 695,124,810 (RSD 40,416,781 thousand) and net profit for year then ended amounts to KM 109,963,497 (RSD 6,385,096 thousand).

(b) In the consortium with Ogalar B.V., Amsterdam, the Netherlands, 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 percent of 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 capital of the subsidiary “Mtel” dated 12 March 2010, subscribed capital of “Mtel” was increased by the amount of EUR 40 million.

20. INVESTMENTS IN SUBSIDIARIES (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 percent of interest, paid in the amount of EUR 20.4 million, while the subsidiary “Telekom Srpske”, holding 49 percent of interest, paid in the amount of EUR 19.6 million.

According to the latest available data as of 31 December 2012, total assets of “Mtel” amount to EUR 61,666,792 (RSD 7,012,643 thousand), equity to EUR 24,374,774 (RSD 2,771,858 thousand) and net profit for year then ended amounts to EUR 595,717 (RSD 67,653 thousand).

(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 2012, the total founding capital of the above mentioned subsidiary, after additional contributions, 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 amounted to EUR 1,228,388, and consisted of contribution in cash in the amount of EUR 61,274 and contribution in kind in the amount of EUR 1,167,114.

The aforementioned 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.

In July 2012, according to the Company’s Managing Board Decision dated 2 April 2012, the Company increased the capital of “TS:NET” B.V. and paid in contribution in kind, i.e., equipment, the cost of which amounts to EUR 146,234.

As of 31 December 2012, the total founding capital of the above mentioned subsidiary, after additional contributions, amounts to EUR 2.8 million.

(e) The Company’s Managing Board at its regular 59th 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 percent of the subsidiary’s capital, as well as managing rights.

21. OTHER LONG-TERM FINANCIAL PLACEMENTS

	2012	2011
Loans to employees:		
- Housing (residential)	1,856,711	1,796,075
- For repurchase of apartments and vehicles	12,783	14,837
	1,869,494	1,810,912
Less: Fair value adjustment	(685,226)	(665,417)
Total loans to employees	**1,184,268**	**1,145,495**
Other long-term placements	1,394,865	952,668
Less: Fair value adjustment	(576,682)	(425,846)
	818,183	**526,822**
Balance as of 31 December	**2,002,451**	**1,672,317**

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

/i/ Non-interest-bearing employee housing 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 the 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 were 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, the 5-year repayment period after the expiry of the grace period, without foreign currency clause and interest rate of 0.1% per annum.

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 reflects market rate for similar financial instruments in the current reporting period – 6.27% per annum (year ended 31 December 2011: 5.71% 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 mostly relate to the Company's long-term receivables arising with respect to the Advertising Space Lease Contract for the seven-year period, as well as other contracts concluded during 2011 and 2012 with the company "Stampa sistem" d.o.o., Belgrade in the total amount of RSD 1,392,049 thousand.

22. INVENTORIES

	2012	2011
Material and fuel	3,516,655	3,465,973
Spare parts	1,986,148	1,939,497
Tools	2,930,773	3,019,655
Waste material	223,398	15,716
	8,656,974	8,440,841
Less: Allowance for impairment		
Material and spare parts	(221,879)	(21,709)
Tools in use	(2,390,372)	(2,416,762)
Waste material	(223,398)	(15,716)
	5,821,325	**5,986,654**
Goods in warehouses	3,549	14,452
Goods in retail	4,266	19,602
	7,815	**34,054**
Balance as of 31 December	**5,829,140**	**6,020,708**

The amount of write-down of inventories of material recognized as an expense and included in other expenses totalled RSD 221,879 thousand (2011: RSD 21,709 thousand) (Note 14).

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

23. ACCOUNTS RECEIVABLE

	2012	2011
Domestic accounts receivable:		
Fixed telephony, Internet and data transfer services	9,836,217	9,132,221
Mobile telephony	10,229,606	10,224,686
Interconnection	955,689	947,144
Other receivables	12,394	13,642
	21,033,906	**20,317,693**
Foreign accounts receivable:		
International settlement of fixed telephony traffic	1,749,579	1,361,079
Roaming	318,687	288,622
	2,068,266	**1,649,701**
Receivables from related parties (Note 33(a)):		
- OTE	-	2,876
- Telekom Srpske	243,903	83,803
- Mtel	175,920	159,263
- Telus	1,189	815
- HD-WIN	255	730
	421,267	**247,487**
Other receivables from sales	248,206	248,171
Interest receivables	21,260	48,980
Receivables from employees	7,334	238,604
Overpaid taxes and contributions	10,020	32,557
Receivables for war damages on property and equipment and inventories	139,202	139,202
Receivables from the state institutions	104,843	96,537
Other receivables	228,340	373,742
	759,205	**1,177,793**
Gross accounts receivable	**24,282,644**	**23,392,674**
Less: Allowance for impairment (Note 14(a))		
Accounts receivable	(11,258,423)	(10,414,957)
Other receivables from sales	(247,718)	(246,289)
Interest receivables	(6,650)	(6,147)
Receivables from employees	(4,044)	(4,384)
Receivables for war damages on property and equipment and inventories	(139,202)	(139,202)
Receivables from the state institutions	(103,509)	(87,450)
Other receivables	(51,667)	(113,060)
	(11,811,213)	**(11,011,489)**
Balance as of 31 December	**12,471,431**	**12,381,185**

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 2012 was 50 days (year ended 31 December 2011: 50 days).

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

The ageing structure of gross accounts receivable as of 31 December 2012 and 2011 was as follows:

	2012	2011
Up to 30 days	8,793,995	8,857,486
From 30 to 60 days	2,343,162	2,419,850
From 60 to 180 days	2,156,508	2,015,681
From 180 to 360 days	1,756,082	1,940,426
Over 360 days	9,232,897	8,159,231
Total	**24,282,644**	**23,392,674**

As of 31 December 2012, receivables of RSD 12,471,431 thousand (31 December 2011: RSD 12,381,185 thousand) were considered to be fully performing.

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

As of 31 December 2012, receivables from domestic fixed and mobile telephony traffic in the amount of RSD 2,166,027 thousand (31 December 2011: RSD 1,927,287 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 2012, receivables in the amount of RSD 11,811,213 thousand (31 December 2011: RSD 11,011,489 thousand) were impaired and provided for in the amount of RSD 11,811,213 thousand (31 December 2011: RSD 11,011,489 thousand). It was assessed that a part of the receivables is expected to be recovered.

23. ACCOUNTS RECEIVABLE (Continued)

As of 31 December 2012 and 2011, the carrying amounts of the Company's accounts receivable were denominated in the following currencies:

	2012	2011
RSD	10,082,281	10,572,067
EUR	2,195,844	1,553,663
Other currencies	193,306	255,455
Total	**12,471,431**	**12,381,185**

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 24,282,644 thousand, representing gross outstanding balance of accounts receivable as of 31 December 2012, the amount of RSD 1,520,176 thousand has not been reconciled with the debtors in 2012, mainly due to the impossibility to perform the reconciliation procedure, i.e., customers' unresponsive to request for confirmation of outstanding balances.

24. CASH AND CASH EQUIVALENTS

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

	2012	2011
Current accounts	2,272,003	3,109,154
Foreign currency accounts with domestic banks	8,589,130	10,908,594
Cash coupons	1,140	795
Balance as of 31 December	**10,862,273**	**14,018,543**

25. VALUE ADDED TAX, PREPAYMENTS AND ACCRUED INCOME

	2012	2011
Deferred value added tax	**761,159**	**621,795**
Prepaid expenses:		
- Banks' commissions for syndicated loan (a)	572,554	73,618
- Rental	121,650	81,185
- Insurance premiums	10,476	28,145
- Other	49,741	56,278
	754,421	**239,226**
Accrued income:		
- International settlement (b)	398,291	508,228
- Roaming (c)	1,758,239	1,423,659
- Other accrued income	75,352	82,088
	2,231,882	**2,013,975**
Balance as of 31 December	**3,747,462**	**2,874,996**

(a) As of 31 December 2012, banks' commissions in respect to the syndicated loan in the amount of RSD 572,554 thousand relate to deferred commission and fee expenses paid to Unicredit Bank A.G., London branch amounting to RSD 465,383 thousand and Unicredit Bank Srbija a.d., Belgrade amounting to RSD 107,171 thousand.

(b) As of 31 December 2012, accrued income arising from fixed telephony international settlement totalling RSD 398,291 thousand comprises uninvoiced revenue from international settlement for December and November 2012 in the total estimated amount of RSD 363,289 thousand and unsettled international traffic settlements for the period prior to November 2012 amounting to RSD 35,002 thousand.

(c) As of 31 December 2012, accrued income from mobile telephony traffic totalling RSD 1,758,239 thousand comprises accrued income from roaming services for December of 2012 estimated to RSD 143,150 thousand and uninvoiced income arising from International GSM roaming contracts – Network operators' discounts amounting to RSD 1,615,089 thousand.

26. EQUITY

Share Capital

The Company is the joint stock entity, which subscribed, authorized, issued and fully paid-in capital consists of 1,000,000,000 ordinary shares without the nominal value (31 December 2011: 1,080,000 ordinary shares with an individual par value of RSD 10 thousand).

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.

On 30 December 2011, the Share Purchase Agreement between the Company and OTE was concluded related to the sale of all shares owned by OTE regarding its intention to withdraw from the Company, about which the appropriate Agreement was achieved between the Company and OTE. At the Company’s Shareholders Assembly session held on 16 December 2011 a Decision was given to purchase its own shares and on 29 December 2011, a special permission was given to the Company to enter into this Agreement. On 25 January 2012, the Company paid in total 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 aforementioned date, OTE ceased to be the shareholder of the Company, while the Company became the owner of 20% of its own shares.

At its 43rd regular session held on 20 April 2012, the Company’s Shareholders Assembly brought the Decision on the increase of share capital (by converting the part of retained earnings to share capital) to the amount of RSD 100 billion, which was represented by 1,080,000 ordinary shares without the nominal value. At the same session, the Company’s Shareholders Assembly brought the Decision on the third issue of shares in the total volume of 1,000,000,000 shares without the nominal value in order to replace the existing 1,080,000 shares. After the issue of shares, the value of share capital amounts to RSD 100 billion and is represented by 1 billion of ordinary shares.

The Company’s share capital structure at 31 December 2012 and 2011 was as follows:

		In percentage
	31 December 2012	31 December 2011
Republic of Serbia	58.11	80.00
Telekom Srbija – treasury shares	20.00	-
Citizens, employees and former employees of the Company	21.89	-
Hellenic Telecommunications Organisation A.E. (“OTE”), Athens	-	20.00
Total	**100.00**	**100.00**

26. EQUITY (Continued)

Share Capital (Continued)

Weighted average amount of shares in use for the purpose of calculating earnings per share amounts to 1,000,000,000 shares (year ended 31 December 2011: 1,080,000 shares).

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. The carrying value of share capital determined in such manner was recorded in the Company's books of account in the amount of RSD 82,512,552 thousand until April 2012, when it was increased to the amount of RSD 100 billion through allocation of the part of retained earnings to share capital.

The new value of share capital amounting to RSD 100 billion, which consists of RSD 17,487,874,126.60 in cash and RSD 82,512,125,873.40 in kind, was registered with the Serbian Business Registers Agency by the decision no. 56384/2012 dated 26 April 2012.

Other Capital

Other capital amounting to RSD 8,588 thousand as of 31 December 2012 and 2011 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 2012 and 2011 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.

Treasury Shares

As previously disclosed, on 25 January 2012 the Company repurchased treasury shares amounting to RSD 16,502,510 thousand for which the Company paid out the total amount of RSD 39,961,788 thousand. In the period from the acquisition date of treasury shares until the reporting date there were neither new acquisition nor disposal of acquired treasury shares.

Basic Earnings per Share

	2012	2011
Profit attributable to equity holders of the Company (A)	11,251,155	22,274,202
Weighted average number of ordinary shares in issue during the period (B)	1,000,000,000	1,080,000
Basic earnings per share (A/B)	**0.01**	**20.62**

27. LONG-TERM PROVISIONS

	2012	2011
Provisions for retirement benefits and jubilee anniversary awards	1,640,975	1,488,452
Provision for litigations	130,245	125,931
Balance as of 31 December	**1,771,220**	**1,614,383**

Movements in the provisions during the year were as follows:

	Retirement benefits	Jubilee anniversary awards	Litigations	Total
Balance as of 1 January 2011	**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**
Charge for the year (Note 9)	96,029	186,483	20,423	302,935
Utilized	(10,481)	(119,508)	(5,475)	(135,464)
Release of provision (Note 13)	-	-	(10,634)	(10,634)
Balance as of 31 December 2012	**625,159**	**1,015,816**	**130,245**	**1,771,220**

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 2012, and they are stated in the amount of discounted present value of future payments.

When determining the present value of the expected outflows, the discount rate of 9% has been used, as it corresponds to the long-term rates of return on the high-quality 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 provision 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 and the median value of employees' service promotion, as well as the employee fluctuation rate which ranges from 2% to 7% per annum, depending on the years of service.

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 competent legal departments.

28. BORROWINGS

(a) Structure of Borrowings

	2012	2011
Long-term borrowings		
Financial loans from:		
- Domestic banks	19,520,883	-
- Foreign banks	12,655,710	512,740
	32,176,593	**512,740**
Commodity loans from:		
- Domestic suppliers	2,023,367	2,417,460
- Foreign suppliers	12,454,957	14,383,222
	14,478,324	**16,800,682**
Total long-term borrowings	**46,654,917**	**17,313,422**
Current portion of long-term borrowings		
Loans from domestic banks	13,051,629	100,098
Loans from foreign banks	8,814,305	20,312,892
Commodity loans from domestic suppliers	1,978,331	2,640,366
Commodity loans from foreign suppliers	6,086,316	5,285,183
Total	**29,930,581**	**28,338,539**
Current portion of other long-term liabilities	442	584
Total short-term borrowings	**29,931,023**	**28,339,123**
Balance as of 31 December	**76,585,940**	**45,652,545**

The fair value of long-term borrowings, which is based on cash flows discounted using a rate based on the interest rate of 6.27% per annum (2011: 5.71% per annum), amounts to RSD 44,987,480 thousand as of 31 December 2012 (31 December 2011: RSD 16,307,027 thousand).

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

(b) Maturity of Borrowings

	2012	2011
Up to 1 year – current portion of long-term borrowings	29,931,023	28,339,123
From 1 to 2 years	27,867,564	6,751,660
From 2 to 3 years	15,672,491	5,021,558
From 3 to 4 years	2,361,061	3,853,556
From 4 to 5 years	721,286	1,468,201
Over 5 years	32,515	218,447
Balance as of 31 December	**76,585,940**	**45,652,545**

28. BORROWINGS (Continued)

(c) Detailed Breakdown of Borrowings per Creditors

		31 December 2012		31 December 2011	
	Currency	In foreign currency	In RSD thousand	In foreign currency	In RSD thousand
/i/ Loans from domestic banks					
Unicredit Bank Srbija a.d., Belgrade (syndicated loan)	EUR	286,100,000	32,534,806	-	-
Vojvodjanska banka a.d., Novi Sad	EUR	-	-	625,000	65,401
Beobanka a.d. in bankruptcy, Belgrade	EUR	331,582	37,706	331,582	34,697
		286,431,582	**32,572,512**	**956,582**	**100,098**
/ii/ Loans from foreign banks					
Unicredit Bank A.G., London branch (syndicated loan)	EUR	183,900,000	20,912,795	-	-
Citibank N.A., London	EUR	-	-	190,120,000	19,894,328
ERB New Europe Funding, the Netherlands	EUR	4,900,000	557,220	8,900,000	931,304
		188,800,000	**21,470,015**	**199,020,000**	**20,825,632**
/iii/ Foreign commodity loans					
BNP Paribas, London branch	EUR	18,556,248	2,110,185	27,579,945	2,885,990
KfW, Germany	EUR	596,700	67,856	1,336,952	139,900
Nokia Siemens, Finland and Austria	EUR	46,239,835	5,258,315	49,470,465	5,176,634
Ericsson Credit A.B., Sweden	EUR	33,432,476	3,801,884	30,727,666	3,215,371
Credit Agricole CiB Sverige, Sweden	EUR	20,914,630	2,378,376	27,175,632	2,843,683
Huawei Technologies Co. Ltd., China	EUR	6,561,946	746,213	12,406,590	1,298,237
Huawei International Pte. Ltd., Singapore	EUR	5,062,011	575,643	4,006,279	419,221
Alcatel Lucent International, France	EUR	1,959,768	222,862	-	-
Alcatel Lucent S.A., France	EUR	4,318,341	491,074	5,517,363	577,342
Alcatel Lucent S.A., Romania	EUR	993,500	112,979	-	-
OTP Bank Plc, Hungary	EUR	796,810	90,612	1,062,414	111,172
Sitronics, Czech Republic	EUR	451,860	51,385	1,013,430	106,046
Intracom S.A., Greece	EUR	5,485,635	623,817	5,499,327	575,454
EuroBank EFG Factors S.A., Greece	EUR	-	-	139,480	14,595
Alcatel Lucent Italia S.p.A., Italy	EUR	474,002	53,903	790,003	82,666
China Development Bank, Shenzhen branch	EUR	11,057,265	1,257,414	14,778,749	1,546,462
Skandinaviska Enskilda Bank Stockholm, Sweden	EUR	4,982,470	566,598	6,089,686	637,230
Elsag Datamat S.p.A., Italy	EUR	262,134	29,810	366,987	38,402
Anritsu A/S, Denmark		900,004	102,347	-	-
		163,045,635	**18,541,273**	**187,960,968**	**19,668,405**
/iv/ Domestic commodity loans	RSD		**4,001,698**		**5,057,826**
Total borrowings			**76,585,498**		**45,651,961**
Less: Current portion of long-term borrowings					
/i/ Loans from domestic banks			(13,051,629)		(100,098)
/ii/ Loans from foreign banks			(8,814,305)		(20,312,892)
/iii/ Foreign commodity loans			(6,086,316)		(5,285,183)
/iv/ Domestic commodity loans			(1,978,331)		(2,640,366)
			(29,930,581)		**(28,338,539)**
Total long-term financial and commodity loans			**46,654,917**		**17,313,422**

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 5.95% 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 2015, while commodity loans from domestic and foreign suppliers mature until 2018.

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 or interest rate exposures.

/i/ Financial liabilities towards Beobanka a.d. in bankruptcy, Belgrade (“Beobanka”) in the amount of RSD 37,706 thousand as of 31 December 2012, 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.

/ii/ In order to finance the purchase of the share of the minority shareholder OTE in the Company’s capital, as well as to refinance the liabilities under the “Term and Revolving Facilities Agreement”, on 9 January 2012 the Company entered into the “Term Facilities Agreement” with the financial institutions (original creditors – 19 banks), whereby Unicredit Bank A.G., 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. On 25 January 2012, the Company withdrew the funds per the Arrangement A in the total amount of EUR 320 million. On 24 May 2012, the Company withdrew the funds per the Arrangement B in the amount of EUR 150 million.

The above mentioned Term Facilities Agreement defines the Company’s obligation 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 Leverage and Interest coverage. As of 31 December 2012, the Company fulfilled the required ratios.

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 totalled EUR 700 million. In May 2012, the Company completely repaid the aforesaid debt.

28. BORROWINGS (Continued)

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

/ii/ As of 31 December 2012, liabilities to ERB New Europe Funding B.V., the Netherlands in the amount to RSD 557,220 thousand relate to the loan granted to the Company in order to finance 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 the grace period. The loan is secured with 10 blank promissory notes issued by the Company (Note 32).

/iii/ As of 31 December 2012, liabilities to BNP Paribas, London branch, amount to RSD 2,110,185 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). The collateral right is registered at the Register of pledges with the Serbian Business Registers Agency, based on the appropriate Agreements and the Agency's Decisions. In 2006 and 2007, the borrowing 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 2012, the Company fulfilled the required ratios.

/iv/ Domestic commodity loans totalling RSD 4,001,698 thousand as of 31 December 2012 (31 December 2011: RSD 5,057,826 thousand) mostly relate to the financing of work on the construction and purchase of equipment, and have been granted 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. Repayment period of the aforementioned loans, as well as a 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 2,406,874 thousand as of 31 December 2012 (31 December 2011: RSD 3,318,794 thousand). All of these loans have been granted at variable interest rates.

The facilities expiring within one year amount to RSD 334,433 thousand as of 31 December 2012 (31 December 2011: RSD 487,781 thousand), the facilities expiring from one up to 5 years amount to RSD 1,894,251 thousand (31 December 2011: RSD 2,626,615 thousand) and the facilities expiring over five years amount to RSD 178,190 thousand (31 December 2011: RSD 204,398 thousand).

29. ACCOUNTS PAYABLE

	2012	2011
Domestic trade payables	5,239,739	5,412,560
Foreign trade payables:		
- Fixed telephony	703,528	432,460
- Mobile telephony	183,131	134,696
Related parties' trade payables (Note 33(a))	757,377	590,830
Advances received	23,902	63,236
Balance as of 31 December	**6,907,677**	**6,633,782**

As of 31 December 2012, accounts payable amounting to RSD 1,277,537 thousand (31 December 2011: RSD 1,004,000 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 2012 was 51 days (year ended 31 December 2011: 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 2012, out of RSD 6,907,677 thousand and RSD 4,001,698 thousand, representing outstanding balance of accounts payable and commodity loans from domestic suppliers (Note 28), respectively, the amount of RSD 71,440 thousand has not been reconciled with the suppliers/creditors in 2012, mainly due to the impossibility to perform the reconciliation procedure.

30. OTHER CURRENT LIABILITIES

	2012	2011
Gross salaries	474,452	424,013
Dividends payable	-	8,894,476
Liabilities to employees	24,729	16,689
Other liabilities	350,963	239,744
Balance as of 31 December	**850,144**	**9,574,922**

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

	2012	2011
Accruals:		
Accrued expenses:		
International settlement (a)	144,571	160,190
Roaming (b)	1,610,140	1,355,814
Media contents distribution	216,108	105,943
	1,970,819	**1,621,947**
Accrued other expenses:		
Employee profit-sharing	-	1,484,533
Accumulated vacation	497,384	429,193
Accrued interest expenses (c)	1,282,913	261,177
Accrued other expenses (d)	6,809,715	5,744,502
	8,590,012	**7,919,405**
Deferred income:		
Mobile phone services	466,724	547,098
Chip cards	11,859	16,994
Fixed telephony subscription	1,249,666	1,295,457
Lease	444,771	402,912
Other deferred income	44,413	-
	2,217,433	**2,262,461**
Deferred income (e):		
Donations	201,124	122,545
Grants from local municipalities	1,482,182	1,661,615
Grants from mobile telephony suppliers	687,794	873,458
Grants from other suppliers	145,572	162,261
	2,516,672	**2,819,879**
Deferred liabilities for value added tax	93,327	128,580
Value added tax and other tax liabilities (f)	897,593	907,578
Balance as of 31 December	**16,285,856**	**15,659,850**

(a) As of 31 December 2012, accrued expenses arising from fixed international traffic totalling RSD 144,571 thousand comprise uninvoiced expenses for December and November 2012 in the estimated amount of RSD 116,449 thousand in total and unreconciled liabilities arising from international traffic settlements for the period until November 2012 in the amount of RSD 28,122 thousand.

(b) As of 31 December 2012, accrued roaming expenses totalling RSD 1,610,140 thousand relate to uninvoiced roaming services for December 2012, estimated to RSD 121,692 thousand and uninvoiced expenses based on the International GSM roaming contract – Network operators' discounts amounting to RSD 1,488,448 thousand.

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

(c) Accrued interest expenses in the amount of RSD 1,282,913 thousand as of 31 December 2012 include the amount of RSD 1,177,077 thousand, representing interest expense arising from the syndicated loan granted by Unicredit Bank A.G., London branch (31 December 2011: syndicated loan granted by Citibank N.A., London in the amount of RSD 96,792 thousand).

(d) Accrued other expenses amounting to RSD 6,809,715 thousand as of 31 December 2012 mostly relate to estimated uninvoiced expenses for services and works provided by suppliers during the year ended 31 December 2012.

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

	2012	2011
Balance as of 1 January	**2,819,879**	**3,439,582**
Grants received during the year (Note 18)	100,013	26,010
Released to the income statement (Note 6)	(403,016)	(400,348)
Other movements	(204)	(245,365)
Balance as of 31 December	**2,516,672**	**2,819,879**

Other movements during the year ended 31 December 2011 in amount of RSD 245,365 thousand mostly relate to the adjustment of value of fixed 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 and donations.

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

During the year the Company received grants from the following suppliers and legal entities:

	2012	2011
Municipalities	92,762	20,054
Ericsson A.B., Sweden	-	1,087
Other	7,251	4,869
Total	**100,013**	**26,010**

(f) The Law on Amendments and Supplements to the Value Added Tax Law (“RS Official Gazette”, no. 93 dated 28 September 2012) was adopted in September 2012. The most significant amendments applied from 1 October 2012 refer to the increase in the general VAT rate from 18% to 20% for the turnover of goods/services performed after 1 October 2012.

32. OFF-BALANCE SHEET ITEMS

	2012	2011
Guarantees (a)	2,729,848	-
Issued promissory notes (b)	656,268	2,304,692
Property and equipment in liquidation	360,990	1,141,475
Other	42,401	35,414
Balance as of 31 December	**3,789,507**	**3,481,581**

(a) Guarantees in the amount of RSD 2,729,848 thousand as of 31 December 2012 mostly relate to the guarantees issued by Unicredit Bank Srbija a.d., Belgrade in the amount of RSD 1,031,141 thousand and Banca Intesa a.d., Belgrade in the amount of RSD 227,437 thousand as collaterals for settlement of the Company's liabilities to UEFA. These guarantees are valid until 30 June 2015.

In September 2012, the Company issued the corporate guarantee in favour of ERB New Europe Funding B.V., the Netherlands in the amount of 51% of the value of liabilities arising with respect to the loan which the above mentioned bank granted to the subsidiary "Mtel". As of 31 December 2012, the above mentioned guarantee with all attributable expenses amounts to EUR 5,653,614 (RSD 642,919 thousand).

In addition, as of 31 December 2012 the Company acts as a guarantor under the Agreement on long-term loan granted by Sberbank Srbija a.d., Belgrade to the subsidiary "HD-WIN" in the amount of EUR 5,909,266 (RSD 671,992 thousand), with the repayment period of 72 months.

(b) 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:

	2012	2011
Issued promissory notes in favour of:		
- Banks	580,056	2,114,869
- Suppliers	76,212	189,823
Balance as of 31 December	**656,268**	**2,304,692**

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 2012 and 2011, arising from transactions with the Company's shareholders (Note 26) and subsidiaries (Note 20) are summarized below:

	31 December 2012	31 December 2011
RECEIVABLES		
Gross accounts receivable (Note 23):		
- OTE	-	2,876
- Telekom Srpske	243,903	83,803
- Mtel	175,920	159,263
- Telus	1,189	815
- HD-WIN	255	730
Total	**421,267**	**247,487**
Advances paid for services		
- HD-WIN	19,883	14,141
	19,883	**14,141**
Total	**441,150**	**261,628**
ACCRUED INCOME		
Accrued income from international settlement and roaming:		
- OTE	-	14,299
- Telekom Srpske	78,420	77,020
- Mtel	23,064	25,474
	101,484	**116,793**
Other accrued income:		
- Telekom Srpske	5,223	969
- Mtel	5,477	7,621
	10,700	**8,590**
Total	**112,184**	**125,383**
Total receivables and accrued income	**553,334**	**387,011**

As disclosed in Note 26 to the financial statements, on 30 December 2011, the Share Purchase Agreement was concluded related to the sale of all shares owned by OTE (20%) in the Company. The sale, i.e., transfer of the shares was executed on 25 January 2012, and after that date OTE ceased to be the shareholder of the Company.

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 2012	31 December 2011
LIABILITIES		
Accounts payable:		
- OTE	-	2,119
- Telekom Srpske	323,856	173,736
- Mtel	67,102	80,630
- Telus	294,413	295,632
- HD-WIN	71,460	38,713
- Fibernet	546	-
Total (Note 29)	**757,377**	**590,830**
OTHER CURRENT LIABILITIES AND ACCRUALS		
Dividends payable:		
- OTE	-	1,778,895
	-	**1,778,895**
Accrued expenses from international settlement, roaming and lease of capacities:		
- OTE	-	1,560
- Telekom Srpske	5,109	7,055
- Mtel	3,529	3,882
- Fibernet	546	-
	9,184	**12,497**
Accrued other expenses:		
- Telekom Srpske	57	52
- Mtel	691	333
	748	**385**
Deferred income for TT services:		
- Telus	18	19
- HD-WIN	18	18
	36	**37**
Total	**9,968**	**1,791,814**
Total liabilities and accruals	**767,345**	**2,382,644**

The payables to related parties arise mainly from purchase of 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 2012 and 2011, respectively, are summarized below:

	2012	2011
OTE		
Revenues:		
International settlement	8,391	207,399
	8,391	**207,399**
Expenses:		
International settlement	(1,426)	(26,361)
	(1,426)	**(26,361)**
Net revenues	**6,965**	**181,038**
TELUS		
Revenues:		
Fixed telephony and other services	4,100	4,628
Mobile telephony	2,438	1,807
	6,538	**6,435**
Expenses:		
Physical and technical security	(500,645)	(507,061)
Cleaning	(434,721)	(440,241)
Other	(47,123)	(45,476)
	(982,489)	**(992,778)**
Net expenses	**(975,951)**	**(986,343)**
TELEKOM SRPSKE		
Revenues:		
International settlement, Internet and other services	625,970	557,114
Roaming and other mobile telephony services	494,906	403,311
Dividends	4,127,243	3,484,546
Other	8,246	7,217
	5,256,365	**4,452,188**
Expenses:		
International settlement	(748,926)	(742,348)
Roaming	(387,576)	(344,050)
Other	(625)	(655)
	(1,137,127)	**(1,087,053)**
Net revenues	**4,119,238**	**3,365,135**

Income and expenses presented for the year ended 31 December 2012, arising from transactions with OTE, relate to the month of January 2012, when, subsequent to the purchase of OTE's shares by the Company, OTE ceased to be the shareholder of the Company (Note 26).

33. RELATED PARTY DISCLOSURES (Continued)

(b) Revenues and Expenses (Continued)

	2012	2011
MTEL		
Revenues:		
International settlement, Internet and other services	358,702	337,896
Roaming and other mobile telephony services	223,117	214,651
Other	-	84
	581,819	**552,631**
Expenses:		
International settlement	(340,830)	(290,803)
Roaming	(291,079)	(298,857)
Consignment sales fee	(5,777)	(5,280)
Other expenses	(966)	-
	(638,652)	**(594,940)**
Net expenses	**(56,833)**	**(42,309)**
TS:NET		
Expenses:		
Leased capacities for international transit	(68,413)	(51,684)
Net expenses	**(68,413)**	**(51,684)**
HD-WIN		
Revenues:		
Fixed telephony and other services	604	246
Mobile telephony	2,189	905
	2,793	**1,151**
Expenses:		
Broadcast content fee	(446,403)	(86,319)
Other	(19,000)	(12,800)
	(465,403)	**(99,119)**
Net expenses	**(462,610)**	**(97,968)**
FIBERNET		
Expenses:		
Leased capacities	(6,379)	-
Net expenses	**(6,379)**	**-**
Total revenues, net	**2,556,017**	**2,367,869**

Comparative data of revenues and expenses, presented for the previous reporting period, arising from transactions with HD-WIN include revenues and expenses starting from August 2011 when the Company became the major owner, i.e., acquired 51% of capital of the aforementioned subsidiary.

33. RELATED PARTY DISCLOSURES (Continued)

(c) **Salaries and other benefits** of directors and other key management personnel of the Company (Director General, Executive Directors, Function and Department Managers), for the years ended 31 December 2012 and 2011, respectively, were as follows:

	2012	2011
Gross salaries	355,598	330,812
Compensations for business trips	26,732	26,142
Employee profit-sharing	32,639	90,554
Residential housing loans	114,888	144,796
Loans for repurchase of vehicles	-	27,989
Other benefits	4,609	3,164
Total	**534,466**	**623,457**

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:

	2012	2011
Operating lease commitments (a)	10,726,571	8,076,271
Construction of the mobile and fixed-line telecommunication network (b)	2,406,874	3,318,794
Balance as of 31 December	**13,133,445**	**11,395,065**

(a) The Company has entered into commercial leases on certain business premises, land and RBS premises. 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:

	2012	2011
Up to 1 year	1,949,675	1,526,502
From 1 to 5 years	5,924,044	4,159,493
Over 5 years	2,852,852	2,390,276
	10,726,571	**8,076,271**

Operating lease commitments disclosed above do not include commitments arising from lease of property from the JP PTT saobracaja “Srbija”, 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.

34. COMMITMENTS (Continued)

(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 pursuant to 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 from the date of delivery or rendering of services defined by an agreement.

35. CONTINGENT LIABILITIES

(a) Litigations

As of 31 December 2012, the total estimated value of potential damage claims arising from legal proceedings filed against the Company and still in course amounts to RSD 1,526,124 thousand (31 December 2011: RSD 786,282 thousand), excluding penalty interest that may arise thereto.

In addition to the above mentioned disputes, after the competent court issued to the Company in March 2012 the certificate of finality of judgement to the Company on the decision to withdraw the lawsuit filed by the plaintiff, the corporation “Herm Multinational Corporation”, United States of America, in June 2012 the plaintiff repeated the lawsuit against “Jat Airways” a.d., Belgrade, the Company and the Republic of Serbia for the purposes of debt and damage compensation amounting to EUR 1,459,250.48, which was determined pursuant to the court decision determining that the proceedings have been initiated. However, the amount stated in the lawsuit reads EUR 1,459,250,479.

The damage claim arises from the plaintiff’s allegations that it 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. 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.

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 2012, the Company recognized the amount of RSD 130,245 thousand (31 December 2011: RSD 125,931 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 deems that tax liabilities recognized in the accompanying financial statements are fairly presented.

35. CONTINGENT LIABILITIES (Continued)

(b) Tax Risks (Continued)

The Law on Amendments and Supplements to the Value Added Tax Law ("RS Official Gazette", no. 93/2012) was adopted in September 2012. The most significant amendments applied from 1 October 2012 refer to the increase in the general VAT rate from 18% to 20% for the turnover of goods/services performed after 1 October 2012. In December 2012, the Law on Amendments and Supplements to the Corporate Income Tax Law was adopted ("RS Official Gazette", no. 119/2012), which, *inter alia*, prescribes the increased profit tax rate of 15% starting from January 2013.

36. OPERATING SEGMENT INFORMATION

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

At 31 December 2012, 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; and
- 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 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 reviewed by competent management for the purposes of adequate resource 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 2012 are as follows:

	Mobile telephony	Internet	Multimedia services	Fixed telephony and other services	Total
Sales	36,621,749	8,121,291	1,248,055	42,067,241	88,058,336
Other operating Income	1,590,810	74,039	23,188	1,200,071	2,888,108
Inter-segment settlement	1,966,994	-	-	6,812,576	8,779,570
Operating income	**40,179,553**	**8,195,330**	**1,271,243**	**50,079,888**	**99,726,014**
Wages, salaries and other personnel expenses	(2,213,284)	(1,364,703)	(779,390)	(8,603,927)	(12,961,304)
Charges of other network operators	(6,129,508)	-	-	(6,869,359)	(12,998,867)
Cost of material and maintenance	(6,426,939)	(776,091)	(189,043)	(4,097,226)	(11,489,299)
Depreciation and amortization	(5,437,068)	(202,415)	(1,095,783)	(10,066,936)	(16,802,202)
Rental costs	(1,873,711)	(346,727)	(191,005)	(2,340,236)	(4,751,679)
Other operating expenses	(7,893,343)	(753,715)	(2,171,448)	(5,248,957)	(16,067,463)
Inter-segment settlement	(3,347,190)	(3,465,810)	-	(1,966,570)	(8,779,570)
Operating expenses	**(33,321,043)**	**(6,909,461)**	**(4,426,669)**	**(39,193,211)**	**(83,850,384)**
Operating profit/ (loss)	**6,858,510**	**1,285,869**	**(3,155,426)**	**10,886,677**	**15,875,630**
Interest income	413,597	45,999	7,148	596,780	1,063,524
Interest expense	(1,866,939)	(298,237)	(93,091)	(1,995,525)	(4,253,792)
Foreign exchange losses, net	(2,766,065)	(441,118)	(77,543)	(3,117,420)	(6,402,146)
Dividends	2,175,057	-	-	1,952,186	4,127,243
Other financial income	26	18	10	88	142
	(2,044,324)	**(693,338)**	**(163,476)**	**(2,563,891)**	**(5,465,029)**
Profit/(loss) before tax	**4,814,186**	**592,531**	**(3,318,902)**	**8,322,786**	**10,410,601**
Income tax	338,659	69,075	10,715	422,105	840,554
Profit/(loss) for the year	**5,152,845**	**661,606**	**(3,308,187)**	**8,744,891**	**11,251,155**

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	35,196,736	7,013,051	812,913	43,840,961	86,863,661
Other operating income	2,348,258	134,653	37,799	1,422,049	3,942,759
Inter-segment settlement	2,255,190	-	-	5,426,442	7,681,632
Operating income	**39,800,184**	**7,147,704**	**850,712**	**50,689,452**	**98,488,052**
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	(5,584,520)	-	-	(6,750,863)	(12,335,383)
Cost of material and maintenance	(5,612,565)	(616,468)	(170,622)	(4,351,908)	(10,751,563)
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)	(2,276,699)	(4,284,217)
Other operating expenses	(5,470,854)	(662,867)	(1,159,489)	(4,905,817)	(12,199,027)
Inter-segment settlement	(2,644,776)	(2,781,908)	-	(2,254,948)	(7,681,632)
Operating expenses	**(29,015,103)**	**(6,188,741)**	**(3,197,182)**	**(41,193,576)**	**(79,594,602)**
Operating profit/ (loss)	**10,785,081**	**958,963**	**(2,346,470)**	**9,495,876**	**18,893,450**
Interest income	501,840	54,001	6,439	639,129	1,201,409
Interest expense	(861,978)	(39,792)	(52,082)	(666,259)	(1,620,111)
Foreign exchange gains, net	521,871	17,470	9,927	520,741	1,070,009
Dividends	1,836,356	-	-	1,648,190	3,484,546
Other financial income	-	-	-	119,464	119,464
	1,998,089	**31,679**	**(35,716)**	**2,261,265**	**4,255,317**
Profit/(loss) before tax	**12,783,170**	**990,642**	**(2,382,186)**	**11,757,141**	**23,148,767**
Income tax expense	(353,422)	(63,471)	(7,554)	(450,118)	(874,565)
Profit/(loss) for the year	**12,429,748**	**927,171**	**(2,389,740)**	**11,307,023**	**22,274,202**

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 services, 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 2012 and capital expenditure for the year then ended are as follows:

	Mobile telephony	Internet	Multimedia services	Fixed telephony and other services	Total
Assets	42,963,320	3,838,343	2,972,788	88,213,223	**137,987,674**
Liabilities	46,336,402	5,918,603	4,709,768	45,439,154	**102,403,927**
Capital expenditures (Note 17 and 18)	3,733,023	247,012	2,550,325	5,677,477	**12,207,837**

Segments' assets do not include investments in subsidiaries and other legal entities (RSD 60,910,876 thousand), receivables for overpaid income tax (RSD 941,570 thousand) and deferred tax assets (RSD 2,569,624 thousand), as these assets are managed on the Company's level.

Capital expenditure consists of additions of intangible assets and property and equipment during the reporting period.

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 investments in subsidiaries and other legal entities (RSD 60,897,038 thousand) and deferred tax assets (RSD 1,336,491 thousand), i.e., income tax payable (RSD 90,609 thousand), respectively, as these assets and liabilities 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. Revenues from sales are allocated on the basis of the country in which the service is provided. The Company's revenues from sales 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 102,853,692 thousand as of 31 December 2012 and represents 63.0% of total non-current assets (31 December 2011: RSD 110,867,544 thousand or 64.7%).

The total of these non-current assets located in other countries amounts to RSD 60,419,448 thousand or 37.0% (31 December 2011: RSD 60,431,850 thousand or 35.3%).

(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 2012.

37. EVENTS AFTER THE REPORTING PERIOD

(a) Dividends Declared to the Company

On 9 January 2013, the Shareholders Assembly of the subsidiary "Telus" passed the Decision on distribution of retained earnings, determined based on the financial statements for the year ended 31 December 2011, to dividends and reserves. On 15 January 2013, dividends in the amount of RSD 300 million attributable to the Company were paid out in total.

(b) Dividends Declared to the Company

In January 2013, the Shareholders Assembly of the subsidiary "TS:NET" passed the Decision on payment of dividends from retained earnings based on the financial statements for the year ended 31 December 2012 in the amount of EUR 422 thousand. On 17 January 2013, the amount of EUR 399 thousand (net) was paid out to the Company, as the sole shareholder.

(c) Repayment of the Portion of the Loan under the Term Facilities Agreement

On 25 January 2013, the Company repaid a portion of the syndicated loan in the amount of EUR 64 million, in accordance with the provisions of the Term Facilities Agreement entered into with financial institutions (Note 28(c)/ii/).

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 2012 and 2011 into the functional currency (RSD) were as follows:

		In RSD
	2011	**2012**
EUR	113.7183	104.6409
USD	86.1763	80.8662
BAM (KM)	58.1432	53.5020
SDR	132.5762	124.1606

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