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

Separate Financial Statements for 2013
in Accordance with Accounting Regulations
of the Republic of Serbia

and

Independent Auditor's Report

TO THE SHAREHOLDERS OF

TELECOMMUNICATIONS COMPANY TELEKOM SRBIJA A.D. BEOGRAD

Independent Auditor's Report

We have audited the accompanying separate financial statements of the Joint Stock Telecommunications Company "Telekom Srbija" a.d., Belgrade (hereinafter: the "Company"), which comprise the separate balance sheet as of 31 December 2013, and the separate 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.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Law on Accounting of the Republic of Serbia, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Law on Auditing of the Republic of Serbia and 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, 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 separate financial statements give a true and fair view of the unconsolidated financial position of the Company as of 31 December 2013, and its unconsolidated financial performance and its unconsolidated cash flows for the year then ended in accordance with the Law on Accounting of the Republic of Serbia.

Other Matter

The separate financial statements of the Company as at and for the year ended 31 December 2012 were audited by another auditor who expressed an unmodified opinion on the separate financial statements on 28 February 2013.

Belgrade, 28 February 2014

KPMG d.o.o. Beograd

(L.S.)

Ivana Manigodić /signed/
Certified Auditor

To be filled by legal entity - entrepreneur		
Basic identification number	Activity code	Tax identification number
1 7 1 6 2 5 4 3	6 1 1 0	1 0 0 0 0 2 8 8 7
To be filled by the Serbian Business Registers Agency		

Type of activity Codes

Name: Telecommunications Company “Telekom Srbija” a.d.

Head office (town; street and number): Belgrade, Takovska Street 2

BALANCE SHEET as of 31 December 2013

in 000 RSD

Account group, account	ITEM	EDP	Note number	Amount	
				Current year	Previous year
1	2	3	4	5	6
	ASSETS				
	A. NON-CURRENT ASSETS (002+003+004+005+009)	001		159507845	165275591
00	I. UNPAID SUBSCRIBED CAPITAL	002			
012	II. GOODWILL	003			
01 less 012	III.INTANGIBLE ASSETS	004	18	5620285	6393040
	IV. PROPERTY PLANT & EQUIPMENT and BIOLOGICAL ASSETS (006+007+008)	005		90950607	95969224
020, 022, 023, 026, 027(part), 028(part), 029	1. Property, plant & equipment	006	19, 20	90950607	95969224
024, 027(part), 028(part)	2. Investment property	007			
021,025, 027(part), 028(part)	3. Biological assets	008			
	V. LONG-TERM FINANCIAL INVESTMENTS (010+011)	009		62936953	62913327
030 to 032, 039 (part)	1.Equity investments	010	21	60704426	60910876
033 to 038, 039 (part) less 037	2.Other long-term financial investments	011	22	2232527	2002451
	B. CURRENT ASSETS (013+014+015)	012		25934635	34564529
10 to 13, 15	I. INVENTORIES	013	23	7038996	6233075
14	II. NON-CURRENT ASSETS HELD FOR SALE & ASSETS ATTRIBUTABLE DISCONTINUED OPERATIONS	014			17115
	III. SHORT-TERM RECEIVABLES, INVESTMENTS & CASH (016+017+018+019+020)	015		18895639	28314339
20, 21 22, less 223	1.Receivables	016	24	12540245	12471431
223	2. Income tax recoverable	017			941570
23 minus 237	3. Short-term financial placements	018		605955	291603
24	4. Cash and cash equivalents	019	25	2012387	10862273
27 & 28 less 288	5. VAT and accruals	020	26	3737052	3747462
288	**V. DEFERRED TAX ASSETS**	021	17(c)	2482500	2569624
	G. BUSINESS ASSETS (001+012 +021)	022		187924980	202409744
29	**D. LOSS EXCEEDING CAPITAL**	023			
	Dj. TOTAL ASSETS (022+023)	024		187924980	202409744

in 000 RSD

Account group, account	ITEM	ADP	Note number	Amount	
				Current year	Previous year
1	2	3	4	5	6
88	**E. OFF-BALANCE SHEET ASSETS**	025	33	6118180	3789507
	EQUITY AND LIABILITIES				
	A.EQUITY (102+103+104+105+106-107+108-109-110)	101	27	107763107	100005817
30	I. INITIAL CAPITAL	102		100008588	100008588
31	II. UNPAID SUBSCRIBED CAPITAL	103			
32	III. RESERVES	104		589634	589634
330 & 331	IV. REVALUATION RESERVES	105			
332	V. UNREALIZED GAINS ON SECURITIES	106			
333	VI. UNREALIZED LOSSES ON SECURITIES	107			
34	VII. RETAINED EARNINGS	108		23667395	15910105
35	VIII. LOSS	109			
037 & 237	IX. TREASURY SHARES	110		16502510	16502510
	B. LONG-TERM PROVISIONS & LIABILITIES (112+113+116)	111		80161873	102403927
40	I. LONG-TERM PROVISIONS	112	28	1793684	1771220
41	II. LONG-TERM LIABLITIES (114+115)	113		23845039	46658007
414,415	1. Long-term borrowings	114	29	23841976	46654917
41 less 414 & 415	2. Other long-term liabilities	115		3063	3090
	III. SHORT-TERM LIABILITIES (117+118+119+120+121 +122)	116		54523150	53974700
42 less 427	1. Short-term financial liabilities	117	29	29869614	29931023
427	2. Liabilities attributable to assets held for sale and discontinued operations assets	118			
43 & 44	3. Trade payables	119	30	8412443	6907677
45 & 46	4. Other short-term liabilities and accruals	120	31	2603567	850144
47, 48 less 481 & 49 less 498	5. Liabilities for VAT and other public revenues	121	32	13318525	16285856
481	6.Income tax payable	122		319001	
498	**V. DEFERRED TAX LIABILITIES**	123			
	G. TOTAL LIABILITIES (101+111 +123)	124		187924980	202409744
89	**D. OFF-BALANCE SHEET LIABILITIES**	125	33	6118180	3789507

In Belgrade, on 28 February 2014

Person authorized to compose Financial Statement

Milenko Dželetović /signed/

Legal representative

Predrag Ćulibrk /signed/

L.S.

The form is prescribed by Rule on contents and form of Financial Statements for legal entities, cooperatives, other legal entities and entrepreneurs ("Official Journal of RS", no. 114/06, 5/07, 119/08, 2/10, 101/12 and 118/12)

To be filled by legal entity - entrepreneur		
Basic identification number	Activity code	Tax identification number
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To be filled by the Serbian Business Registers Agency		

Type of activity Codes

Name: Telecommunications Company “Telekom Srbija” a.d.

Head office (town; street and number): Belgrade, Takovska Street 2

INCOME STATEMENT

in period from 1 January to 31 December 2013

in 000 RSD

Account group, account	ITEM	EDP	Note number	Amount	
				Current year	Previous year
1	2	3	4	5	6
	A. OPERATING INCOME AND EXPENSES				
	I.OPERATING INCOME (202+203+204-205+206)	201		86512658	88546715
60 & 61	1.Sales	202	7	85958349	88058336
62	2. Internal consumption	203		56256	45978
630	3. Inventories-Value increase	204			
631	4. Inventories-Value decrease	205			
64 & 65	5. Other operating income	206	8	498053	442401
	II. OPERATING EXPENSES (208 to 212)	207		69962889	68771989
50	1. Cost of merchandise sold	208		18098	4530
51	2. Cost of materials	209	9	6910241	6663368
52	3. Cost of salaries, fringe benefits and other personal expenses	210	10	13553579	12961304
54	4. Depreciation and provisions	211	11	16605657	17105137
53 & 55	5. Other operating expenses	212	12	32875314	32037650
	III. OPERATING INCOME (201-207)	213		16549769	19774726
	IV. OPERATING LOSS (207-201)	214			
66	**V. FINANCE INCOME**	215	13	6164117	7001762
56	**VI. FINANCE COSTS**	216	14	4127229	12466791
67and 68	**VII. OTHER INCOME**	217	15	2536479	2399729
57and 58	**VIII. OTHER EXPENSES**	218	16	3906994	6144505
	IX. OPERATING PROFIT BEFORE TAX (213-214+ 215-216+217-218)	219		17216142	10564921
	X. OPERATING LOSS BEFORE TAX (214-213-215+216-217+218)	220			
69-59	**XI. NET PROFIT ATTRIBUTABLE TO DISCONTINUED OPERATIONS**	221			
59-69	**XII. NET LOSS ATTRIBUTABLE TO DISCONTINUED OPERATIONS**	222			154320
	B. PROFIT BEFORE TAX (219-220+221-222)	223		17216142	10410601
	V. LOSS BEFORE TAX (220-219+222-221)	224			
	G. INCOME TAX				
721	1. Income tax expense for the period	225	17	1799882	392579

in 000 RSD

Account group, account	ITEM	ADP	Remark number	Amount	
				Current year	Previous year
1	2	3	4	5	6
722	2. Deferred tax expense for the period	226	17	87124	
722	3. Deferred tax income for the period	227	17		1233133
723	**D. Benefits paid to employer**	228			
	DJ. NET PROFIT (223- 224-225-226+ 227- 228)	229		15329136	11251155
	E. NET LOSS (224- 223+ 225+ 226-227 + 228)	230			
	Ž. NET PROFIT ATTRIBUTABLE TO MINORITY INTEREST	231			
	Z. NET PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	232			
	I. EARNINGS PER SHARE				
	1. Basic earnings per share	233			
	2. Diluted earnings per share	234			

In Belgrade, on 28 February 2014

Person authorized to compose Financial Statement

Milenko Dželetović /signed/

Legal representative

Predrag Ćulibrk /signed/

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Type of activity Codes

Name: Telecommunications Company “Telekom Srbija” a.d.

Head office (town; street and number): Belgrade, Takovska Street 2

CASH FLOW STATEMENT

in period from 1 January to 31 December 2013

in 000 RSD

ITEM	ADP	Amount	
		Current year	Previous year
1	2	3	4
A. CASH FLOWS FROM OPERATING ACTIVITIES			
I. Cash generated from operations(1 to 3)	301	105130221	107078409
1. Sales and advances received	302	103988790	106034450
2. Interests from operating activities	303		
3. Other inflow from operating activities	304	1141431	1043959
II. Cash outflows from operating activities (1 to 5)	305	76638715	79083931
1. Payments and prepayments to suppliers	306	47888817	50005667
2. Salaries, fringe benefits and other personal expenses	307	14582613	14778240
3. Interest paid	308	3538824	3221737
4. Income tax paid	309	1562150	1424758
5. Payments for other public revenues	310	9066311	9653529
III. Net cash inflow from operating activities (I-II)	311	28491506	27994478
IV. Net cash outflow from operating activities (II -I)	312		
B. CASH FLOWS FROM INVESTING ACTIVITIES			
I. proceeds from financing activities (1 to 5)	313	4908330	4741138
1. Sale of shares / stakes (net inflow)	314	206587	
2. Proceeds from sale of intangible assets, property, plant, equipment and biological assets	315	49052	79173
3. Other financial investments (net inflow)	316		
4. Interest received	317	454246	534722
5. Dividends received	318	4198445	4127243
II. Cash outflows from investing activities (1 to 3)	319	13592062	12998972
1. Purchase of shares / stakes (net outflow)	320		
2. Purchase of intangible assets, property, plant and equipment & biological assets	321	13259836	12207837
3. Other financial investments (net outflow)	322	332226	791135
III. Net proceeds from investing activities (I - II)	323		
IV. Net outflow from investing activities (II -I)	324	8683732	8257834
V. CASH FLOWS FROM FINANCING ACTIVITIES			
I. **Proceeds from financing activities (1 to 3)**	325		30933537
1. Capital stock increase	326		
2. Proceeds from long-term and short-term borrowings (net)	327		30933537
3.Other long-term and short-term liabilities	328		

in 000 RSD

ITEM	ADP	Amount	
		Current year	Previous year
1	2	3	4
II. Cash outflows from financing activities (1 to 4)	329	28374344	51099179
1. Purchase of treasury shares and stakes	330		39961788
2. Long-term, short-term and other liabilities (net outflow)	331	22874377	290
3. Financial lease	332		
4.Dividends paid	333	5499967	11137101
III. Net proceeds from financing activities (I - II)	334		
IV. Net outflow from financing activities (II -I)	335	28374344	20165642
G. TOTAL PROCEEDS (301+313+325)	336	110038551	142753084
D. TOTAL OUTFLOW (305+319+329)	337	118605121	143182082
DJ. PROCEEDS NET (336-337)	338		
E. OUTFLOW NET (337-336)	339	8566570	428998
Z. CASH AT THE BEGINNING OF ACCOUNTING PERIOD	340	10862273	14018543
Z. FOREIGN EXCHANGE GAINS ON TRANSLATION OF CACH AND CASH EQUIVALENTS	341		
I. FOREIGN EXCHANGE LOSSES ON TRANSLATION OF CASH AND CASH EQUIVALENTS	342	283316	2727272
J. CASH AT THE END OF ACCOUNTING PERIOD (338339+340+341-342)	343	2012387	10862273

In Belgrade, on 28 February 2014

Person authorized to compose Financial Statement

Milenko Dželetović /signed/

Legal representative

Predrag Ćulibrk /signed/

L.S.

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1 7 1 6 2 5 4 3	6 1 1 0	1 0 0 0 0 2 8 8 7
To be filled by the Serbian Business Registers Agency		

Type of activity Codes

Name: Telecommunications Company “Telekom Srbija” a.d.

Head office (town; street and number): Belgrade, Takovska Street

STATEMENT OF CHANGES IN EQUITY
in period from 1 January to 31 December 2013

in 000 RSD

No.	DESCRIPTION	ADP	Share capital (group 30 less 309)	ADP	Other capital (account 309)	ADP	Subscribed capital unpaid (group 31)	ADP	Share premium (account 320)
	1		2		3		4		5
1	Balance as at 1 January of previous year 2012	401	82512552	414	8588	427		440	
2	Adjustments of material errors and changes in accounting policies occurred in previous year - increase	402		415		428		441	
3	Adjustments of material errors and changes in accounting policies occurred in previous year - decrease	403		416		429		442	
4	**Restated opening balance as at 1 January of previous year 2012 (no. 1+2-3)**	404	82512552	417	8588	430		443	
5	Total increase in previous year	405	17487448	418		431		444	
6	Total decrease in previous year	406		419		432		445	
7	**Balance as at 31 December of previous year 2012 (no. 4+5-6)**	407	100000000	420	8588	433		446	
8	Adjustments of material errors and changes in accounting policies occurred in current year - increase	408		421		434		447	
9	Adjustments of material errors and changes in accounting policies occurred in current year - decrease	409		422		435		448	
10	**Restated opening balance as at 1 January of current year 2013 (no. 7+8-9)**	410	100000000	423	8588	436		449	
11	Total increase in current year	411		424		437		450	
12	Total decrease in current year	412		425		438		451	
13	**Balance as at 31 December of current year 2013 (no. 10+11-12)**	413	100000000	426	8588	439		452	

in 000 RSD

No.	DESCRIPTION	ADP	Reserves (account 321, 322)	ADP	Revaluation reserves (accounts 330 and 331)	ADP	Unrealized gains on securities (account 332)	ADP	Unrealized losses on securities (account 333)
	1		6		7		8		9
1	Balance as at 1 January of previous year 2012	453	589634	466		479		492	
2	Adjustments of material errors and changes in accounting policies occurred in previous year - increase	454		467		480		493	
3	Adjustments of material errors and changes in accounting policies occurred in previous year - decrease	455		468		481		494	
4	**Restated opening balance as at 1 January of previous year 2012 (no. 1+2-3)**	456	589634	469		482		495	
5	Total increase in previous year	457		470		483		496	
6	Total decrease in previous year	458		471		484		497	
7	**Balance as at 31 December of previous year 2012 (no. 4+5-6)**	459	589634	472		485		498	
8	Adjustments of material errors and changes in accounting policies occurred in current year - increase	460		473		486		499	
9	Adjustments of material errors and changes in accounting policies occurred in current year - decrease	461		474		487		500	
10	**Restated opening balance as at 1 January of current year 2013 (no. 7+8-9)**	462	589634	475		488		501	
11	Total increase in current year	463		476		489		502	
12	Total decrease in current year	464		477		490		503	
13	**Balance as at 31 December of current year 2013 (no. 10+11-12)**	465	589634	478		491		504	

in 000 RSD

No.	DESCRIPTION	ADP	Retained earnings (group 34)	ADP	Loss up to equity (group 35)	ADP	Treasury shares and stakes (account 037, 237)	ADP	Total (col.2+3+4+5+6+ 7+8-9+10-11-12)
	1		10		11		12		13
1	Balance as at 1 January of previous year 2012	505	47892112	518		531		544	131002886
2	Adjustments of material errors and changes in accounting policies occurred in previous year - increase	506		519		532		545	
3	Adjustments of material errors and changes in accounting policies occurred in previous year - decrease	507		520		533		546	
4	**Restated opening balance as at 1 January of previous year 2012 (no. 1+2-3)**	508	47892112	521		534		547	131002886
5	Total increase in previous year	509	11251155	522		535	16502510	548	12236093
6	Total decrease in previous year	510	43233162	523		536		549	43233162
7	**Balance as at 31 December of previous year 2012 (no. 4+5-6)**	511	15910105	524		537	16502510	550	100005817
8	Adjustments of material errors and changes in accounting policies occurred in current year - increase	512		525		538		551	
9	Adjustments of material errors and changes in accounting policies occurred in current year - decrease	513		526		539		552	
10	**Restated opening balance as at 1 January of current year 2013 (no. 7+8-9)**	514	15910105	527		540	16502510	553	100005817
11	Total increase in current year	515	15329136	528		541		554	15329136
12	Total decrease in current year	516	7571846	529		542		555	7571846
13	**Balance as at 31 December of current year 2013 (no. 10+11-12)**	517	23667395	530		543	16502510	556	107763107

No.	DESCRIPTION	ADP	Loss exceeding equity (group 29)
	1		14
1	Balance as at 1 January of previous year 2012	557	
2	Adjustments of material errors and changes in accounting policies occurred in previous year - increase	558	
3	Adjustments of material errors and changes in accounting policies occurred in previous year - decrease	559	
4	**Restated opening balance as at 1 January of previous year 2012 (no. 1+2-3)**	560	
5	Total increase in previous year	561	
6	Total decrease in previous year	652	
7	**Balance as at 31 December of previous year 2012(no. 4+5-6)**	563	
8	Adjustments of material errors and changes in accounting policies occurred in current year - increase	564	
9	Adjustments of material errors and changes in accounting policies occurred in current year - decrease	565	
10	**Restated opening balance as at 1 January of current year 2013 (no. 7+8-9)**	566	
11	Total increase in current year	567	
12	Total decrease in current year	568	
13	**Balance as at 31 December of current year 2013 (no. 10+11-12)**	569	

In Belgrade, on 28 February 2014

Person authorized to compose Financial Statement

Milenko Dželetović /signed/

Legal representative

Predrag Ćulibrk /signed/

L.S.

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To be filled by the Serbian Business Registers Agency		

Type of activity Codes

Name: Telecommunications Company “Telekom Srbija” a.d.

Head office (town; street and number): Belgrade, Takovska Street

STATISTICAL ANNEX

I GENERAL CORPORATE / ENTREPRENEUR INFORMATION

DESCRIPTION	ADP	Current year	Previous year
1	2	3	4
1.Number of months of operations (1 to 12)	601	12	1 2
2. Size indication (1 to 4)	602	4	4
3. Ownership structure indication (1 to 5)	603	4	4
4. Number of foreign entities holding a share in capital	604		
5. Average number of employees based on the number at the end of each month (whole number)	605	9073	9061

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

in 000 RSD

Account group, account	DESCRIPTION	ADP	Cost	Accumulated depreciation/ amortization	Net book value (column 4-5)
1	2	3	4	5	6
1	**1. Intangible assets**				
	1.1. Balance at the beginning of the year	606	24461380	18068340	6393040
	1.2. Additions during the year	607	2458502	xxxxxxxxxxxx	2458502
	1.3. Disposals	608	2485912	xxxxxxxxxxxx	3231257
	1.4. Revaluation	609		xxxxxxxxxxxx	
	1.5. Balance at the year-end (606+607-608+609)	610	24433970	18813685	5620285
2	**2. Immovables, plants, equipment and biological resources**				
	2.1. Opening balance	611	224905370	128936146	95969224
	2.2. Increase (purchase) during the year	612	10801334	xxxxxxxxxxxx	10801334
	2.3. Decrease during the year	613	12173410	xxxxxxxxxxxx	15819951
	2.4. Revaluation	614		xxxxxxxxxxxx	
	2.5. Balance at the year-end (611+612-613+614)	615	223533294	132582687	90950607

III INVENTORY STRUCTURE

in 000 RSD

Account group, account	DESCRIPTION	ADP	Current year	Previous year
1	2	3	4	5
10	1. Material	616	6646691	5821325
11	2. Work in progress	617		
12	3. Finished products	618		
13	4. Merchandise	619	16031	7815
14	5. Non-current assets held for sale	620		17115
15	6. Payments in advance	621	376274	403935
	7. TOTAL (616+617+618+619+620+621=013+014)	**622**	7038996	6250190

IV CAPITAL STRUCTURE in 000 RSD

Account group, account	DESCRIPTION	ADP	Current year	Previous year
1	2	3	**4**	**5**
300	1. Share capital	623	100000000	100000000
	whereof: foreign capital	624		
301	2.Stakes of limited liabilities company	625		
	whereof : foreign capital	626		
302	3. Stakes of partnership or limited partnership	627		
	whereof : foreign capital	628		
303	4. State-owned capital	629		
304	5. Socially-owned capital	630		
305	6. Stakes in cooperatives	631		
309	7. Other capital	632	8588	8588
30	**TOTAL (623+625+627+629+630+631 +632=102)**	**633**	100008588	100008588

V SHARE CAPITAL STRUCTURE

number of shares as a whole number

in 000 RSD

Account group, account	DESCRIPTION	ADP	Current year	Previous year
1	**2**	**3**	**4**	**5**
	1. Ordinary shares			
	1.1. Number of ordinary shares	634	1000000000	1000000000
part 300	1.2. Nominal value of ordinary shares - total	635	100000000	100000000
	2. Preference shares			
	2.1. Number of preference shares	636		
part 300	2.2. Nominal value of preference shares - total	637		
300	**3. TOTAL - Nominal value of shares (635+637=623)**	**638**	100000000	100000000

VI RECEIVABLES AND LIABILITIES in 000 RSD

Account group, account	DESCRIPTION	ADP	Current year	Previous year
1	**2**	**3**	**4**	**5**
20	1. Trade receivables (balance at the year-end 639 <= 016)	639	12295802	12265016
43	2. Accounts payable (balance at the year-end 640 <= 119)	640	8280484	6875202
part 228	3. Receivables from insurance companies for damage compensations (debit turnover without opening balance)	641	5778	3674
27	4. VAT - previous tax (annual amount as per tax returns)	642	10050846	8507395
43	5. Accounts payable (credit turnover without opening balance)	643	101669281	96487639
450	6. Liabilities for net salaries and fringe benefits (credit turnover without opening balance)	644	7552616	7235896
451	7. Liabilities for payroll taxes born by the employee (credit turnover without opening balance)	645	1016400	1109038
452	8. Liabilities for payroll contributions born by the employee (credit turnover without opening balance)	646	2021868	1780918
461, 462 & 723	9. Liabilities for dividends, profit- sharing and personal income of the employer (credit turnover without opening balance)	647	7571846	2242625
465	10. Liabilities to individuals for services rendered based on agreements (credit turnover without opening balance)	648	353419	294718
47	11. Liabilities for VAT (annual amount as per tax returns)	649	17376632	16365495
	12. Control total (from 639 to 649)	**650**	168194972	153167616

VII OTHER EXPENSES in 000 RSD

Account group, account	DESCRIPTION	ADP	Current year	Previous year
1	2	3	4	5
513	1. Fuel and energy	651	1298619	1302660
520	2. Gross salaries and fringe benefits	652	10579947	10110403
521	3. Payroll taxes and contributions born by the employer	653	1892551	1803028
522, 523, 524 & 525	4. Gross benefits of individuals for services rendered based on agreements	654	507120	468652
526	5. Gross remuneration to the Managing Board and Supervisory Board's members	655	19369	8034
529	6. Other personal expenses	656	554592	571187
53	7. Production services	657	28845904	27723536
533, part 540 & part 525	8. Rental expenses	658	4784628	4751679
part 533, part 540 & part 525	9. Land - rental expenses	659		
536, 537	10. Research and development costs	660	1696	22853
540	11. Depreciation/amortization charge	661	16395868	16802202
552	12. Insurance premium costs	662	620598	572731
553	13. Bank charges and payment operations costs	663	311780	474164
554	14. Membership fees	664	76788	69732
555	15. Taxes	665	1082842	1238347
556	16. Contributions	666		
562	17. Interest expenses	667	3029526	4253792
part 560, part 561 & 562	18. Interest expenses and a portion of financial expenses	668	3029526	4253792
part 560, part 561 & 562	19. Interest expenses on borrowings from banks and other financial institutions	669	2232542	3492376
part 579	20.Costs of humanitarian, cultural, health, educational, scientific and religious purposes, environmental protection and sports purposes	670	147679	172793
	21. Control total (from 651 to 670)	**671**	75411575	78091961

VIII OTHER INCOME in 000 RSD

Account group, account	DESCRIPTION	ADP	Current year	Previous year
1	2	3	4	5
60	1. Income from sale of merchandise	672	14612	4588
640	2. Premium, subvention, subsidies, regress, compensations and recovery of tax duties	673		
641	3. Conditional donations	674	457474	408396
part 650	4. Land rental income	675		
651	5. Membership fees	676		
part 660, part 661, 662	6. Interest income	677	994520	1063524
part 660, part 661 & part 662	7. Interest income on accounts and deposits held with banks and other financial institutions	678	452061	510126
part 660, part 661 and part 669	8. Dividend Income	679	4198445	4127243
	9. Control total (from 672 to 679)	**680**	6117112	6113877

IX OTHER DATA in 000 RSD

DESCRIPTION	ADP	Current year	Previous year
1	2	3	4
1. Excise duties (as per annual calculation of excise duties)	681		
2. Customs and other import duties (annual total as per calculation)	682	1031702	826153
3. Capital subventions and other government grants for construction and acquisition of property, plant, equipment and intangible assets	683		
4. State grants for premiums, regress and coverage of current operating expenses	684		
5. Other government grants	685		
6. Foreign donations and other non-refundable grants received either in cash or in kind from foreign legal entities and/or individuals	686		
7. Entrepreneurs' personal income from net profit (to be completed only by entrepreneurs)	687		
8. Control total (from 681 to 687)	**688**	1031702	826153

X DEFERRED NEGATIVE NET EFFECTS OF FOREIGN CURRENCY CLAUSES AND EXCHANGE DIFFERENCES in 000 RSD

DESCRIPTION	ADP	Current year	Previous year
1	2	3	4
1. Opening balance of deferred net effect of foreign currency clause	689		
2. Deferred net effect of foreign currency clause	690		
3. Proportional part of reversed deferred net effect of foreign currency clause	691		
4. Remaining amount of deferred net effect of foreign currency clause (no. 1+2-3)	692		
5. Opening balance of deferred net effect of exchange differences	693		
6. Deferred net effect of exchange differences	694		
7. Proportional part of reversed deferred net effect of exchange differences	695		
8. Remaining amount of deferred net effect of exchange differences (no. 5+6-7)	**696**		

XI DEFERRED POSITIVE NET EFFECTS OF FOREIGN CURRENCY CLAUSES AND EXCHANGE DIFFERENCES in 000 RSD

DESCRIPTION	ADP	Current year	Previous year
1	2	3	4
1. Opening balance of deferred net effect of foreign currency clause	697		
2. Deferred net effect of foreign currency clause	698		
3. Proportional part of reversed deferred net effect of foreign currency clause	699		
4. Remaining amount of deferred net effect of foreign currency clause (no. 1+2-3)	700		
5. Opening balance of deferred net effect of exchange differences	701		
6. Deferred net effect of exchange differences	702		
7. Proportional part of reversed deferred net effect of exchange differences	703		
8. Remaining amount of deferred net effect of exchange differences (no. 5+6-7)	**704**		

In Belgrade, on 28 February 2014

Person authorized to compose
Financial Statement

Milenko Dželetović /signed/

Legal representative

Predrag Ćulibrk /signed/

L.S.

The form is prescribed by Rule on contents and form of Financial Statements for legal entities, cooperatives, other legal entities and entrepreneurs ("Official Journal of RS", no. 114/06, 5/07, 119/08, 2/10, 101/12 and 118/12)

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

Separate Financial Statements for 2013
in Accordance with Accounting Regulations
of the Republic of Serbia

CONTENTS

SEPARATE INCOME STATEMENT
For the year ended 31 December 2013
In RSD thousand

	Note	2013	2012
OPERATING INCOME			
Sales	7	85,958,349	88,058,336
Own-work and goods capitalized		56,256	45,978
Other operating income	8	498,053	442,401
		86,512,658	**88,546,715**
OPERATING EXPENSES			
Cost of goods sold		(18,098)	(4,530)
Cost of material	9	(6,910,241)	(6,663,368)
Wages, salaries and other personnel expenses	10	(13,553,579)	(12,961,304)
Depreciation, amortization and provisions	11	(16,605,657)	(17,105,137)
Other operating expenses	12	(32,875,314)	(32,037,650)
		(69,962,889)	**(68,771,989)**
OPERATING PROFIT		**16,549,769**	**19,774,726**
Financial income	13	6,164,117	7,001,762
Financial expenses	14	(4,127,229)	(12,466,791)
Other income	15	2,536,479	2,399,729
Other expenses	16	(3,906,994)	(6,144,505)
PROFIT FROM OPERATIONS BEFORE TAX		**17,216,142**	**10,564,921**
NET LOSS FROM DISCONTINUED OPERATIONS		-	(154,320)
PROFIT BEFORE TAX		**17,216,142**	**10,410,601**
INCOME TAXES	17		
Current tax expense		(1,799,882)	(392,579)
Deferred tax (expense)/income		(87,124)	1,233,133
PROFIT FOR THE YEAR		**15,329,136**	**11,251,155**
EARNINGS PER SHARE IN RSD	27		
Basic earnings per share		**19.16**	**14.06**
Diluted earnings per share		**19.16**	**14.06**

The accompanying notes on pages 10 to 72
are an integral part of these financial statements.

SEPARATE BALANCE SHEET
As of 31 December 2013
In RSD thousand

	Note	31/12/2013	31/12/2012
ASSETS			
Non-current assets			
Intangible assets	18	5,599,337	6,352,594
Advances for intangible assets		20,948	40,446
Property, plant and equipment	19	90,775,282	95,730,631
Advances for property and equipment	20	175,325	238,593
Equity investments	21	60,704,426	60,910,876
Other long-term financial placements	22	2,232,527	2,002,451
		159,507,845	**165,275,591**
Current assets			
Inventories	23	6,662,722	5,829,140
Non-current assets held for sale		-	17,115
Advances to suppliers		376,274	403,935
Accounts receivable	24	12,540,245	12,471,431
Receivables for overpaid income tax		-	941,570
Short-term financial placements		605,955	291,603
Cash and cash equivalents	25	2,012,387	10,862,273
Value added tax, prepayments and accrued income	26	3,737,052	3,747,462
		25,934,635	**34,564,529**
Deferred tax assets	17(c)	**2,482,500**	**2,569,624**
TOTAL ASSETS		**187,924,980**	**202,409,744**
EQUITY AND LIABILITIES			
Equity	27		
Share capital		100,000,000	100,000,000
Other capital		8,588	8,588
Reserves		589,634	589,634
Treasury shares		(16,502,510)	(16,502,510)
Retained earnings		23,667,395	15,910,105
		107,763,107	**100,005,817**
Long-term provisions and long-term liabilities			
Long-term provisions	28	1,793,684	1,771,220
Long-term borrowings	29	23,841,976	46,654,917
Other long-term liabilities		3,063	3,090
		25,638,723	**48,429,227**
Current liabilities			
Short-term borrowings	29	29,869,614	29,931,023
Accounts payable	30	8,412,443	6,907,677
Other current liabilities	31	2,603,567	850,144
Value added tax and other tax liabilities, accruals and deferred income	32	13,318,525	16,285,856
Income tax payable		319,001	-
		54,523,150	**53,974,700**
TOTAL EQUITY AND LIABILITIES		**187,924,980**	**202,409,744**
OFF-BALANCE SHEET ITEMS	33	**6,118,180**	**3,789,507**

The accompanying notes on pages 10 to 72
are an integral part of these financial statements.

SEPARATE STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2013
In RSD thousand

	Share capital	Other capital	Reserves	Treasury shares	Retained earnings	Total
Balance as of 1 January 2012	**82,512,552**	**8,588**	**589,634**	**-**	**47,892,112**	**131,002,886**
Dividends paid	-	-	-	-	(2,286,436)	(2,286,436)
Transfer (from)/to (Note 27)	17,487,448	-	-	-	(17,487,448)	-
Treasury shares (Note 27)	-	-	-	(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**
Dividends declared (Note 31)	-	-	-	-	(7,571,846)	(7,571,846)
Profit for the year ended 31 December 2013	-	-	-	-	15,329,136	15,329,136
Balance as of 31 December 2013	**100,000,000**	**8,588**	**589,634**	**(16,502,510)**	**23,667,395**	**107,763,107**

The accompanying notes on pages 10 to 72
are an integral part of these financial statements.

SEPARATE STATEMENT OF CASH FLOWS
For the year ended 31 December 2013
In RSD thousand

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and advances received	103,988,790	106,034,450
Other receipts from operating activities	1,141,431	1,043,959
Payments to suppliers and advance payments to suppliers	(47,888,817)	(50,005,667)
Payments for wages, salaries and other personnel expenses	(14,582,613)	(14,778,240)
Interest paid	(3,538,824)	(3,221,737)
Income tax paid	(1,562,150)	(1,424,758)
Other public charges paid	(9,066,311)	(9,653,529)
Net cash flows from operating activities	**28,491,506**	**27,994,478**
CASH FLOWS FROM INVESTING ACTIVITIES		
Receipts from return of investment in subsidiaries	206,587	-
Receipts from sale of intangible assets and property and equipment	49,052	79,173
Interest received	454,246	534,722
Dividends received	4,198,445	4,127,243
Purchase of intangible assets and property and equipment	(13,259,836)	(12,207,837)
Other financial placements (net outflows)	(332,226)	(791,135)
Net cash flows from investing activities	**(8,683,732)**	**(8,257,834)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Net repayments of borrowings (net inflows)	-	30,933,537
Net repayments of borrowings (net outflows)	-	(39,961,788)
Net repayments of borrowings and other liabilities (net outflows)	(22,874,377)	(290)
Dividends paid	(5,499,967)	(11,137,101)
Net cash flows used in financing activities	**(28,374,344)**	**(20,165,642)**
Net decrease in cash and cash equivalents	(8,566,570)	(428,998)
Cash and cash equivalents at beginning of year	10,862,273	14,018,543
Foreign exchange losses on translation of cash and cash equivalents, net	(283,316)	(2,727,272)
Cash and cash equivalents at end of year (Note 25)	**2,012,387**	**10,862,273**

The accompanying notes on pages 10 to 72
are an integral part of these financial statements.

SEPARATE STATISTICAL ANNEX
For the Year Ended 31 December 2013
In RSD thousand

I GENERAL CORPORATE INFORMATION

	2013	2012
Number of months of operations (1 to 12)	12	12
Size indication (1 to 4)	4	4
Ownership structure indication (1 to 5)	4	4
Number of foreign entities holding a share in capital	-	-
Average number of employees, based on the number at the end of each month (whole number)	9,073	9,061

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	24,461,380	(18,068,340)	6,393,040
Additions during the year	2,458,502	-	2,458,502
Disposals	(2,485,912)	-	(3,231,257)
Revaluation	-	-	-
Balance at end of year	**24,433,970**	**(18,813,685)**	**5,620,285**
2. Property, plant, equipment and biological assets			
Balance at beginning of year	224,905,370	(128,936,146)	95,969,224
Additions during the year	10,801,334	-	10,801,334
Disposals	(12,173,410)	-	(15,819,951)
Revaluation	-	-	-
Balance at end of year	**223,533,294**	**(132,582,687)**	**90,950,607**

III INVENTORY STRUCTURE

	2013	2012
Material	6,646,691	5,821,325
Work in progress	-	-
Finished goods	-	-
Merchandise	16,031	7,815
Non-current assets held for sale	-	17,115
Payments in advance	376,274	403,935
Total	**7,038,996**	**6,250,190**

IV CAPITAL STRUCTURE

	2013	2012
Share capital	100,000,000	100,000,000
Out of which: foreign capital	-	-
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**	**100,008,588**

V SHARE CAPITAL STRUCTURE

	2013	2012
Ordinary shares		
Number of ordinary shares	1,000,000,000	1,000,000,000
Nominal value of ordinary shares – total	100,000,000	100,000,000
Preference shares		
Number of preference shares	-	-
Nominal value of preference shares – total	-	-
Total – nominal value of shares	**100,000,000**	**100,000,000**

VI RECEIVABLES AND LIABILITIES

	2013	2012
Trade receivables (balance at end of year)	12,295,802	12,265,016
Accounts payable (balance at end of year)	8,280,484	6,875,202
Receivables from insurance companies for damage compensations during the year (debit turnover without opening balance)	5,778	3,674
Value added tax – previous tax (annual amount as per tax returns)	10,050,846	8,507,395
Accounts payable (credit turnover without opening balance)	101,669,281	96,487,639
Liabilities for net salaries and fringe benefits (credit turnover without opening balance)	7,552,616	7,235,896
Liabilities for payroll taxes born by the employee (credit turnover without opening balance)	1,016,400	1,109,038
Liabilities for payroll contributions born by the employee (credit turnover without opening balance)	2,021,868	1,780,918
Liabilities for dividends, profit-sharing and personal income of the employer (credit turnover without opening balance)	7,571,846	2,242,625
Liabilities to individuals for services rendered based on agreements (credit turnover without opening balance)	353,419	294,718
Liabilities for VAT (annual amount as per tax returns)	17,376,632	16,365,495
Control total	**168,194,972**	**153,167,616**

SEPARATE STATISTICAL ANNEX (Continued)
For the Year Ended 31 December 2013
In RSD thousand

VII OTHER EXPENSES

	2013	2012
Fuel and energy	1,298,619	1,302,660
Gross salaries and fringe benefits	10,579,947	10,110,403
Payroll taxes and contributions born by the employer	1,892,551	1,803,028
Gross benefits of individuals for services rendered based on agreements	507,120	468,652
Gross remuneration to the Managing Board’s and Supervisory Board’s members	19,369	8,034
Other personal expenses	554,592	571,187
Production services	28,845,904	27,723,536
Rental expenses	4,784,628	4,751,679
Land-rental expenses	-	-
Research and development costs	1,696	22,853
Depreciation/amortization charge	16,395,868	16,802,202
Insurance premium costs	620,598	572,731
Bank charges and payment operations costs	311,780	474,164
Membership fees	76,788	69,732
Taxes	1,082,842	1,238,347
Contributions	-	-
Interest expenses	3,029,526	4,253,792
Interest expenses and a portion of financial expenses	3,029,526	4,253,792
Interest expenses on borrowings from banks and other financial institutions	2,232,542	3,492,376
Costs of humanitarian, cultural, health, educational, scientific and religious purposes, environmental protection and sports purposes	147,679	172,793
Control total	**75,411,575**	**78,091,961**

VIII OTHER INCOME

	2013	2012
Income from sale of goods	14,612	4,588
Premiums, subventions, subsidies, regress, compensations and recovery of tax duties	-	-
Conditional donations	457,474	408,396
Land-rental income	-	-
Membership fees	-	-
Interest income	994,520	1,063,524
Interest income on accounts and deposits held with banks and other financial institutions	452,061	510,126
Dividend income	4,198,445	4,127,243
Control total	**6,117,112**	**6,113,877**

SEPARATE STATISTICAL ANNEX (Continued)
For the Year Ended 31 December 2013
In RSD thousand

IX OTHER INFORMATION

	2013	2012
Excise duties (as per annual calculation of excise duties)	-	-
Customs and other import duties (annual total as per calculation)	1,031,702	826,153
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	-	-
Entrepreneurs' personal income from net profit (to be completed only by entrepreneurs)	-	-
Control total	**1,031,702**	**826,153**

X DEFERRED NEGATIVE NET EFFECTS OF FOREIGN CURRENCY CLAUSES AND EXCHANGE DIFFERENCES

	2013	2012
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	-	-

SEPARATE STATISTICAL ANNEX (Continued)
For the Year Ended 31 December 2013
In RSD thousand

XI DEFERRED POSITIVE NET EFFECTS OF FOREIGN CURRENCY CLAUSES AND EXCHANGE DIFFERENCES

	2013	2012
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 10 to 72
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 and the Company was registered on 29 May 1997.

The Company is a joint stock entity, which is founded for indefinite period of time.

Pursuant to the Company Law (RS Official Gazette, no. 36 dated 27 May 2011 and no. 99 dated 27 December 2011), in 2012 the General Meeting of the Company adopted the Telekom Srbija a.d. Articles of Association defining the Company’s bodies: General Meeting, Supervisory Board and Executive Board.

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, fixed telephony services, traffic transiting, data transmission, leased lines, broadband services, additional mobile and fixed telephony 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.

In 2006, the Company was granted the License for mobile telecommunication network (GSM/GSM1800 and UMTS/IMT-2000). In 2007, the Company renewed the License for fixed telecommunication network. Since 2009, the Company has possessed license for fixed wireless access (CDMA).

In accordance with the Law on Electronic Communications came into force (RS Official Gazette, no. 44 dated 30 June 2010), the Republic Agency for Electronic Communications (“RATEL”or “the Agency”) determined nine markets subject to pre-regulation.

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.

In 2011, 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.

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

At 31 December 2013, the Company had 9,088 employees (31 December 2012: 9,042 employees).

1. CORPORATE INFORMATION (Continued)

At 31 December 2013 and 2012 the Company holds equity instruments of the following subsidiaries (Note 21):

- 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).

Equity instruments in subsidiaries are carried at historical cost.

2. BASIS OF PREPARATION

The accompanying separate financial statements for 2013 have been prepared in accordance with the accounting regulations prevailing in the Republic of Serbia, which are based on the Accounting Law (RS Official Gazette, no. 62/2013) and other legal regulations prevailing in the Republic of Serbia that prescribe International Accounting Standards (IAS), i.e. International Financial Reporting Standards (IFRS) as a basis of preparation and presentation of the financial statements. The Company also prepares the consolidated financial statements.

The accompanying separate financial statements were approved by the Supervisory Board of the Company on 28 February 2014.

In the preparation of the accompanying financial statements, the Company has adhered to the principal accounting policies described below in Note 5.4.

The Company keeps records and prepares financial statements according to the applicable Accounting Law (RS Official gazette, no. 62/2013) and other legal regulations prevailing in the Republic of Serbia.

Pursuant to the Accounting Law, legal entities and entrepreneurs in the Republic of Serbia prepare and present financial statements in accordance with legal, professional and internal regulations, in which case the professional regulations imply the applicable Framework for the Preparation and Presentation of Financial Statements („the Framework“), International Accounting Standards (IAS), International Financial Reporting Standards (IFRS) and interpretations that are an integral part of the standards, i.e. applicable IAS and IFRS do not include the basis for conclusions, illustrative examples, guidelines, comments, opposing viewpoints, elaborate examples and other supplementary material.

Amendments to the applicable IAS and translation of new IFRS and interpretations that are an integral part of the standards issued by the International Accounting Standard Board and IFRS Interpretation Committee made until 1 January 2009 were formally adopted following the decision of the Minister of Finance no. 401-00-1380/2010-16 and published in the RS Official Gazette no. 77/2010. The IFRS and standard interpretations amended or issued after the above date have not been translated and published, and therefore have not been applied in preparing the accompanying financial statements.

The accompanying separate financial statements have been prepared in the format prescribed by the Rules on the contents and form of financial statements for companies, cooperatives, other legal entities and entrepreneurs (RS Official gazette, nos. 114/2006, 5/2007, 119/2008, 2/2010, 101/2012 and 118/2012), which provides for the application of a set of financial statements , the form and contents of which are not harmonized with those set forth in the revised IAS 1 - Presentation of Financial Statements, which are mandatory for accounting periods beginning on 1 January 2009.

3. FUNCTIONAL AND REPORTING CURRENCY

The Dinar (RSD) is the functional and official reporting currency of the Company. The amounts in the accompanying financial statements of the Company are expressed in RSD thousand, unless otherwise stated.

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.

Estimate	Note	Disclosed information
Revenue	5.4.1, 7	Allocation of revenue between each separable component of a packaged offer based on its relative fair value
Useful lives of intangible assets and PPE	5.4.11.	The useful lives and the amortization/depreciation method
Allowance for slow moving inventories	5.4.12, 23	Methodology used to determine net realizable value of inventories
Impairment of loans and receivables	5.4.13.1, 22, 24.	Methodology used to determine recoverable amounts
Impairment of non-financial assets	5.4.15 (a), 19	Key assumptions used to determine recoverable amounts
Provisions for legal proceedings	5.4.17, 31	The assumptions underlying the measurement of provisions for litigations
Provisions for employee benefits	5.4.18, 31	Discount rates, salary increases, average life expectancy
Income tax	5.4.19, 17	Assumptions used for deferred tax assets, transfer pricing
Impairment of investment in subsidiaries	5.4.24, 21	Methodology used to determine recoverable amounts

In situations where it is not possible to implement appropriate standards or their interpretation, the Company's management evaluates and implements the accounting policies that will result in relevant and reliable information in the financial statements, so that they:

- represent faithfully the Company's financial position, financial performance and cash flows,
- reflect the economic substance of transactions,
- are neutral,
- are prudent,
- are complete in all material respects.

Changes in estimates

In the course of 2013 the Company changed the accounting treatment of ADSL modems so they are capitalized as equipment instead of being presented as inventories. The change in treatment is conditioned by the fact that their useful life is longer than one year and that the Company retains control over the asset. The change in accounting treatment is the result of experience in the industry, and the same applies prospectively.

5. ACCOUNTING POLICIES

5.1. BASES OF MEASUREMENT

Separate financial statements are prepared under the historical cost and going concern concepts, which implies that the Company will continue to operate in the foreseeable future.

5.2. AMENDMENTS TO EXISTING STANDARDS, NEW STANDARDS AND INTERPRETATIONS

(a) New Standards, Amendments and Interpretations to Existing Standards Mandatory for the First Time for the Financial Year beginning on 1 January 2013

The application of the following standards, interpretations (IFRIC) and amendments to existing standards, which are mandatory for the first time for the financial year beginning on 1 January 2013 did not result in significant changes in accounting policies of the Company or produce any effect on the accompanying separate financial statements of the Company:

Amendments to IAS 1 "Presentation of Financial Statements" – Other comprehensive income

The adopted amendments to IAS 1 have no effect on the assets, liabilities and operating performance of the Company.

Revised IAS 19 "Employee Benefits"

The adopted amendments to IAS 19 have no effect on the assets, liabilities and operating performance of the Company.

IFRS 10 "Consolidated Financial Statements"

The adopted amendments to IFRS 10 have no effect on separate financial statements of the Company.

IFRS 13 "Fair value measurement"

IFRS 13 has established a single framework for measuring fair value and for disclosing the fair value measurement , where such measurement is required or permitted in accordance with other IFRSs. In particular, the standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The requirements for disclosure related to fair value measurement in other IFRSs, including IFRS 7 " Financial Instruments : Disclosures" have also been replaced and expended.

In accordance with the transitional provisions of IFRS 13 , the Company implements new guidelines for measurement until the date of the financial statements . Nonetheless , this change has no significant effect on the measurement of assets and liabilities of the Company.

Improving standards - 2009-2011 cycle includes changes to the following standards:

- *IFRS 1 - Repeated application of IFRS 1;*
- *IFRS 1 - Borrowing Costs;*
- *IAS 1 - Clarification of requirements for comparative information;*
- *IAS 16 - Classification of service equipment;*
- *IAS 32 - Tax effects of distribution to holders of equity instruments; and*

5.2. AMENDMENTS TO EXISTING STANDARDS, NEW STANDARDS AND INTERPRETATIONS (Continued)

(a) New Standards, Amendments and Interpretations to Existing Standards Mandatory for the First Time for the Financial Year beginning on 1 January 2013 (Continued)

- *IAS 34 - Interim financial reporting and segment information for total assets and liabilities.*

The adopted amendments to these standards have no effect on the assets, liabilities and operating performance of the Company.

(b) New standards, amendments and interpretations to existing standards those are not yet effective

A number of new standards, amendments and interpretations to existing standards have been issued but are not effective for annual periods beginning after January 1 of 2014 and have not been applied in preparing the accompanying separate financial statements. Listed below are those that may be of importance for the Company. The Company does not plan an early adoption of these standards.

IFRS 9 Financial Instruments (2010), Financial Instruments (2009)

IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2009), financial assets are classified and measured starting from the business model of financial management and performance of their contractual cash flow. IFRS 9 (2010) introduces additional changes for financial liabilities. It is underway the project the International Accounting Standards Board related to preparing a limited number of changes required by IFRS 9 regarding the classification, valuation and addition of new requirements relating to the impairment of financial assets and hedge accounting.

IFRS 9 (2010) and (2009) are effective for annual periods beginning on or after 1 January 2015 and their early application is permitted. The Company is currently estimating their impact on assets and liabilities of the Company and intends to adopt them after their coming into force.

Amendments to IAS 36 " Impairment of Assets" (Disclosure of the recoverable amount of non-financial assets)

Amendments to IAS 36 clarify that the recoverable amount has to be disclosed by any asset (including goodwill) or cash-generating unit for which the impairment loss is recognized or reversed during the period.

These amendments are effective for annual periods beginning on or after January 1 of 2014 and their early application is permitted. The Company currently estimates their impact on the volume of disclosures in the separate financial statements and intends to adopt them after their coming into force.

5.3. COMPARATIVE FIGURES

Comparative figures represent the audited separate financial statements for the year ended 31 December 2012, prepared in accordance with the accounting regulations prevailing in the Republic of Serbia.

5.4. SUMMARY OF ACCOUNTING POLICIES

The accounting policies and estimates used in the preparation of the separate financial statements are consistent with the accounting policies and estimates applied in the preparation of the separate financial statements of the Company for the year 2012, except for changes in the accounting treatment of ADSL modems.

The accompanying separate financial statements include the assets, liabilities, operating results, changes in equity and cash flows of the Company as a separate entity, excluding its subsidiaries.

5.4.1. Revenue

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

5.4.1.1. Fixed Telephony Revenue

(a) Telephony Traffic

Revenue from incoming and outgoing telephony traffic is recognized at the moment upon which services have been provided.

Revenue 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. Subscription is recognized in revenue on a straight-line basis over the service period and recorded as “Deferred income”.

(c) Connection and Installation Fees

Revenue from the connection of new subscribers to fixed telephony represents revenue earned on invoiced fees for the connection of new subscribers and installation costs. These categories can be identified as separate components and revenues thus generated are recognized in the period in which the user is connected to the network.

(d) Other Telecommunication Services

This revenue primarily includes lease of telephony capacities - telephone lines, data transfer services, call listings, voice mail and other services. Such revenue is recognized and recorded in the accounting period during which it arises. Telephony capacity and line lease revenue is recognized on a straight-line basis over the life of the operating lease agreement.

Revenue from equipment sales is recognized when the significant risks and benefits arising from the equipment ownership are transferred to the buyer.

5.4.1.2. Mobile Telephony Revenue

Mobile telephony revenue primarily relates to prepaid and postpaid services, such as spent call minutes, text and multimedia messages, monthly fees, data transfer services, revenue from sales of mobile handsets and other services.

5.4. SUMMARY OF ACCOUNTING POLICIES (Continued)

5.4.1. Revenue (Continued)

5.4.1.2. Mobile Telephony Revenue (Continued)

Prepaid services (e-charges) are recognized as revenue when the service is rendered to the extent the service is used. Prepaid amounts are deferred until the service is either used or expired.

5.4.1.3. Multi-Element Agreements (MEA)

For some mobile communication services, multiple element arrangements typically include the sale of a handset, activation fee and phone service contract. In general, the Company determines that such arrangements are divided into separate „units of accounting“ based on a determination of a separate value to the customer for each deliverable on a standalone basis. The total fixed or determinable amount of the arrangement is allocated to the separate units of accounting based on the relative fair value.

5.4.1.4. 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.

5.4.1.5. Subscriber Acquisition Costs, Advertising and Related Costs

Subscriber acquisition costs, other than loyalty program costs (Note 5.4.4.), are recognized for the period in which they are incurred. Advertising, promotion, sponsoring and brand marketing costs are also expensed as incurred.

5.4.2. Revenues and Expenses from International Traffic Settlements

5.4.2.1. Revenues and Expenses from International Fixed Telephony Traffic Settlements

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

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

5.4.2.2. Revenues and Expenses from Roaming

Revenues 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 when the service occurs in the amounts invoiced both to, and from the foreign mobile network operators.

A portion of income earned or expenses incurred is recorded on the basis of an estimate made in accordance with the reconciled settlements for generated traffic.

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

5.4. SUMMARY OF ACCOUNTING POLICIES (Continued)

5.4.3. Interconnection Revenues and Expenses

Interconnection revenues and expenses are recognized as they are incurred in gross amounts, and are presented under sales revenue and charges from other network operators.

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, revenues 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 revenues 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.

5.4.4. Loyalty program

Loyalty program consists of granting future benefits to customers (such as call credit or product discounts) in exchange for present and past use of the service or purchase of goods.

5.4.5. 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 12).

Maintenance and repairs primarily relate to the maintenance of telecommunication equipment, local networks, computer equipment and software.

5.4.6. 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.

5.4.7. Finance income/expense

Finance income includes interest income, foreign exchange gains, dividend income and other financial income.

Finance expenses include interest expense, foreign exchange losses and other financial expenses.

5.4. SUMMARY OF ACCOUNTING POLICIES (Continued)

5.4.7. Finance income/expense (Continued)

Foreign currency gains and losses are reported on a net basis as either finance income or finance expense depending on whether foreign currency movements are net gain or net loss position.

Interest income or expense is recognized using the effective interest method. Dividend income is recognized in income statement on the date that the Company's right to receive payment is established.

5.4.8. Foreign Currency Translation and Accounting Treatment of Exchange Gains/Losses

Monetary assets and liabilities 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).

Non-monetary items in a foreign currency that are measured based on historical cost are not retranslated.

Foreign currency gains and losses are recognized in income statement as finance income (Note 13), i.e. finance expenses (Note 14).

5.4.9. Property, Plant and Equipment

Property, plant 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, plant and equipment are those assets which expected useful economic life will exceed one year.

The cost of an item of property, plant and equipment is recognized if it is probable that the future economic benefits embodied within the part will flow into the Company and its cost can be measured reliably. In addition, subsequent expenditure is capitalized only if it improves equipment capacity and quality of performed services and if it is probable that the future economic benefits associated with the expenditure will flow into the Company. The costs of the day-to-day servicing of property, plant and equipment are recognized in income statement as incurred (Note 5.4.5.).

Gains and losses on disposal of an item of property, plant and equipment are recognized within other operating income or expenses in income statement.

5.4. SUMMARY OF ACCOUNTING POLICIES (Continued)

5.4.10. Intangible assets

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 costs are recognized as an expense as incurred. Development expenditure is capitalized only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Company intends to and has sufficient resources to complete development and to use or sell the asset. Otherwise, it is recognized in income statement as incurred. Subsequent to initial recognition, development expenditure is measured at cost less accumulated amortization and any accumulated impairment losses.

5.4.11. 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.

Determination of useful lives of property, plant and equipment and intangible assets are based on previous experience with similar assets as well as anticipated development and changes affected by economic and/or industry factors.

The depreciation and amortization rates are based on the estimated useful life proposed estimated by the Company's management and adopted by the Company's Executive Board.

Useful lives and residual values are revised by competent departments of the Company at least at each financial year-end and adjusted if appropriate.

The principal annual depreciation rates in use for classes of property, plant and equipment for both reporting years are as follows:

Access network, connection cables, ducts, towers	1.5% – 10%
Telecommunication equipment	2.5% – 50%
Other equipment	6.67% – 50%
Leasehold improvements	5.55% - 50%

The amortization rates in use for intangible assets for both reporting years 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.

5.4. SUMMARY OF ACCOUNTING POLICIES (Continued)

5.4.12. Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories includes the cost of purchase, transport and expenses incurred in bringing the inventory to its present condition and location. The cost is based on the weighted-average method. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The Company provides for slow-moving or obsolete inventories based on inventory turnover ratios and management's best judgements regarding future usage plan of inventories.

5.4.13. 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 income statement.

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.

5.4.13.1. Non-derivative financial assets

Management determines the classification of its financial assets as initial recognition. The classification depends on the purpose for which the financial assets were acquired.

The Company's non-derivative financial assets include cash and cash equivalents and loans and receivables.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risk and rewards of ownership of financial asset are transferred.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, expect for maturities longer than 12 months after the reporting date. These are classified as non-current assets.

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

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

(a) *Other Non-Current Financial Assets*

Other non-current financial assets 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 receivables.

5.4. SUMMARY OF ACCOUNTING POLICIES (Continued)

5.4.13. Financial instruments (Continued)

5.4.13.1. Non-derivative financial assets (Continued)

*(a) Other Non-Current Financial Assets (*Continued*)*

Employee housing loans are measured based on their amortized cost using the market interest rate, which is approximately the effective interest rate, decreased for incurred impairment losses. In cases when objective evidence of impairment of housing loans exists, the Company assesses the recoverable amount of the housing loans, and impairment losses are recognized in the income statement as other finance expenses.

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 fair values, less granted discounts and allowances for impairment and are subsequently measured at amortized cost using the effective interest method.

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.

An allowance 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 16). 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 15).

(c) 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.

Measurement at amortized cost

The amortized cost of a financial asset is the amount at which the asset is initially measured, reduced for principal repayment, and increased or decreased for accumulated amortization using the effective interest method.

5.4. SUMMARY OF ACCOUNTING POLICIES (Continued)

5.4.13. Financial instruments (Continued)

5.4.13.1. Non-derivative Financial Assets (Continued)

Measurement at fair value

The fair value of financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value is determined using available market information on reporting date, as well as other valuation models used by the Company.

The fair value of individual financial instruments approximates their carrying amount. Such instruments include cash, as well receivables and liabilities with no date of maturity, or contractual fixed interest rate.

5.4.13.2. Non-derivative Financial Liabilities

Non-derivative financial liabilities are recognized initially at fair value. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

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.

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 using the effective interest method. Loans from suppliers are commodity loans granted to the Company primarily for the purchase of the equipment.

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 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.

5.4. SUMMARY OF ACCOUNTING POLICIES (Continued)

5.4.13. Financial instruments (Continued)

5.4.13.3. Offsetting Financial Instruments

Financial assets and liabilities are offset and the net amount is 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.

5.4.14. Equity instruments

Equity consists of share capital, other capital, reserves, treasury shares and retained earnings.

5.4.15. Impairment

Non-financial and financial assets are assessed at each reporting date to determine whether there is objective evidence for impairment.

(a) Non-financial Assets

In accordance with accounting policy, at each reporting date the Company's management reviews the carrying amounts of the Company's non-financial assets to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

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 income statement as required by IAS 36 "Impairment of Assets".

Given the nature of its assets and operations, the most of the Company's individual assets do not generate cash flow independently from other assets. If it is not possible to estimate the recoverable amount of an individual asset, the Company identified the cash-generating unit ("CGU") to which the asset belongs.

The recoverable amount of an asset is generally determined by reference to its value in use, corresponding to the future economic benefits expected to be derived from the use of the asset and its subsequent disposal, if any. It is assessed by the discounted cash flow method, based on management's best estimate of the set of economic conditions that will exist over the remaining useful life of the asset and the assets expected conditions of use.

In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(b) Non-derivative financial assets

The Company considers evidence of impairment for financial assets measured at amortized cost at both an individual asset and a collective level. Collective assessment is carried out by grouping together assets with similar risk characteristics.

5.4. SUMMARY OF ACCOUNTING POLICIES (Continued)

5.4.15. Impairment (Continued)

(b) Non-derivative financial assets (Continued)

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in income statement and reflected in an allowance account. When the Company considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, then the previously recognized impairment loss is reversed through income statement.

5.4.16. Grants

Grants (e.g., telephony equipment, local area networks and related equipment) are recognized initially as deferred income at fair (market) value. Grants as deferred income are recognized in income statement as other operating income over the useful life of the asset to which it relates.

5.4.17. Provisions and Contingencies

Provisions are recognized and measured 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 legal proceedings represent the Company management's best estimates of the expenditures required to settle such obligations (Note 28).

Contingent liabilities are not recognized in the separate financial statements. They are disclosed in the notes to separate financial statements (Note 36) unless the possibility of an outflow of resources embodying economic benefits is remote.

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

5.4.18. 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 as incurred.

5.4. SUMMARY OF ACCOUNTING POLICIES (Continued)

5.4.18. Employee Benefits (Continued)

(b) Retirement Benefits and Jubilee Anniversary Awards

On 30 April 2013, the Agreement on extending the Collective Agreement “Telekom Srbija” until 31 May 2014 was signed by General Director and authorized representatives Unions.

Pursuant to the Company’s Collective Agreement, 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, not less than three average monthly gross salaries of the Company in the month prior to the payment.

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 other long-term employee benefits, and not post employment benefits, actuarial gains and losses as well as past service cost are recognized in income statement in the period in which they occur.

(c) Termination Benefits (Voluntary Redundancy)

During 2011 the Company’s Managing Board adopted the Business policy for stimulating the voluntary resignation of employees from the Company.

On 16 November 2012, the Executive Board of the Company passed the Decision, 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 2011.

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 years until regular retirement, multiplied by the gross monthly salary amount, but not to exceed approximately 20 to 55 monthly gross salaries, as summarized in the table:

5.4. SUMMARY OF ACCOUNTING POLICIES (Continued)

5.4.18. Employee Benefits (Continued)

(c) Termination Benefits (Voluntary Redundancy) (Continued)

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.

Termination benefits in terms of voluntary redundancies are recognized as an expense during the period in which employees have applied for the redundancy and fulfilled related requirements, i.e. for those who have left the Company until the reporting date and consequently have no further receivables from the Company.

(d) Short-Term Benefits

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. The Company recognizes the expected cost of employee contribution to the Company's operating result only when the Company has a present legal obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made.

Employee contribution to the Company's operating result may include both fixed and variable component.

On 30 April 2013, the Collective Agreement Amending the Collective Agreement "Telekom Srbija" was signed, which set the right of employees to receive funds under actual operating results of the Company and the terms of exercising this right.

5.4. SUMMARY OF ACCOUNTING POLICIES (Continued)

5.4.19. Taxes and Contributions

(a) Income tax

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, 119/2012, 47/2013 and 108/2013) and by-laws. 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% have been applied from January 2013 (instead of the previous 10%).

Income tax is payable at the prescribed rate of 15% on the tax base reported in the annual corporate income tax return, and can be reduced by any applicable tax credits. The tax base includes the taxable profit, determined by adjusting the taxpayer's result (profit or loss) reported in 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 was 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 33% (50% according to the previously applicable Law on Corporate Income Tax) 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 accordance with Serbian Income Tax Law, all companies are required to submit a transfer pricing study together with related tax reports until 30 June of the year following the financial year-end. Accordingly, transfer pricing study is yet to be prepared for 2013 and management uses assumptions based on its best estimate.

From 1 January 2014, by the Law on Amendments and Supplements to the Corporate Income Tax Law ("RS Official Gazette", no. 108/2013), tax credit is cancelled. Tax credit will be recorded by the end of 2013 but not in following years. Also the tax credit realized until 31 December 2013 and the data presented in the tax balance and tax return for 2013 can be used until the date and the manner defined by the Law.

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 years for losses realized by 2002 and from 2010 and ten years for losses realized in 2003 up to 2009.

Deferred Taxes

Deferred taxes are recognized 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 recognized 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 they can be used.

5.4. SUMMARY OF ACCOUNTING POLICIES (Continued)

5.4.19. Taxes and Contributions (Continued)

(a) Income tax (Continued)

Deferred Taxes (Continued)

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 an expense or income and are included in the net profit for the reporting period.

(b) Taxes and Contributions Not Related to Operating Result

Taxes and contributions 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 12).

5.4.20. 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 statement of comprehensive income on a straight-line basis over the life of the lease contract.

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 statement of comprehensive income when incurred according to the respective leasing agreements.

5.4.21. Earnings per Share

The Company discloses basic and diluted 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 27).

5.4.22. 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.

5.4.23. Related Party Disclosures

For the purpose of separate financial statements, related legal entities are those entities when the Company has a possibility to control these entities, has an interest in the entity that gives it significant influence over the entity, or has joint control over the entity, as defined by IAS 24 "Related Party Disclosures".

5.4. SUMMARY OF ACCOUNTING POLICIES (Continued)

5.4.23. Related Party Disclosures (Continued)

Relations between the Company and its related parties are regulated on 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 (Note 34).

5.4.24. Investment is subsidiaries

Investment in subsidiaries is measured at cost in accordance with IAS 27 “Separate Financial Statements”, decreased for incurred impairment losses. Investment in subsidiaries is tested for impairment in accordance with IAS 36 “Impairment of Assets”.

6. 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 minimize 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 were no changes in the risk management policies during the year 2013 and these are reviewed regularly to reflect changes in market conditions and the Company’s activities.

The Company’s risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Company’s statutory bodies are established in order to oversee how management monitors risks faced by the Company.

6.1. Market Risk

Market risk is the risk that changes in market prices – such as foreign exchange rates, interest rates and equity prices – will negatively affect the Company’s income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

(a) Currency Risk

The Company is exposed to foreign currency risk primarily with respect to EUR.

The management of the Company has set up a policy to manage its foreign currency risk against its functional currency by providing economic hedge solutions, where applicable. This does not include derivatives and therefore hedge accounting is not applied in these circumstances.

Foreign exchange rates are disclosed in Note 38.

6. FINANCIAL RISK MANAGEMENT (Continued)

6.1. Market Risk (Continued)

(a) *Currency Risk (Continued)*

Exposure to currency risk as of 31 December 2013 is presented below:

	EUR	USD	SDR	RSD	Total
Cash and cash equivalents	970,331	110,131	-	931,925	2,012,387
Other non-current financial assets	1,440,793	-	-	791,734	2,232,527
Trade receivables	2,112,450	74	215,079	9,968,889	12,296,492
Other receivables	159,032	503	698	682,765	842,998
Total	**4,682,606**	**110,708**	**215,777**	**12,375,313**	**17,384,404**
Loans and borrowings	(53,339,490)	(373,742)	-	(1,421)	(53,714,653)
Trade payables	(1,086,510)	(19,382)	(182,788)	(7,103,891)	(8,392,571)
Other payables	(24,481)	(3,429)	(1,193)	(2,574,464)	(2,603,567)
Total	**(54,450,481)**	**(396,553)**	**(183,981)**	**(9,679,776)**	**(64,710,791)**
Net exposure	**(49,767,875)**	**(285,845)**	**31,796**	**2,695,537**	**(47,326,387)**

Exposure to currency risk as of 31 December 2012 is presented below:

	EUR	USD	SDR	RSD	Total
Cash and cash equivalents	8,503,046	86,046	-	2,273,181	10,862,273
Other non-current financial assets	1,085,664	-	-	916,787	2,002,451
Trade receivables	2,061,306	13	192,068	10,012,117	12,265,504
Other receivables	135,464	507	719	349,486	486,176
Total	**11,785,480**	**86,566**	**192,787**	**13,551,571**	**25,616,404**
Loans and borrowings	(76,587,431)	-	-	(1,599)	(76,589,030)
Trade payables	(1,018,928)	(19,630)	(195,192)	(5,650,025)	(6,883,775)
Other payables	(113,362)	(3,536)	(1,227)	(732,019)	(850,144)
Total	**(77,719,721)**	**(23,166)**	**(196,419)**	**(6,383,643)**	**(84,322,949)**
Net exposure	**(65,934,241)**	**63,400**	**(3,632)**	**7,167,928**	**(58,706,545)**

Sensitivity analysis

A reasonable possible 5% weakening of the RSD against the EUR, USD and SDR would have the following effects on the income statement, on the basis that all other variables, in particular interest rates, remain constant.

	2013	2012
EUR	(2,488,394)	(3,296,712)
USD	(14,292)	3,170
SDR	1,590	(182)
Total	**(2,501,096)**	**(3,293,724)**

6. FINANCIAL RISK MANAGEMENT (Continued)

6.1. Market Risk (Continued)

(a) *Currency Risk (Continued)*

A 5% strengthening of the RSD against the above currencies at 31 December would have had an opposite effect on the above currencies to the amounts shown above. The impact on equity would have the same effects.

(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.

The Company's interest rate risk arises mainly from floating-interest long-term borrowings from banks and suppliers. Borrowings issued to the Company at floating rates expose the Company to cash flow interest rate risk.

At 31 December 2013 and 2012, the Company's borrowings are mainly denominated in EUR and include floating interest rates, which are tied to Euribor.

Gross interest rate of EUR commodity loans 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 interest rates is performed only if the consumer price index (CPI) is increased by 5% or more 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 activities to obtain loans from banks at the most favourable conditions.

The interest rate profile of the Company's interest-bearing financial instruments is as follows:

	31/12/2013	31/12/2012
Financial assets		
Fixed interest rate instruments	2,343,949	11,155,223
Total	**2,343,949**	**11,155,223**
Financial liabilities		
Floating interest rate instruments	(56,505,094)	(82,683,621)
Total	**(56,505,094)**	**(82,683,621)**

If interest rates on EUR-denominated borrowings (both from banks and suppliers) as at 31 December 2013 had been 0.1 percentage point higher/lower on an annual basis with all other variables held constant, profit after tax and equity for 2013 would have been RSD 45,367 thousand (2012: RSD 65,115 thousand) lower/higher, mainly as a result of higher/lower interest expense.

6. FINANCIAL RISK MANAGEMENT (Continued)

6.1. Market Risk (Continued)

(b) Interest Rate Risk (Continued)

If interest rates on RSD-denominated loans from suppliers and banks as at 31 December 2013 had been 0.1 percentage point higher/lower on an annual basis with all other variables held constant, profit after tax and equity for 2013 would have been RSD 45,441 thousand (2012: RSD 52,491 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, which effects of changes in fair value are recognized through 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 line services. The Company strives to mitigate this risk by introducing various services to its customers.

Furthermore, the Republic Agency for Electronic Communications 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 (Note 1).

6.2. Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

In spite of the fact that the Company restructured its long-term loan, the Company's current liabilities exceed its current assets in the amount of RSD 9,099,358 thousand. However, management believes that the Company will be able to fulfil its contractual liabilities from operating inflow that will be realized during first quarter 2014.

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. The Company also monitors the level of expected cash inflows on trade and other receivables together with expected cash outflows on trade and other payables.

The following table details the Company's remaining contractual maturity for its non-derivative financial liabilities at 31 December 2013 and 2012.

6. FINANCIAL RISK MANAGEMENT (Continued)

6.2. Liquidity Risk (Continued)

	Carrying amount	Up to 3 months	From 3 to 12 months	From 1 to 2 years	From 2 to 5 years	Over 5 years	Total
At 31 December 2013							
Loans and borrowings	53,714,653	10,103,880	21,869,938	18,050,996	6,315,411	168,253	56,508,478
Accounts payable	8,392,571	8,392,571	-	-	-	-	8,392,571
Other payables	2,603,567	2,603,567	-	-	-	-	2,603,567
Total	**64,710,791**	**21,100,018**	**21,869,938**	**18,050,996**	**6,315,411**	**168,253**	**67,504,616**
At 31 December 2012							
Loans and borrowings	76,589,030	10,644,097	22,875,497	29,878,822	19,254,026	34,711	82,687,153
Accounts payable	6,883,775	6,883,775	-	-	-	-	6,883,775
Other payables	850,144	850,144	-	-	-	-	850,144
Total	**84,322,949**	**18,378,016**	**22,875,497**	**29,878,822**	**19,254,026**	**34,711**	**90,421,072**

Financial liabilities are unsecured as of 31 December 2013.

6.3. Credit Risk

Credit risk is a risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises from receivables from customers, cash and cash equivalents, deposits with banks and financial institutions, as well as from loans granted to the employees.

The carrying amount of financial assets represents the maximum credit exposure.

Trade receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Credit risk is managed by taking certain measures and activities on the Company basis, such as clients' risk assessment, monitoring clients' business and financial standing and managing accounts receivable and bad debts. In case of default in payments, the Company disables further rendering of services to 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, 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 trade receivables and the aging of trade receivables are disclosed in Note 24 to the separate financial statements.

Other Non-current Financial Asset

The Company's maximum exposure to credit risk at the reporting date is best represented by the carrying amounts of other non-current financial assets.

6. FINANCIAL RISK MANAGEMENT (Continued)

6.3. Credit Risk (Continued)

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

Part of other long-term investments is secured through the pledge over 100% of the debtor's equity (Note 22).

Guarantees

The Company's practice is to provide financial guarantees only to subsidiaries, in specific cases. As at 31 December 2013, the Company issued a guarantee to certain banks in respect of loans granted to the subsidiaries (Note 33 (a)).

Cash and cash equivalents

As of 31 December 2013, the Company held cash and cash equivalents of RSD 2,012,387 thousand (31 December 2012: RSD 10,862,273 thousand). The Company's maximum exposure to credit risk at the reporting date is best represented by the carrying amounts of cash and cash equivalents.

6.4. Capital Risk Management

The Company's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

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 using a gearing ratio. This ratio is calculated as net debt divided by total capital.

6. FINANCIAL RISK MANAGEMENT (Continued)

6.4. Capital Risk Management (Continued)

The gearing ratios at 31 December 2013 and 2012 were as follows:

	2013	2012
Total long-term and short-term borrowings and other long-term liabilities - total	53,714,653	76,589,030
Less: Cash and cash equivalents (Note 25)	(2,012,387)	(10,862,273)
Net debt *	**51,702,266**	**65,726,757**
Total equity	107,763,107	100,005,817
Total capital **	**159,465,373**	**165,732,574**
Gearing ratio	**32.4%**	**39.7%**

* *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.*

A decrease in the gearing ratio at 31 December 2013 resulted primarily from the repayment of long-term borrowings.

6.5. Fair Value of Financial Assets and Liabilities

The Company does not hold financial assets or financial liabilities subsequently measured 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 non-current assets) is estimated by discounting cash flows using the market interest rate.

7. REVENUE

	2013	2012
Public fixed line network services:		
Domestic market:	*43,339,195*	*44,528,252*
Fixed line, Internet and Multimedia	42,119,975	43,234,186
Interconnection	1,219,220	1,294,066
Foreign market	*6,600,689*	*6,908,272*
	49,939,884	**51,436,524**
Mobile communications services:		
Domestic market:	*33,214,415*	*34,059,967*
Prepaid services	8,893,747	11,448,088
Postpaid services	17,717,835	16,244,095
Interconnection	6,602,833	6,367,784
Foreign market	*2,789,438*	*2,557,257*
	36,003,853	**36,617,224**
Other	**14,612**	**4,588**
Total	**85,958,349**	**88,058,336**

Public fixed telephone network services include revenues from fixed line services, internet both retail and wholesale, multimedia and combined service packages (BOX).

8. OTHER OPERATING INCOME

	2013	2012
Grants		
- Intangible assets and equipment (Note 32 (d))	445,567	403,016
- Other	11,907	5,380
	457,474	408,396
Rental	138	118
Other	40,441	33,887
Total	**498,053**	**442,401**

9. COST OF MATERIALS

	2013	2012
Materials	4,527,922	4,136,860
Fuel and energy	1,298,619	1,302,660
SIM cards	91,843	80,929
Spare parts	174,700	143,872
Inventories for mobile Internet access	82,417	40,552
Tools and inventories	12,880	20,120
Other material	721,860	938,375
Total	**6,910,241**	**6,663,368**

10. WAGES, SALARIES AND OTHER PERSONNEL EXPENSES

	2013	2012
Gross salaries	10,255,445	9,635,484
Contributions on behalf of the employer	1,833,265	1,732,170
	12,088,710	**11,367,654**
Employee contribution to operating result	382,904	503,596
Voluntary termination benefits	884	42,181
Other personnel expenses	1,081,081	1,047,873
Total	**13,553,579**	**12,961,304**

11. DEPRECIATION, AMORTIZATION AND PROVISIONS

	2013	2012
Depreciation and amortization:		
- intangible assets (Note 18)	1,615,326	1,741,263
- property and equipment (Note 19)	14,780,542	15,060,939
	16,395,868	**16,802,202**
Provisions:		
- long-term employee benefits	194,972	282,512
- legal proceedings	14,817	20,423
	290,789	**302,935**
Total	**16,605,657**	**17,105,137**

12. OTHER OPERATING EXPENSES

	2013	2012
Network operators:		
Interconnection:		
- Fixed telephony	3,171,852	3,391,301
- Mobile telephony	5,511,338	4,623,290
International settlement and leased circuits	3,152,952	3,478,058
Outgoing international traffic from the mobile network of Telekom Srbija	683,374	858,407
Roaming	841,994	647,811
	13,361,510	**12,998,867**
Telecommunication license fees, approvals and frequency fees:		
License for mobile telephony (a)	183,450	183,095
License for fixed telephony (b)	31,022	21,900
Radio frequency RRL and other fees	297,319	282,934
	511,791	**487,929**
Rental expenses	4,784,628	4,751,679
Maintenance	4,058,392	3,851,342
Broadcast content fees	2,032,428	1,622,515
Marketing, advertisement and sponsorship fees	1,364,959	1,618,014
Transport expenses	992,208	970,059
Consignment sale fees	601,916	391,928
Public utility services	297,396	315,748
Data processing fees	97,470	94,989
Other production services	743,206	620,466
Indirect taxes	1,082,842	1,238,347
Hygiene and security services	926,995	935,366
Insurance premiums	620,598	572,731
Fees and charges	315,780	374,871
Bank charges	311,780	474,164
Audit fee and other professional services	86,890	97,466
Education and professional training	59,629	98,517
Entertainment	43,499	60,197
Other general expenses	581,397	462,455
Total	**32,875,314**	**32,037,650**

(a) The mobile communications license fee amounting to RSD 183,450 thousand (2012: RSD 183,095 thousand) relates to the license and services for public mobile telecommunication network in accordance with GSM/GSM1800 and UMTS/IMT-2000 standards.

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 Rulebook on fees for the performance of electronic communications activities ("RS Official Gazette", no. 93 dated 8 December 2010).

(b) The fixed lines license fee amounting to RSD 31,022 thousand (2012: RSD 21,900 thousand) relates to the license for construction, possessing and exploitation of public fixed telecommunication network and related services.

Pursuant to the Rulebook 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.).

13. FINANCIAL INCOME

	2013	2012
Interest income	994,520	1,063,524
Dividend income (Note 21)	4,198,445	4,127,243
Foreign exchange gains	554,034	1,529,527
Gains from foreign currency clause application	20,567	281,326
Other financial revenues	396,551	142
Total	**6,164,117**	**7,001,762**

14. FINANCIAL EXPENSES

	2013	2012
Interest expenses:	*3,029,526*	*4,253,792*
- on borrowings	3,019,945	4,215,938
- penalty interest	9,581	37,854
Foreign exchange losses	787,431	6,264,210
Losses from foreign currency clause application	119,788	1,948,789
Other	190,484	-
Total	**4,127,229**	**12,466,791**

15. OTHER INCOME

	2013	2012
Reversal of impairment losses	1,438,724	1,356,411
Compensations for customers' contract cancellation	513,765	492,422
Revenue from charged court dispute	176,301	127,262
Gains on sale of material and waste material	35,650	44,604
Damage compensations	29,737	29,713
Other income	342,302	349,317
Total	**2,536,479**	**2,399,729**

16. OTHER EXPENSES

	2013	2012
Allowances for impairment of advances paid and receivables	2,806,999	2,904,612
Losses on disposal and sale of intangible assets, property and equipment	844,202	2,697,920
Grants and donations	147,679	172,793
Other expenses	108,114	369,180
Total	**3,906,994**	**6,144,505**

Movements in the allowance for impairment of advances paid, receivables and short-term financial placements during the year were as follows:

	Advances for intangible assets	Advances for property and equipment (Note 20)	Advances for goods and services	Accounts receivable (Note 24)	Short-term financial placements	Total
Balance as of 1 January 2012	**2,375**	**23,311**	**104,316**	**11,011,489**	**641**	**11,142,132**
Charge for the year	-	11,196	67,482	2,825,934	-	2,904,612
Reversal of impairment losses	(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)/to other 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**	**641**	**11,883,641**
Charge for the year	-	1,737	31,715	2,768,231	5,316	2,806,999
Reversal of impairment losses	-	(9,707)	(48,429)	(1,379,926)	(662)	(1,438,724)
Transfer out of the books based on year-end count	-	-	-	(584,847)	-	(584,847)
Other movements	-	-	(44)	(3,122)	2,055	(1,111)
Balance as of 31 December 2013	**1,801**	**7,387**	**37,871**	**12,611,549**	**7,350**	**12,665,958**

17. INCOME TAXES

(a) Components of Income Taxes

	2013	2012
Current tax expense	1,799,882	392,579
Deferred tax expense/(income)	87,124	(1,233,133)
Total tax expense/(income)	**1,887,006**	**(840,554)**

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

	2013	2012
Profit before tax	**17,216,142**	**10,410,601**
Income tax expense at statutory rate of 15% (10%)	**2,582,421**	**1,041,060**
Non-deductible expenses	693,786	1,326,750
Change in recognized deductable temporary differences	87,124	(1,233,133)
Tax-exempt income	61,515	104,237
Effect of change in income tax rate	-	(856,541)
Foreign tax credit	(436,392)	(415,174)
Tax credit used in current period	(1,101,448)	(807,753)
Total tax expense/(income)	**1,887,006**	**(840,554)**
Effective tax rate	***10.96%***	**-**

(c) Deferred Tax Assets

Deferred tax assets relate to the temporary differences arising between the carrying value of property, plant and equipment and intangible assets and their tax base, as well as to accrued expenses and employee benefit obligations.

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

	2013	2012
Balance as of 1 January	**2,569,624**	**1,336,491**
Property plant and equipment and intangibles	(94,553)	1,190,404
Employee benefit obligations	3,148	39,813
Accrued expenses	4,281	2,916
Balance as of 31 December	**2,482,500**	**2,569,624**

17. INCOME TAXES (Continued)

(c) Deferred Tax Assets (Continued)

In the balance sheet deferred tax assets arise from:

	2013	2012
Property plant and equipment and intangibles	2,374,644	2,469,197
Employee benefit obligations	96,922	93,774
Accrued expenses	10,934	6,653
Balance as of 31 December	**2,482,500**	**2,569,624**

Unrecognized Deferred Tax Assets

The Company did not recognize deferred tax assets arising from unutilized tax credits carried forward amounting to RSD 13,413,653 thousand as of 31 December 2013.

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

The aforementioned tax credits expire as follows:

Date of origin/ Tax credit carry forwards	Expiration date	2013
2004	2014	1,806,071
2005	2015	1,499,664
2006	2016	934,100
2007	2017	1,459,161
2008	2018	1,467,094
2009	2019	931,747
2010	2020	2,211,744
2011	2021	823,195
2012	2022	1,203,484
2013	2023	1,077,393
Total		**13,413,653**

Management believes that the Company will be profitable and will be able to utilize deferred tax assets.

18. INTANGIBLE ASSETS

	Licenses	Software	Other intangible assets	Intangible assets under development	Total
Cost					
as of 1 January 2012	**9,336,997**	**11,634,947**	**612,461**	**1,000,880**	**22,585,285**
Additions	-	-	-	2,344,664	2,344,664
Transfer (from)/to	154,896	749,013	5,681	(909,590)	-
Transfer to PPE	(48,002)	(2,639)	-	(135,713)	(186,354)
Disposals and write-offs	(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**
Additions	-	-	-	2,458,502	2,458,502
Transfer (from)/to	330,644	59,313	3,768	(393,725)	-
Transfer to long-term investments and accruals	-	-	-	(1,559,824)	(1,559,824)
Disposals and write-offs	(233,896)	(349,860)	(322,834)	-	(906,590)
Balance as of 31 December 2013	**9,503,629**	**11,805,464**	**296,934**	**2,805,194**	**24,411,221**
Accumulated amortization as of 1 January 2012	**5,278,322**	**10,423,812**	**531,263**	**92,205**	**16,325,602**
Costs of long-term rent	-	-	36,934	-	36,934
Transfer (from)/to	6,804	265,422	41	(272,267)	-
Amortization (Note 11)	903,779	618,111	-	219,373	1,741,263
Transfer to PPE	(25,074)	(1,639)	-	(19,765)	(46,478)
Disposals and write-offs	(33,309)	(176,291)	(2,142)	-	(211,742)
Other	-	-	-	220,960	220,960
Balance as of 31 December 2012	**6,130,522**	**11,129,415**	**566,096**	**240,506**	**18,066,539**
Costs of long-term rent	-	-	21,996	-	21,996
Transfer (from) / to	141,315	5,719	87	(147,121)	-
Amortization (Note 11)	945,571	503,691	-	166,064	1,615,326
Disposals and write-offs	(187,995)	(349,860)	(322,834)	-	(860,689)
Other	-	-	-	(31,288)	(31,288)
Balance as of 31 December 2013	**7,029,413**	**11,288,965**	**265,345**	**228,161**	**18,811,884**
Net book value as of:					
- 31 December 2013	**2,474,216**	**516,499**	**31,589**	**2,577,033**	**5,599,337**
- 31 December 2012	**3,276,359**	**966,596**	**49,904**	**2,059,735**	**6,352,594**

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 2013, the carrying value of the aforementioned licenses for mobile telephony amounts to RSD 2,237,646 thousand (31 December 2012: RSD 3,105,447 thousand), while the carrying value of other licenses amounts to RSD 208,668 thousand (31 December 2012: RSD 137,937 thousand). The carrying value of the license for CDMA amounts to RSD 27,902 thousand as of 31 December 2013 (31 December 2012: RSD 32,975 thousand). As of 31 December 2013, intangible assets under development relate to licenses and software.

Other intangible assets as of 31 December 2013 relate to long-term rentals.

The Company performed the impairment test for intangible assets in 2013 and 2012 and disclosed the required details in Note 19.

19. PROPERTY, PLANT AND EQUIPMENT

	Land, access network, connection cables, ducts, towers	Switches and transmitting devices	Other equipment	Leasehold improvements	Construction in progress	Total
Cost						
as of 1 January 2012	**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)/to	2,903,984	7,206,595	719,093	335,130	(11,164,802)	-
Grants (Note 32(d))	100,013	-	-	-	(100,013)	-
Transfer from intangibles	(2,670)	50,848	(69)	2,532	135,713	186,354
Disposals and write-offs	(34,046)	(6,739,912)	(198,666)	(30,129)	-	(7,002,753)
Other	-	-	-	-	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**
Additions	-	-	-	-	10,801,334	10,801,334
Transfer (from)/to	2,705,041	6,405,042	1,274,800	387,118	(10,772,001)	-
Grants (Note 32(d))	97,257	-	-	-	(97,257)	-
Disposals and write-offs	(163,904)	(4,136,025)	(331,368)	(7,360,957)	(109,918)	(12,102,172)
Balance as of 31 December 2013	**87,997,381**	**107,521,842**	**10,207,082**	**3,351,311**	**14,272,966**	**223,350,582**
Accumulated depreciation						
as of 1 January 2012	**34,671,184**	**67,291,265**	**6,564,625**	**8,710,652**	**661,485**	**117,899,211**
Transfer (from)/to	60,708	568,533	29,269	30,688	(689,198)	-
Depreciation (Note 11)	3,570,275	9,633,237	818,921	637,612	400,894	15,060,939
Transfer from intangibles	(597)	26,873	(69)	506	19,765	46,478
Disposals and write-offs	(29,185)	(3,950,111)	(194,952)	(16,977)	-	(4,191,225)
Other	-	-	-	-	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**
Transfer (from)/to	42,719	583,208	263,253	26,921	(916,101)	-
Depreciation (Note 11)	3,649,763	8,810,699	836,551	476,286	1,007,243	14,780,542
Disposals and write-offs	(133,066)	(3,434,750)	(328,254)	(7,355,469)	-	(11,251,539)
Other	-	-	-	-	125,508	125,508
Balance as of 31 December 2013	**41,831,801**	**79,528,954**	**7,989,344**	**2,510,219**	**714,982**	**132,575,300**
Net book value as of:						
- 31 December 2013	**46,165,580**	**27,992,888**	**2,217,738**	**841,092**	**13,557,984**	**90,775,282**
- 31 December 2012	**47,086,602**	**31,683,028**	**2,045,856**	**962,669**	**13,952,476**	**95,730,631**

19. PROPERTY, PLANT AND EQUIPMENT (Continued)

Cost of fully-depreciated property, plant and equipment and intangible assets still in use amounts to RSD 56,563,747 thousand as of 31 December 2013 (31 December 2012: RSD 41,986,231 thousand).

Construction in progress includes completed investments not yet transferred to property and equipment amounting to RSD 5,710,312 thousand as of 31 December 2013 (31 December 2012: RSD 6,200,471 thousand). The Company has charged depreciation for these investments considering that those assets are not transferred to relevant class of property, plant and equipment due to significant administrative procedure. The Company used the depreciation rate of a class of property, plant and equipment the related asset will be reclassified to.

Any changes of assumptions used to determine useful lives could be material to the Company's financial position and performance due to significant weight of tangibles/intangibles in the total assets. If the Company was to shorten the average useful life for 10%, this would result in additional depreciation/amortization expense of approximately RSD 1,828,815 thousand for 2013.

Capital expenditure contracted for at the reporting date but not yet incurred, representing capital commitments, amounts to RSD 1,113,237 thousand (Note 35(b)).

The Company's performed the impairment test of property, plant, equipment and intangible assets as of 31 December 2013 as described in more details below.

Impairment

The most of the Company's individual assets do not generate cash flow independently from other assets due to the nature of the Company's activities. The fixed network (together with internet and multimedia due to the same infrastructure facilities) and mobile network are treated as separate CGU.

The Company considers certain indicators, including market liberalization and other regulatory and economic changes in the Serbian telecommunication market, in assessing whether there is any indication that an asset may be impaired.

As at 31 December 2013 and 2012, the Company performed impairment tests of all CGUs.

The analysis is based on the Company's financial projections for the next four-year period, using the following key assumptions:

- Value of the market, penetration rate, market share and the level of the competition, decisions of the regulator in terms of pricing,
- The level of investment spending,
- The price increase in the amount of the expected rate of inflation in the next period,
- The increase in operating expenses in line with the growth in operating income, so that the Company expects steady growth in EBITDA primarily due to the expansion of the Internet and multimedia market.

Discounting rates used to determine values in use are based on weighted average cost of capital (WACC).

19. PROPERTY, PLANT AND EQUIPMENT (Continued)

Impairment (Continued)

The recoverable CGU amount has been determined by discounting EBITDA in the observed period using the post-tax discounting rate of 10.56% (2012: 14.71%).

Based on key assumptions, the Company's excess of value in use over the carrying amount of fixed network (including internet and multimedia) amounted to RSD 13,379 million, while the excess for the mobile network amounted to RSD 27,461 million as at 31 December 2013.

Since the recoverable amount of each CGU was in excess of their carrying amount, no impairment loss was recognized in 2013 and 2012.

Sensitivity of recoverable amounts

The table below shows how changes in key assumptions would lead to an increase or a decrease of CGU's value in use in 2013:

In RSD million	**Increase of value in use**	**Decrease of value in use**
Fixed network (including internet and multimedia):		
- change of projected EBITDA by 5%	3,719	(3,381)
- change of post-tax discount rate by 0.5%	861	(845)
Mobile network:		
- change of projected EBITDA by 5%	2,337	(2,125)
- change of post-tax discount rate by 0.5%	533	(524)

Based on sensitivity analysis, the significant adverse changes in key assumptions would not result in impairment losses for both CGUs.

20. ADVANCES FOR PROPERTY AND EQUIPMENT

	2013	**2012**
Payments in advance for property and equipment:		
- in RSD	145,618	115,692
- in foreign currency	37,094	138,258
	182,712	**253,950**
Less: Allowance for impairment (Note 16)	(7,387)	(15,357)
Balance as of 31 December	**175,325**	**238,593**

21. INVESTMENTS IN SUBSIDIARIES

	Equity holdings	2013	2012
Investments in subsidiaries:			
- Telekom Srpske a.d., Banja Luka	65%	56,933,380	56,933,380
- Mtel d.o.o., Podgorica	51%	2,255,339	2,255,339
- Telus a.d., Beograd	100%	9,030	9,030
- FiberNet d.o.o., Podgorica	100%	759,324	884,781
- TS:NET B.V., Amsterdam	100%	208,441	289,571
- HD-WIN d.o.o., Beograd	51%	790,476	790,476
		60,955,990	61,162,577
Less: Impairment of investments in FiberNet		(253,139)	(253,139)
		60,702,851	**60,909,438**
Investments in other legal entities		**1,575**	**1,438**
Balance as of 31 December		**60,704,426**	**60,910,876**

Dividends received

On 19 April 2013, the Shareholders' Assembly of the subsidiary "Telekom Srpske" a.d., Banja Luka, passed the Decision on distribution of profit for 2012, stating the amount of dividends paid to shareholders in December 2012 and determining the remaining amount that should be paid to shareholders based on results from 2012. Dividend attributable to the Company amounted to KM 36,930,119 (RSD 2,106,308 thousand). On 7 November 2013, the Shareholders' Assembly of this subsidiary passed the Decision on payment of interim dividends to its shareholders. Dividend attributable to the Company amounted to KM 29,957,216 (RSD 1,747,452). Dividends have been fully collected until the reporting date.

On 9 January 2013, the Shareholders Assembly of the subsidiary "Telus" passed the Decision on distribution of retained earnings on dividend and reserves, determined based on financial statements for the year ended 31 December 2011. On 15 January 2013, dividends attributable to the Company amounted to RSD 300,000 thousand were paid out in total.

In January 2013, statutory body of the subsidiary "TS:NET" passed the Decision on payment of dividends from retained earnings based on financial statement for the year ended 31 December 2012 in the amount of EUR 420 thousand. On 17 January 2013, the net amount of EUR 399 thousand (RSD 44,685 thousand) was paid out to the Company, as a sole shareholder.

21. INVESTMENTS IN SUBSIDIARIES (Continued)

Impairment

As at 31 December 2013 the Company performed impairment tests over the subsidiaries for which the Company identified certain impairment indicators. The following table shows the key assumptions used for the calculation of the value in use of the investments:

Subsidiary	Mtel	HD-WIN	FiberNet
Sources used	Business plan 5-year EBITDA projections	Business plan 5-year EBITDA projections	Business plan 5-year EBITDA projections
Growth rate to perpetuity	1%	1%	1%
Post-tax discount rate	13.32%	14.00%	13.32%
Value in use for proportionate equity share in RSD million	7,303	828	714

Based on the performed test, no impairment losses were recognized in 2013.

Sensitivity analysis

No impairment losses were recognized in 2013. The following table shows how changes in key assumptions would lead to increase/decrease in the investments' value in use.

In RSD million	Increase of value in use	Decrease of value in use
Mtel:		
- change of projected EBITDA by 5%	365	(348)
- change of post-tax discount rate by 0.5%	318	(293)
HD-WIN:		
- change of projected EBITDA by 5%	41	(39)
- change of post-tax discount rate by 0.5%	42	(38)
Fibernet:		
- change of projected EBITDA by 5%	36	(34)
- change of post-tax discount rate by 0.5%	30	(28)

Other events

In April 2013, the Company's Supervisory Board passed the Decision on capital decrease of the subsidiary "FiberNet" in the amount of EUR 1.1 million (RSD 125,457 thousand).

During 2013, the Company's Supervisory Board passed the Decision on capital decrease of the subsidiary "TS:NET" in the total amount of EUR 712 thousand (RSD 81,130 thousand).

22. OTHER NON-CURRENT FINANCIAL ASSETS

	2013	2012
Loans to employees:		
- Housing (residential)	1,686,052	1,856,711
- For repurchase of apartments	10,485	12,783
	1,696,537	1,869,494
Less: Discounting effect	(564,154)	(685,226)
Total loans to employees	**1,132,383**	**1,184,268**
Other non-current investments	1,578,987	1,394,865
Less: Discounting effect	(478,843)	(576,682)
	1,100,144	**818,183**
Balance as of 31 December	**2,232,527**	**2,002,451**

/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, EUR denominated and with interest rate of 0.1% per annum and, 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, and with interest rate of 0.1% per annum.

/iii/ In 2013, the Executive Board of the Company passed a Business policy of resolving housing needs of employees. In relation to the Business policy from 2006, one-off loans for a down payment for the loan are to be granted with the 10-years repayment period after the expiry of the grace period.

The fair value of loans to employees is based on discounted cash flows using a rate based on the market interest rate and that reflects market rate for similar financial instruments in the current reporting period – 6.34% per annum (2012: 6.27% 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 deduction on their salaries.

Other non-current investments mostly relate to the Company's long-term receivables arising with respect to the Advertising Space Lease Contract and other contracts concluded during 2011 and 2012 with the company "Stampa sistem" d.o.o., Belgrade in the total amount of RSD 1,117,995 thousand as of 31 December 2013. Furthermore, the Company holds pledge on 100% equity of the debtor, registered by No. 17127/2012 on 22 November 2012 in the Registry of pledges of Serbian Business Register.

In addition, on 31 December 2013, other non-current investments include the long-term receivables in the amount of RSD 409,119 thousand regarding the Agreement on transfer of broadcast rights for UEFA competition to subsidiary "HD-WIN" in March 2013.

23. INVENTORIES

	2013	2012
Material, fuel and lubricants	3,933,138	3,445,181
Spare parts	2,609,714	1,837,892
Tools	103,839	538,252
	6,646,691	**5,821,325**
Goods in warehouses	12,319	3,549
Goods in retail	3,712	4,266
	16,031	**7,815**
Balance as of 31 December	**6,662,722**	**5,829,140**

The cost of tools and inventories in use recognized as an expense is included within Materials (Note 9).

24. ACCOUNTS RECEIVABLE

	2013	2012
Domestic accounts receivable:		
Fixed line, Internet and Multimedia	10,287,757	9,836,217
Mobile communications	10,532,166	10,229,606
Interconnection	899,231	955,689
Other receivables	18,794	12,394
	21,737,948	**21,033,906**
Foreign accounts receivable:		
International settlement of fixed telephony traffic	1,590,282	1,749,579
Roaming	315,164	318,687
	1,905,446	**2,068,266**
Receivables from related parties (Note 34(a)):		
- Telekom Srpske	313,534	243,903
- Mtel	315,262	175,920
- Telus	585	1,189
- HD-WIN	393	255
	629,774	**421,267**
Interest receivables	19,118	21,260
Receivables from employees	101,651	7,334
Overpaid taxes and contributions	5,580	10,020
Receivables for war damages on property and equipment and inventories	139,202	139,202
Receivables from the state institutions	103,681	104,843
Other receivables	509,394	476,546
	878,626	**759,205**
Gross accounts receivable	**25,151,794**	**24,282,644**
Less: Allowance for impairment (Note 16)		
Accounts receivable	(11,977,366)	(11,258,423)
Interest receivables	(6,636)	(6,650)
Receivables from employees	(2,642)	(4,044)
Receivables for war damages on property and equipment and inventories	(139,202)	(139,202)
Receivables from the state institutions	(102,551)	(103,509)
Other receivables	(383,152)	(299,385)
	(12,611,549)	**(11,811,213)**
Balance as of 31 December	**12,540,245**	**12,471,431**

Accounts receivable and other current assets are predominantly non-interest bearing.

The average collection period during the year ended 31 December 2013 was 52 days (year ended 31 December 2012: 50 days).

24. ACCOUNTS RECEIVABLE (Continued)

The ageing structure of gross accounts receivable as of 31 December 2013 and 2012 was as follows:

	2013	2012
Up to 60 days	12,540,245	12,471,431
From 60 to 180 days	1,170,956	1,379,059
From 180 to 360 days	724,748	1,637,106
Over 360 days	10,715,845	8,795,048
Total	**25,151,794**	**24,282,644**

As of 31 December 2013, accounts receivable of RSD 12,540,245 thousand (31 December 2012: RSD 12,471,431 thousand) were considered to be fully performing.

The management believes that the unimpaired amounts that are past due up to 60 days are still collectable in full. These relate to a number of independent customers for whom there is no recent history of default.

As of 31 December 2013, accounts receivable in the amount of RSD 12,611,549 thousand (31 December 2012: RSD 11,811,213 thousand) were impaired and provided in the full amount.

As of 31 December 2013 and 2012, the carrying amounts of the Company's accounts receivable were denominated in the following currencies:

	2013	2012
RSD	10,195,221	10,082,281
EUR	2,128,670	2,195,844
Other currencies	216,354	193,306
Total	**12,540,245**	**12,471,431**

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 accounts receivable and other current assets is approximately equal to their book value net of related allowance for impairment.

Out of RSD 25,151,794 thousand, representing gross outstanding balance of accounts receivable as of 31 December 2013, the amount of RSD 978,027 thousand were reconciled with the debtors in 2013, mainly due to the impossibility to perform the reconciliation procedure, i.e., customers' unresponsive to request for confirmation of outstanding balances.

25. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise the following:

	2013	2012
Current accounts	929,699	2,272,003
Foreign currency accounts with domestic banks	1,080,462	8,589,130
Other	2,226	1,140
Balance as of 31 December	**2,012,387**	**10,862,273**

26. VALUE ADDED TAX, PREPAYMENTS AND ACCRUED INCOME

	2013	2012
Deferred value added tax	**623,254**	**761,159**
Prepaid expenses:		
- Deferred bank charges for syndicated loan (a)	296,427	572,554
- Rental	109,714	121,650
- Insurance premiums	23,633	10,476
- Other	84,131	38,727
	513,905	**743,407**
Other prepayments:		
- Rights for UEFA competition	406,016	-
- Other	316,447	11,014
	722,463	**11,014**
Accrued income:		
- International settlement	342,773	398,291
- Roaming (b)	1,462,857	1,758,239
- Other accrued income	71,800	75,352
	1,877,430	**2,231,882**
Balance as of 31 December	**3,737,052**	**3,747,462**

(a) As of 31 December 2013, banks' commissions in respect to the syndicated loan in the amount of RSD 296,427 thousand relate to deferred bank charges paid to Unicredit Bank A.G., London branch in the amount of RSD 240,998 thousand and Unicredit Bank Srbija a.d., Belgrade in the amount of RSD 55,429 thousand.

(b) As of 31 December 2013, accrued income from mobile telephony traffic totalling RSD 1,462,857 thousand comprises accrued income from roaming services mostly for December of 2013 estimated to RSD 155,803 thousand and uninvoiced income arising from International GSM roaming contracts – Network operators' discounts amounting to RSD 1,307,054 thousand.

27. EQUITY

Share Capital

The Company is a joint stock entity with subscribed, authorized, issued and fully paid-in capital of 1,000,000,000 ordinary 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.

In May 2012, free of charge Company's shares were transferred to citizens - right holders, employees and former employees of the Company, including employees and former employees of "JP PTT" and its legal predecessors.

The Company's share capital structure at 31 December 2013 and 2012 was as follows:

		In percentage
	31/12/2013	31/12/2012
Republic of Serbia	58.11	58.11
Telekom Srbija – treasury shares	20.00	20.00
Citizens, employees and former employees of the Company	21.89	21.89
Total	**100.00**	**100.00**

Other Capital

Other capital amounting to RSD 8,588 thousand as of 31 December 2013 and 2012 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 2013 and 2012 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.

27. EQUITY (Continued)

Basic and Diluted Earnings per Share

	2013	2012
Profit attributable to equity holders of the Company (A)	15,329,136	11,255,155
Weighted average number of ordinary shares in issue during the period (B)	1,000,000,000	1,000,000,000
Basic and diluted earnings per share - in RSD	**19.16**	**14.06**

28. LONG-TERM PROVISIONS

	2013	2012
Provisions for retirement benefits	646,145	625,159
Provisions for jubilee anniversary awards	1,012,951	1,015,816
Provision for litigations	134,588	130,245
Balance as of 31 December	**1,793,684**	**1,771,220**

Movements in the long-term provisions for employee benefits during the year were as follows:

	Retirement benefits	Jubilee anniversary awards	Total
Balance as of 1 January 2012	**539,611**	**948,841**	**1,488,452**
Utilized	(10,481)	(119,508)	(129,989)
Charge for the year (Note 11)	96,029	186,483	282,512
Balance as of 31 December 2012	**625,159**	**1,015,816**	**1,640,975**
Utilized	(6,295)	(170,556)	(176,851)
Charge for the year (Note 11)	27,281	167,691	194,972
Balance as of 31 December 2013	**646,145**	**1,012,951**	**1,659,096**

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 2013 and 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 for both years, 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. 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.

28. LONG-TERM PROVISIONS (Continued)

The provision for employee benefits was determined in line with the Company's Collective Agreement and the assumption of 5% nominal salary increase rate per annum (2012: 6%), which reflects the projected long-term inflation rate, as well as the employee fluctuation rate of 3% per annum (2012: 2% - 7%).

If the used discount rate were to be varied by 1 percentage point from one currently used, the provision for retirement benefits and anniversary awards for 2013 would be an estimated RSD 120,012 thousand lower or RSD 135,450 thousand higher.

Long-term provisions for litigation in the amount of RSD 134,588 thousand as of 31 December 2013 (31 December 2012: RSD 130,245 thousand) relates to the provision for lawsuits filed against the Company, based on the best estimate of probable adverse effects of charges brought against the Company (Note 36(a)).

Movements on provision for ligations during the year were as follows:

	2013	2012
Balance as of 1 January 2013	**130,245**	**125,931**
Charge for the period (Note 11)	14,817	20,423
Utilized	(6,005)	(5,475)
Release of provision	(4,469)	(10,634)
Balance as of 31 December 2013	**134,588**	**130,245**

29. BORROWINGS

(a) Structure of Loans and Borrowings

	2013	2012
Long-term borrowings		
Financial loans from:		
- Domestic banks	6,559,821	19,520,883
- Foreign banks	4,216,536	12,655,710
	10,776,357	**32,176,593**
Commodity loans from:		
- Domestic suppliers	2,431,055	2,023,367
- Foreign suppliers	10,634,564	12,454,957
	13,065,619	**14,478,324**
Total long-term borrowings	**23,841,976**	**46,654,917**
Current portion of long-term borrowings		
Loans from domestic banks	13,157,655	13,051,629
Loans from foreign banks	8,541,983	8,814,305
Commodity loans from domestic suppliers	2,047,994	1,978,331
Commodity loans from foreign suppliers	6,121,661	6,086,316
Total	**29,869,293**	**29,930,581**
Current portion of other long-term loan liabilities	321	442
Total current portion of long-term borrowings	**29,869,614**	**29,931,023**
Balance as of 31 December	**53,711,590**	**76,585,940**

(b) Maturity of Borrowings

	2013	2012
Up to 1 year – current portion of long-term borrowings	29,869,614	29,931,023
From 1 to 2 years	17,545,931	27,867,564
From 2 to 3 years	3,432,818	15,672,491
From 3 to 4 years	1,751,092	2,361,061
From 4 to 5 years	947,593	721,286
Over 5 years	164,542	32,515
Balance as of 31 December	**53,711,590**	**76,585,940**

29. BORROWINGS (Continued)

(c) Detailed Breakdown of Borrowings per Creditors

	Currency	31/12/2013 In foreign currency	31/12/2013 In RSD thousand	31/12/2012 In foreign currency	31/12/2012 In RSD thousand
/i/ Loans from domestic banks					
Unicredit Bank Srbija a.d., Belgrade (syndicated loan)	EUR	171,660,000	19,679,463	286,100,000	32,534,806
Beobanka a.d. in bankruptcy, Belgrade	EUR	331,582	38,013	331,582	37,706
		171,991,582	19,717,476	286,431,582	32,572,512
/ii/ Loans from foreign banks					
Unicredit Bank A.G., London branch (syndicated loan)	EUR	110,340,000	12,649,609	183,900,000	20,912,795
ERB New Europe Funding, the Netherlands	EUR	950,000	108,910	4,900,000	557,220
		111,290,000	12,758,519	188,800,000	21,470,015
/iii/ Foreign commodity loans					
BNP Paribas Fortis SA/NV, Belgium (previously BNP Paribas, London Branch)	EUR	9,532,552	1,092,832	18,556,248	2,110,185
KfW, Germany	EUR	198,900	22,802	596,700	67,856
Nokia Siemens, Finland and Austria	EUR	25,581,700	2,932,741	46,239,835	5,258,315
Ericsson Credit A.B., Sweden	EUR	37,992,504	4,355,540	33,432,476	3,801,884
Credit Agricole CiB Sverige, Sweden	EUR	14,653,628	1,679,923	20,914,630	2,378,376
Huawei Technologies Co. Ltd., China	EUR	2,146,610	246,092	6,561,946	746,213
Huawei International Pte. Ltd., Singapore	EUR	8,420,433	965,336	5,062,011	575,643
Alcatel Lucent International, France	EUR	4,468,658	512,296	1,959,768	222,862
Alcatel Lucent S.A., France	EUR	3,119,318	357,605	4,318,341	491,074
Alcatel Lucent S.A., Romania	EUR	772,722	88,586	993,500	112,979
OTP Bank Plc, Hungary	EUR	531,207	60,899	796,810	90,612
NVISION a.s., Czech Republic (previously Sitronics, Czech Republic)	EUR	68,000	7,796	451,860	51,385
Intracom S.A., Greece	EUR	5,403,249	619,440	5,485,635	623,817
Alcatel Lucent Italia S.p.A., Italy	EUR	158,001	18,114	474,002	53,903
China Development Bank, Shenzhen branch	EUR	7,530,119	863,269	11,057,265	1,257,414
Skandinaviska Enskilda Bank Stockholm, Sweden	EUR	3,875,255	444,267	4,982,470	566,598
Selex ES S.p.A., Italy	EUR	157,280	18,031	262,134	29,810
Anritsu A/S, Denmark	EUR	674,999	77,383	900,004	102,347
Raiffeisen bank international, Austria (previously Nokia Siemens, Finland and Austria)	EUR	17,615,966	2,019,531	-	-
Cisco Systems International, Ireland	USD	4,495,971	373,742	-	-
			16,756,225		18,541,273
/iv/ Domestic commodity loans	RSD		4,479,049		4,001,698
Total borrowings			53,711,269		76,585,498
Less: Current portion of long-term borrowings					
/i/ Loans from domestic banks			(13,157,655)		(13,051,629)
/ii/ Loans from foreign banks			(8,541,983)		(8,814,305)
/iii/ Foreign commodity loans			(6,121,661)		(6,086,316)
/iv/ Domestic commodity loans			(2,047,994)		(1,978,331)
			(29,869,293)		**(29,930,581)**
Total long-term financial and commodity loans			**23,841,976**		**46,654,917**

29. BORROWINGS (Continued)

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

Interest rates on loans granted by banks and foreign suppliers range from mostly 6M Euribor increased by 1% up to 5.95% per annum. Commodity loans from domestic suppliers earn interest at rates ranging from mostly 6M Euribor increased by 1.8% up to 2% per annum.

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 38,013 thousand as of 31 December 2013, 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 Arrangement A in the total amount of EUR 320 million. On 24 May 2012, the Company withdrew the funds per Arrangement B in the amount of EUR 150 million. During 2013, the Company repaid the portion of liabilities under the Arrangement A in the amount of EUR 128 million, and the portion of liabilities per Arrangement B in the amount of EUR 60 million.

The 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 (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 2013, the Company fulfilled the required ratios.

As of 31 December 2013, liabilities to ERB New Europe Funding B.V., the Netherlands in the amount to RSD 108,910 thousand relate to the loan granted to the Company in order to finance telecommunication network investments. 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.

29. BORROWINGS (Continued)

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

/iii/ As of 31 December 2013, liabilities to BNP Paribas Fortis SA/NV, Belgium, amount to RSD 1,092,832 thousand. The loan was initially granted by Ericsson Credit A.B., Sweden and in 2006 and 2007 was transferred to BNP Paribas, London branch. In 2013, the borrowing was transferred from BNP Paribas, London branch to BNP Paribas Fortis SA/NV, Belgium.

Certain commodity loans are subject to covenant clauses, whereby the Company is required to meet certain key performance indicators of Leverage and Interest cover. As of 31 December 2013, the Company fulfilled the required ratios.

/iv/ Domestic commodity loans totalling RSD 4,479,049 thousand as of 31 December 2013 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% advances, whereas 90% is financed from the loans. Repayment period of the 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 33(b)).

/v/ Undrawn commodity loans amount to RSD 1,113,237 thousand as of 31 December 2013 (31 December 2012: RSD 2,406,874 thousand). All of these loans have been granted at floating interest rates. Maturity of unutilized credit lines is disclosed in Note 35(b).

30. ACCOUNTS PAYABLE

	2013	2012
Domestic trade payables	6,595,780	5,239,739
Foreign trade payables:		
- Fixed telephony	692,398	703,528
- Mobile telephony	201,286	183,131
Related parties' trade payables (Note 34(a))	903,107	757,377
Advances received	19,872	23,902
Balance as of 31 December	**8,412,443**	**6,907,677**

As of 31 December 2013, accounts payable amounting to RSD 1,431,421 thousand (31 December 2012: RSD 1,277,537 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 57 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 2013, out of RSD 8,412,443 thousand (Note 30) and RSD 53,711,269 thousand (Note 29(c)), representing outstanding balance of accounts payable and commodity and financial loans, respectively, the amount of RSD 186,375 thousand has not been reconciled with the suppliers/creditors in 2013, mainly due to the impossibility to perform the reconciliation procedure.

31. OTHER CURRENT LIABILITIES

	2013	2012
Gross salaries	530,960	474,452
Dividends payable	1,761,087	-
Liabilities to employees	27,428	24,729
Other liabilities	284,092	350,963
Balance as of 31 December	**2,603,567**	**850,144**

On 18 December 2013, the Company's General Meeting passed the Decision on distribution of the dividends for 2013 to the Company's shareholders in total amount of RSD 7,571,846 thousand (including tax). On 26 December 2013, the Company settled dividend payables, which belongs to the Republic of Serbia in the amount of RSD 5,499,967 thousand. The final amount of dividends that belongs to the shareholders will be determined subsequent to the adoption of the Company's financial statements for the year ended 31 December 2013. Outstanding amount of dividends as of 31 December 2013 is attributable to citizens, employees and former employees.

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

	2013	2012
VAT and other tax liabilities	**967,192**	**897,593**
Accruals:		
Accrued expenses:		
International settlement	169,756	144,571
Roaming (a)	1,648,829	1,610,140
Media contents distribution	5,688	216,108
	1,824,273	**1,970,819**
Accrued other expenses:		
Accumulated vacation	514,920	497,384
Accrued interest expenses (b)	761,124	1,282,913
Accrued other expenses (c)	4,831,229	6,809,715
	6,107,273	**8,590,012**
Deferred income:		
Mobile phone services	414,896	466,724
Chip cards	21,168	11,859
Fixed telephony subscription	1,119,809	1,249,666
Lease	560,042	444,771
Other deferred income	41,272	44,413
	2,157,187	**2,217,433**
Deferred income (d):		
Donations	263,999	201,124
Grants	1,904,363	2,315,548
	2,168,362	**2,516,672**
Deferred liabilities for value added tax	**94,238**	**93,327**
Balance as of 31 December	**13,318,525**	**16,285,856**

(a) As of 31 December 2013, accrued roaming expenses totalling RSD 1,648,829 thousand relate to uninvoiced roaming services for November and December 2013, estimated to RSD 166,981 thousand and uninvoiced expenses based on the International GSM roaming contract – Network operators' discounts amounting to RSD 1,481,848 thousand.

(b) Accrued interest expenses in the amount of RSD 761,124 thousand as of 31 December 2013 include the amount of RSD 676,202 thousand, representing interest expense arising from the syndicated loan granted by Unicredit Bank A.G., London branch (31 December 2012: syndicated loan granted by Citibank N.A., London in the amount of RSD 1,177,077 thousand).

(c) Accrued other expenses amounting to RSD 4,831,229 thousand as of 31 December 2013 mostly relate to estimated uninvoiced expenses for services and works provided by suppliers during the year ended 31 December 2013.

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

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

	2013	2012
Balance as of 1 January	**2,516,672**	**2,819,879**
Grants received during the year (Note 19)	97,257	100,013
Released to the income statement (Note 8)	(445,567)	(403,016)
Other movements	-	(204)
Balance as of 31 December	**2,168,362**	**2,516,672**

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

33. OFF-BALANCE SHEET ITEMS

	2013	2012
Guarantees (a)	3,977,538	2,729,848
Issued promissory notes (b)	571,600	656,268
Property and equipment in liquidation	1,472,817	360,990
Other	96,225	42,401
Balance as of 31 December	**6,118,180**	**3,789,507**

(a) Guarantees are issued by the following banks:

	2013	2012
Banca Intesa a.d., Beograd	1,153,146	249,043
Unicredit Bank Srbija a.d., Beograd	831,614	1,031,141
Sberbank Srbija a.d., Beograd	744,067	806,745
ERB New Europe Funding B.V., the Netherlands	442,786	642,919
Alpha Bank Srbija a.d., Beograd	249,377	-
Credit Agricole Bank Srbija a.d., Novi Sad	556,548	-
Balance as of 31 December	**3,977,538**	**2,729,848**

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”, Podgorica.

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” d.o.o., Beograd.

33. OFF-BALANCE SHEET ITEMS (Continued)

As of 31 December 2013, other guarantees were issued as collateral for securing regular and timely repayment of commodity loans and liabilities from ordinary course of business.

(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:

	2013	2012
Issued promissory notes in favour of:		
- Banks	561,746	580,056
- Suppliers	9,854	76,212
Balance as of 31 December	**571,600**	**656,268**

34. RELATED PARTY DISCLOSURES

The Company enters into a number of transactions with related parties in ordinary course of business. The 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.

Transactions entered into with related legal entities are regulated on a contractual and arm's length basis.

(a) **Outstanding balances of receivables and liabilities** as of 31 December 2013 and 2012, arising from transactions with related parties (Note 21) are summarized below:

	2013	2012
RECEIVABLES		
Gross accounts receivable (Note 24):		
- Telekom Srpske	313,534	243,903
- Mtel	315,262	175,920
- Telus	585	1,189
- HD-WIN	393	255
Total	**629,774**	**421,267**
Non-current investments		
- HD-WIN	409,119	-
Less: Fair value adjustments	(35,855)	-
	373,264	**-**
Advances paid for services:		
- HD-WIN	-	19,883
	-	**19,883**
Total	**1,003,038**	**441,150**
Accrued income		
International settlement and roaming:		
- Telekom Srpske	72,904	78,420
- Mtel	40,661	23,064
	113,565	**101,484**
Other		
- Telekom Srpske	4,904	5,223
- Mtel	3,249	5,477
- HD-WIN	406,016	-
	414,169	**10,700**
Total	**527,734**	**112,184**
Total receivables and accrued income	**1,530,772**	**553,334**

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.

34. RELATED PARTY DISCLOSURES (Continued)

(a) Receivables and Liabilities (Continued)

	2013	2012
LIABILITIES		
Accounts payable:		
- Telekom Srpske	412,855	323,856
- Mtel	125,476	67,102
- Telus	250,570	294,413
- HD-WIN	113,640	71,460
- Fibernet	566	546
Total (Note 30)	**903,107**	**757,377**
ACCRUALS		
Accrued expenses from international settlement, roaming and lease of capacities:		
- Telekom Srpske	4,121	5,109
- Mtel	41,909	3,529
- Fibernet	1,335	546
	47,365	**9,184**
Accrued other expenses:		
- Telekom Srpske	-	57
- Mtel	366	691
	366	**748**
Deferred income:		
- Telus	18	18
- HD-WIN	14	18
	32	**36**
Total	**47,763**	**9,968**
Total liabilities and accruals	**950,870**	**767,345**

The payables to related parties arise mainly from purchase transactions and are due three months after the date of purchase, i.e. rendering of services, at the latest.

34. RELATED PARTY DISCLOSURES (Continued)

(b) Transactions with related parties, i.e. **revenues and expenses** for years ended 31 December 2013 and 2012, respectively, are summarized below:

	2013	2012
OTE		
Revenues:		
International settlement	-	8,391
	-	**8,391**
Expenses:		
International settlement	-	(1,426)
	-	**(1,426)**
Net revenues	**-**	**6,965**
TELUS		
Revenues:		
Fixed lines, Internet and other services	4,289	4,100
Mobile communications	1,487	2,438
Dividends	300,000	-
	305,776	**6,538**
Expenses:		
Security	(511,705)	(500,645)
Maintenance	(415,290)	(434,721)
Other	(54,666)	(47,123)
	(981,661)	**(982,489)**
Net expenses	**(675,885)**	**(975,951)**
TELEKOM SRPSKE		
Revenues:		
International settlement, data and other services	581,961	625,970
Roaming and other mobile communication services	471,381	494,906
Dividends	3,853,760	4,127,243
Other	15,199	8,246
	4,922,301	**5,256,365**
Expenses:		
International settlement and lease lines	(692,729)	(748,926)
Roaming and outgoing international mobile traffic	(335,178)	(387,576)
Other	-	(625)
	(1,027,907)	**(1,137,127)**
Net revenues	**3,894,394**	**4,119,238**

Income and expenses presented for the year ended 31 December 2012, arising from transactions with OTE, relate to the month of January 2012. Subsequent to the purchase of OTE's shares by the Company, OTE ceased to be the shareholder of the Company (Note 27).

34. RELATED PARTY DISCLOSURES (Continued)

(b) Revenues and Expenses (Continued)

	2013	2012
MTEL		
Revenues:		
International settlement, data and other services	341,292	358,702
Roaming and other mobile communication services	335,302	223,117
	676,594	**581,819**
Expenses:		
International settlement and lease lines	(308,788)	(340,830)
Roaming and outgoing international mobile traffic	(306,956)	(291,079)
Commissions	(4,763)	(5,777)
Other	(1,132)	(966)
	(621,639)	**(638,652)**
Net revenues/(expenses)	**54,955**	**(56,833)**
TS:NET		
Revenues:		
Dividends	44,685	-
	44,685	**-**
Expenses:		
International settlement and lease lines	(70,363)	(68,413)
	(70,363)	**(68,413)**
Net expenses	**(25,678)**	**(68,413)**
HD-WIN		
Revenues:		
Fixed lines, Internet and other	2,707	604
Mobile communications	1,952	2,189
	4,659	**2,793**
Expenses:		
Broadcast content fee	(562,800)	(446,403)
Other	(4,500)	(19,000)
	(567,300)	**(465,403)**
Net expenses	**(562,641)**	**(462,610)**
FIBERNET		
Expenses:		
International settlement and lease lines	(7,834)	(6,379)
Net expenses	**(7,834)**	**(6,379)**
Total revenues, net	**2,677,311**	**2,556,017**

34. 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 2013 and 2012, respectively, were as follows:

	2013	2012
Gross salaries	447,763	355,598
Compensations for business trips	8,494	26,732
Contributions to operating results	12,811	32,639
Other benefits	1,107	4,609
Total	**470,175**	**419,578**

The housing loans to key management personnel in the amount of RSD 110,017 thousand as at 31 December 2013 (31 December 2012: RSD 114,888 thousand) are repayable monthly and have been granted under the same conditions as for other Company's employees (Note 22).

d) Transactions with other government entities

Considering that the major shareholder is the Government of the Republic of Serbia, the Company discloses significant transactions with other government entities. The individually significant transactions were incurred with JP PTT in respect of rental of business premises and warehouses, as disclosed in Note 35(a).

Furthermore, significant outstanding balance related to liabilities toward JP PTT as of 31 December 2013 amounts to RSD 494,674 thousand (31 December 2012: RSD 458,792 thousand). All other existing transactions with JP PTT are not individually significant.

35. COMMITMENTS

Commitments comprise the following:

	2013	2012
Operating lease commitments (a)	9,425,481	10,726,571
Construction of the mobile and fixed-line telecommunication network (b)	1,113,237	2,406,874
Balance as of 31 December	**10,538,718**	**13,133,445**

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

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

	2013	2012
Up to 1 year	1,761,795	1,949,675
From 1 to 5 years	4,874,184	5,924,044
Over 5 years	2,789,502	2,852,852
Total	**9,425,481**	**10,726,571**

35. COMMITMENTS (Continued)

Operating lease commitments disclosed above do not include commitments arising from lease of property from the JP PTT saobracaja "Srbija", which has been signed for undetermined period of time with monthly rental fee of EUR 2,034,284.

(b) Commitments with respect to the construction of the mobile and fixed-line network are associated with the construction and upgrade of the mobile and fixed–line capacities pursuant to contractual arrangements with domestic and foreign suppliers and creditors. Commitments are in fact contracted, unrealized deliveries at the reporting date.

Maturities of undrawn credit lines are as follows:

	2013	2012
Up to 1 year	125,308	334,433
From 1 to 5 years	885,928	1,894,251
Over 5 years	102,001	178,190
Total	**1,113,237**	**2,406,874**

36. CONTINGENT LIABILITIES

(a) Litigations

As of 31 December 2013, the total estimated value of potential damage claims arising from legal proceedings filed against the Company and still in course amounts to RSD 1,331,678 thousand (31 December 2012: RSD 1,526,124 thousand), excluding penalty interest that may arise thereto.

The final outcome of the legal proceedings still in course is uncertain. As disclosed in Note 28 to the separate financial statements, as of 31 December 2013, the Company recognized the amount of RSD 134,588 thousand (31 December 2012: RSD 130,245 thousand) for potential losses that might arise as a result of the ongoing 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

The tax system in the Republic of Serbia is undergoing continuous amendments. The tax period in the Republic of Serbia is considered to be open for five years. 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 separate financial statements are fairly presented.

The Law on Amendments and Supplements to the Value Added Tax Law ("RS Official Gazette", no. 93/2012) adopted in September 2012, among the rest, refers 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.

From 1 January 2014, by the Law on Amendments and Supplements to the Corporate Income Tax Law ("RS Official Gazette", no. 108/2013), tax credits carried forward are cancelled, with ability of utilization tax credits which have originated until 31 December 2013.

37. EVENTS AFTER THE REPORTING PERIOD

As of 30 December 2013, the Company has signed the Amended Agreement in relation to the Term facilities agreement. By realization of the Amendment, the Company achieved more favourable borrowing conditions primarily reflected in the drop in the interest margin for the outstanding liabilities in the amount of EUR 282 million as well as in the extension of the final maturity of the loan up to November 2016. The effective date of the Amendment Agreement is 17 January 2014. The restructuring of the loan improves the Company’s liquidity position.

38. EXCHANGE RATES

The official exchange rates of the National Bank of Serbia used in the translation of balance sheet items denominated in foreign currencies as of 31 December 2013 and 2012 into the functional currency (RSD) were as follows:

		In RSD
	31/12/2013	31/12/2012
EUR	114.6421	113.7183
USD	83.1282	86.1763
BAM (KM)	58.6156	58.1432
SDR	128.0919	132.5762

The accompanying financial statements were approved by the Company’s Supervisory Board on 28 February 2014 and were signed on behalf of the Company’s management by:

Predrag Ćulibrk /signed/
CEO

Prof. dr Milenko Dželetović /signed/
CFO