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

Consolidated Financial Statements for the Year Ended 31 December 2011 in Accordance with International Financial Reporting Standards

and

Independent Auditor's Report

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated financial statements of the Joint stock telecommunications company "Telekom Srbija" a.d., Belgrade and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as of 31 December 2011, and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of the Joint stock telecommunications company "Telekom Srbija" a.d., Belgrade and its subsidiaries as of 31 December 2011, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

INDEPENDENT AUDITOR'S REPORT

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

Emphasis of Matter

We draw attention to Note 34(a) to the consolidated financial statements disclosing that as of 31 December 2011 the estimated contingent liabilities arising from lawsuits filed against the Group amount to RSD 4,375,548 thousand, excluding any related penalty interest that may arise thereto. Based on the estimate of the final outcome of these lawsuits made by the Group's legal departments, the provision for potential losses arising from pending litigations recognized in the Group's consolidated financial statements amounts to RSD 256,186 thousand as of 31 December 2011 (Note 28). The Group's management considers that the final outcome of litigations cannot be predicted with a high degree of certainty, and it judges that no material liabilities will arise from the contingent liabilities other than those provided for. Our opinion is not qualified in respect of this matter.

Belgrade, 2 April 2012

Milovan Popovic
Certified Auditor

BDO d.o.o.

BDO d.o.o.
Belgrade

MANAGEMENT'S REPRESENTATION

The Group's management is responsible for the preparation of the consolidated financial statements, which give a true and fair view of the financial position of the Group as of the end of the reporting period, and of their financial performance and cash flows for the reporting period then ended in accordance with International Financial Reporting Standards. The management also have a general responsibility for implementation of processes and controls to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Group's management considers that, preparing the consolidated financial statements as of and for the year ended 31 December 2011, set out on pages 4 to 97, the Group has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates in accordance with International Financial Reporting Standards.

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

Branko Radujko
General Manager

Georgios Christodoulopoulos
Director of Economic Affairs Division

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

	Note	2011	2010
OPERATING INCOME			
Sales	5	113,035,372	112,149,668
Other operating income	6	5,047,092	4,991,076
		118,082,464	**117,140,744**
OPERATING EXPENSES			
Wages, salaries and other personnel expenses	7	(20,826,410)	(18,525,012)
Charges of other network operators	8	(13,056,808)	(13,505,382)
Costs of material and maintenance	9	(14,312,638)	(13,267,852)
Depreciation and amortization	10	(25,511,562)	(24,601,244)
Rental costs		(5,384,107)	(5,366,412)
Other operating expenses	11	(15,029,357)	(16,833,610)
		(94,120,882)	**(92,099,512)**
OPERATING PROFIT		**23,961,582**	**25,041,232**
FINANCE INCOME/(EXPENSES)			
Interest expense, net	12	(603,220)	(1,115,605)
Foreign exchange gains/(losses), net	13	1,033,669	(6,002,366)
Other financial income		182,907	8,903
		613,356	**(7,109,068)**
PROFIT BEFORE INCOME TAX		**24,574,938**	**17,932,164**
Income tax expense	14	(1,345,932)	(946,970)
PROFIT FOR THE YEAR		**23,229,006**	**16,985,194**
OTHER COMPREHENSIVE INCOME:			
Fair value (losses)/gains on available-for-sale financial assets, net		(51)	23
Currency translation differences		(557,694)	7,224,809
Other comprehensive income, net of tax		**(557,745)**	**7,224,832**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**22,671,261**	**24,210,026**
Profit attributable to:			
Owners of the Parent		21,861,746	15,145,828
Non-controlling interests		1,367,260	1,839,366
		23,229,006	**16,985,194**
Total comprehensive income attributable to:			
Owners of the Parent		21,351,227	19,421,749
Non-controlling interests		1,320,034	4,788,277
		22,671,261	**24,210,026**
Earnings per share			
Profit attributable to the owners of the Parent			
Basic earnings per share	24 /iv/	**20.24**	**14.02**

The accompanying notes on pages 8 to 97 are an integral part of these consolidated financial statements.

The accompanying consolidated financial statements were authorised for issue by the Managing Board on 2 April 2012 and signed on behalf of the Group's management by:

Branko Radujko
General Manager

Georgios Christodoulopoulos
Director of Economic Affairs Division

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As of 31 December 2011
In RSD thousand

	Note	31 December 2011	31 December 2010
ASSETS			
Non-current assets			
Intangible assets	15	62,159,022	63,645,738
Property, plant and equipment	16	144,755,940	155,091,020
Advances for property and equipment	17	486,604	563,776
Other financial assets	18	2,395,635	1,926,925
Deferred tax assets	14(c)	1,472,821	1,266,720
		211,270,022	**222,494,179**
Current assets			
Inventories	19	7,254,153	7,468,702
Accounts receivable	20	15,022,850	15,225,578
Receivables for overpaid income tax		-	270,978
Other current assets and prepayments	21	5,010,819	3,451,591
Accrued income	22	2,118,202	1,625,587
Cash and cash equivalents	23	17,941,876	9,785,260
		47,347,900	**37,827,696**
TOTAL ASSETS		**258,617,922**	**260,321,875**
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Parent	24		
Share capital		82,512,552	82,512,552
Other capital		8,588	8,588
Reserves		1,593,442	1,325,288
Foreign currency translation reserve		13,506,300	14,016,786
Retained earnings		44,549,405	36,726,417
		142,170,287	**134,589,631**
Non-controlling interests		**19,052,318**	**19,619,923**
Total equity		**161,222,605**	**154,209,554**
Non-current liabilities			
Borrowings	25	23,367,961	49,446,783
Deferred income	26	3,010,777	3,744,788
Employee benefits	27	1,911,841	2,300,509
Provisions for other liabilities	28	317,740	313,659
Deferred tax liabilities	14(c)	1,995,958	2,176,619
		30,604,277	**57,982,358**
Current liabilities			
Current portion of non-current borrowings	25	33,095,173	24,523,834
Other current borrowings		2,500	518,383
Accounts payable	29	8,099,790	7,196,213
Other current liabilities and accruals	30	25,456,766	15,891,533
Income tax payable		136,811	-
		66,791,040	**48,129,963**
TOTAL EQUITY AND LIABILITIES		**258,617,922**	**260,321,875**
OFF-BALANCE SHEET ITEMS	31	**15,554,390**	**16,807,447**

The accompanying notes on pages 8 to 97
are an integral part of these consolidated financial statements.

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

	Attributable to the equity holders of the Parent						
	Share capital	**Other capital**	**Reserves**	**Retained earnings**	**Total**	**Non-controlling interests**	**TOTAL EQUITY**
Balance as of 1 January 2010	**82,512,552**	**8,588**	**10,794,625**	**27,747,636**	**121,063,401**	**18,090,166**	**139,153,567**
Profit for the year ended 31 December 2010	-	-	-	15,145,828	15,145,828	1,839,366	16,985,194
Other comprehensive income:							
Fair value gains on available-for-sale financial assets, net	-	-	15	-	15	8	23
Currency translation differences	-	-	4,275,906	-	4,275,906	2,948,903	7,224,809
Total comprehensive income for the year ended 31 December 2010	**-**	**-**	**4,275,921**	**15,145,828**	**19,421,749**	**4,788,277**	**24,210,026**
Dividends declared	-	-	-	(6,664,615)	(6,664,615)	(2,489,424)	(9,154,039)
Changes in non-controlling interests	-	-	-	769,096	769,096	(769,096)	-
Transfer from retained earnings to legal reserves	-	-	271,528	(271,528)	-	-	-
Balance as of 31 December 2010	**82,512,552**	**8,588**	**15,342,074**	**36,726,417**	**134,589,631**	**19,619,923**	**154,209,554**
Profit for the year ended 31 December 2011	-	-	-	21,861,746	21,861,746	1,367,260	23,229,006
Other comprehensive income:							
Fair value losses on available-for-sale financial assets, net	-	-	(33)	-	(33)	(18)	(51)
Currency translation differences	-	-	(510,486)	-	(510,486)	(47,208)	(557,694)
Total comprehensive income for the year ended 31 December 2011	**82,512,552**	**8,588**	**(510,519)**	**21,861,746**	**21,351,227**	**1,320,034**	**22,671,261**
Dividends declared	-	-	-	(13,565,455)	(13,565,455)	(1,957,201)	(15,522,656)
Acquisition of subsidiary	-	-	-	(205,116)	(205,116)	69,562	(135,554)
Transfer from retained earnings to legal reserves	-	-	268,187	(268,187)	-	-	-
Balance as of 31 December 2011	**82,512,552**	**8,588**	**15,099,742**	**44,549,405**	**142,170,287**	**19,052,318**	**161,222,605**

The accompanying notes on pages 8 to 97
are an integral part of these consolidated financial statements.

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

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	**24,574,938**	**17,932,164**
Adjustment to reconcile profit before tax to net cash provided by operating activities:		
Depreciation and amortization	25,511,562	24,601,244
Loss on disposal of property and equipment, net	344,640	513,786
Losses due to granted goods free of charge	6,135	37,535
Unrealized foreign exchange (gains)/losses, net	(312,538)	4,841,003
Allowances for impairment and write-offs, net	1,673,531	2,948,970
Deferred granted assets released	(454,982)	(464,776)
Accrued expenses for employee profit-sharing	1,447,548	1,593,610
Income from write-off of liabilities	(20,350)	(1,035,162)
Provision for litigations, net	19,104	109,319
Other provisions	4,274,211	3,646,677
Release of provisions for long-term employee benefits, net	(209,173)	(137,502)
Net finance (income)/expenses	(300,818)	2,268,065
Changes in operating assets and liabilities:		
Increase in accounts receivable	(599,179)	(2,380,242)
(Increase)/decrease in other current assets	(925,357)	8,165
(Decrease)/increase in inventories	95,689	(895,928)
Increase in accounts payable and other current liabilities	5,743,592	138,946
	60,868,553	**53,725,874**
Income tax paid	(1,259,631)	(1,461,983)
VAT paid	(11,259,806)	(10,640,128)
Tax on mobile telephony services paid	(391,354)	(2,831,039)
Interest paid	(2,023,141)	(2,674,709)
Net cash flows from operating activities	**45,934,621**	**36,118,015**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, equipment and intangibles	(14,616,823)	(20,047,772)
Proceeds from sale of property and equipment	9,727	11,049
Interest received	949,257	870,491
Net cash flows used in investing activities	**(13,657,839)**	**(19,166,232)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Additional borrowings, net of repayments	(18,023,366)	(12,662,535)
Loans granted to employees, net of repayments	151,809	(117,147)
Financial placements – deposits	(416,390)	(359,246)
Dividends paid to the Parent Company's shareholders	(4,736,829)	(6,664,615)
Other dividends paid	(1,647,464)	(1,856,946)
Decrease in advance payments for rent, net	124,428	109,168
Net cash flows used in financing activities	**(24,547,812)**	**(21,551,321)**
Net increase/(decrease) in cash and cash equivalents	7,728,970	(4,599,538)
Cash and cash equivalents, beginning of year	9,785,260	14,384,798
Cash and cash equivalents acquired in business combination	427,646	-
Cash and cash equivalents, end of year (Note 23)	**17,941,876**	**9,785,260**

The accompanying notes on pages 8 to 97
are an integral part of these consolidated financial statements.

1. CORPORATE INFORMATION

The Joint stock Telecommunications company "Telekom Srbija" a.d., Belgrade (the "Parent Company" or "Telekom Srbija") was incorporated by the Public Enterprise for PTT communications "Srbija", Belgrade ("JP PTT") on 23 May 1997 in a company formation transaction in which JP PTT undertook to transfer and assign to the Parent Company all of its telecommunication assets, excluding real estate and certain other assets and liabilities. Pursuant to Article 14a of the Law on Communications of the Republic of Serbia, JP PTT assigned certain exclusive and non-exclusive operating rights to the "Telekom Srbija" for an initial period of twenty years, with the right to an extension for additional ten years. In consideration of such transfer and assignment rights, "Telekom Srbija" issued a certificate representing 1,080,000 fully-paid, registered ordinary voting shares with an individual par value of RSD 10 thousand and also performed a special issuance of "Golden Share" to the Government of the Republic of Serbia. The Golden Share bestows entitlements to their bearers, which include voting rights and presence to the Parent Company's Shareholders' Assembly sessions, certain approval rights of the proposal for appointment of the Managing Board members and the proposal for the appointment of General Manager of the Parent Company, amendments to the Statute and other rights determined by the Statute of the Parent Company. This share may solely be held by the Government of the Republic of Serbia represented by its appointed representative(s).

The Parent Company was registered in the Republic of Serbia on 29 May 1997 in accordance with the Federal Republic of Yugoslavia Company Law, as published in the FRY Official Gazette, no. 29 dated 26 June 1996. In June 1997, 49 percent of the Parent Company's share capital was privatized in a direct sale process. As of that date, the entities, STET International Netherlands NV, Amsterdam ("STET") and Hellenic Telecommunications Organization A.E., Athens ("OTE") acquired 29 percent and 20 percent of the Parent Company's share capital, respectively. This transaction was duly registered with the Commercial Court of Belgrade on 13 June 1997 under inscription number Fi. 7276/97.

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

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

1. CORPORATE INFORMATION (Continued)

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

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

On 30 December 2010, the Ministry of Telecommunications and Information Society submitted to the Parent Company, for further realisation, the Conclusion of the Government of the Republic of Serbia 05 no. 023-9705/2010 dated 23 December 2010, recommending the Parent Company to undertake all activities necessary in order to convert the Parent Company from closed into an open join stock entity. During 2011, the Parent Company initiated the specific activities in order to harmonize its internal enactments in connection with the conversion into an open joint stock company.

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

The Parent Company's principal business activity is in the provision of telecommunication services, of which its primary areas of operation include the provision of national and international telecommunication services, in addition to a wide range of other telecommunication services involving other fixed voice services, data transmission, leased lines, private circuits and broadband services, additional mobile telephony services, fixed satellite services, internet and multimedia services. In 1998 the Parent Company introduced GSM mobile telecommunication services. The Parent Company also supplies leases, construction, management and security services in the area of network infrastructure. Furthermore, the Parent Company has the rights to provide directory services including "White" and "Yellow Pages", operator-assisted services and electronic directory services relating to fixed telephony services.

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

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

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

1. CORPORATE INFORMATION (Continued)

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

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

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

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

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

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

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

1. CORPORATE INFORMATION (Continued)

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

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

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

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

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

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

The Parent Company holds equity instruments of the following subsidiaries (together the "Group"):

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

On 31 March 2005, at its XVIII meeting, the Parent Company's Managing Board brought Resolutions numbered 25837/8 and 25837/9 with respect to the Separation of Activities from the Parent Company of the internal functions performing the Cleaning, Regular Maintenance and Security of the Parent Company's Business Premises. A Subsidiary "Telus" a.d., Belgrade, ("Telus") was established to perform the aforementioned operations.

1. CORPORATE INFORMATION (Continued)

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

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

On 1 February 2010, the subsidiary "Telekom Srpske" signed an Agreement on the purchase of 49% equity interest in the company "Mtel" from the minority founder Ogalar B.V., Amsterdam, the Netherlands. In addition, in accordance with the Parent Company's Managing Board Decision on the increase of founding capital of the subsidiary "Mtel" dated 12 March 2010, subscribed capital of "Mtel" was increased by the amount of EUR 40 million. By 15 March 2010, the owners paid in the aforementioned amount in proportion to their interest in the capital of the above mentioned subsidiary.

On 8 July 2008, the Parent Company signed a Joint Venture Agreement with the Railways of Montenegro for placement, utilization and maintenance of the optical and power cable along the railway Bar-Vrbnica. Accordingly, on 3 December 2008, the Parent Company's Managing Board passed the Decision on founding the subsidiary "FiberNet" d.o.o., Podgorica. As of 31 December 2011, the total founding capital of the above mentioned subsidiary, after additional contributions (to the founding capital) made in 2009 and 2010, amounts to EUR 9.6 million.

On 5 February 2010, a new subsidiary "TS:NET" B.V. was registered with its office in Amsterdam, the Netherlands. The founding capital amounted to EUR 1,228,388, and consisted of contribution in cash (EUR 61,274) and contribution in kind (EUR 1,167,114). The above mentioned subsidiary has been founded as a closed joint stock company with limited liability. Principal business activities of the subsidiary are lease of telecommunication equipment and other operating activities in order to create conditions for construction and exploitation of international transport network of the Company. As of 31 December 2011, the total founding capital of the aforementioned subsidiary, after additional contributions (to the founding capital) made in 2010 and 2011, amounts to EUR 2.7 million.

The Parent Company's Managing Board at its regular 59th meeting held on 13 July 2011 brought the Decision on acquisition of the Telecommunications Company "HD-WIN" d.o.o., Belgrade ("HD-WIN"), which is entitled for sport broadcasting rights on the territory of the Republic of Serbia, Bosnia and Herzegovina, Montenegro and Croatia. On 2 August 2011 the Parent Company paid in the contribution in the amount of EUR 7.7 million (RSD 790,476 thousand) and acquired ownership of 51% of the subsidiary's capital, as well as managing rights.

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

At 31 December 2011, the Group had 13,271 employees (31 December 2010: 13,771 employees). Out of this number, the Parent Company had 9,048 employees (31 December 2010: 9,468 employees), while the Consolidated Subsidiaries had 4,223 employees (31 December 2010: 4,303 employees).

These consolidated financial statements were authorised for issue by the Managing Board of the Parent Company on 2 April 2012.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis for Consolidation

Subsidiaries are all legal entities in which the Parent Company possesses a stake of more than 50 percent, or otherwise holds more than half of voting rights, and has the power to govern the financial and operating policies of the subsidiary. Subsidiaries are fully consolidated from the date on which control is transferred to the Parent Company. They are de-consolidated from the date that control ceases.

The accompanying consolidated financial statements of the Group represent the consolidation of the annual financial statements of the Parent Company and the following domestic and foreign subsidiaries (the "Consolidated Subsidiaries") as of 31 December 2011:

Subsidiary	% of interest
"Telus" a.d., Belgrade, the Republic of Serbia	100%
"Mtel" d.o.o., Podgorica, Montenegro	51%
"Telekom Srpske" a.d., Banja Luka, the Republic of Srpska	65%
"FiberNet" d.o.o., Podgorica, Montenegro	100%
"TS:NET" BV, Amsterdam, the Netherlands	100%
"HD-WIN" d.o.o., Belgrade, the Republic of Serbia	51%

The financial statements of the Parent Company and its Consolidated Subsidiaries used in the preparation of these consolidated financial statements are prepared as of the same reporting date. The consolidated financial statements of the Group are prepared using uniform accounting policies for like transactions and other events in similar circumstances that are applied consistently.

All inter-company transactions, balances and unrealized gains on transaction between the Parent Company and its Consolidated Subsidiaries are eliminated in full.

Financial statements of the foreign Consolidated Subsidiaries are translated into dinars (RSD) using the closing rate at the reporting date for assets and liabilities, and the average exchange rate for the reporting period for income and expense items. All resulting exchange differences are recognised in other comprehensive income and as a separate component of equity.

The purchase method of accounting was used to account for the acquisition of the subsidiary "Telekom Srpske" a.d., Banja Luka by the Parent Company "Telekom Srbija" in 2007.

The cost of an acquisition was measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The identifiable assets acquired and liabilities and contingent liabilities assumed in the business combination were measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Parent Company's share of the identifiable net assets acquired was recorded as goodwill (Note 2.13).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1. Basis for Consolidation (Continued)

In accordance with Revised IFRS 3 "Business Combinations", effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009, the acquisition method was applied to account for the acquisition of the legal entity "HD-WIN" by the Parent Company in 2011 (Note 35).

The consideration transferred in the business combination was measured at fair value, which was calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity interests issued by the acquirer. The identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree were measured at their fair values at the acquisition date. Acquisition-related costs such as finder's fees, advisory, legal and other professional or consulting fees, costs of registering and general administrative costs were recognized as expenses in the period in which they were incurred. The excess of the aggregate of the consideration transferred and the amount of any non-controlling interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed was recognized as goodwill (Note 2.13).

Non-controlling interests

The Group has changed its accounting policy for transactions with non-controlling interests and the accounting for loss of control or significant influence from 1 January 2010 when revised IAS 27 "Consolidated and Separate Financial Statements", became effective. The revision to IAS 27 contained consequential amendments to IAS 28 "Investments in Associates" and IAS 31 "Interests in Joint Ventures".

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset.

Previously, transactions with non-controlling interests were treated as transactions with parties external to the Group. Disposals therefore resulted in gains or losses in profit or loss and purchases resulted in the recognition of goodwill. On disposal or partial disposal, a proportionate interest in reserves attributable to the subsidiary was reclassified to profit or loss or directly to retained earnings.

Previously, when the Group ceased to have control or significant influence over an entity, the carrying amount of the investment at the date control or significant influence became its cost for the purposes of subsequently accounting for the retained interests as associates, jointly controlled entity or financial assets.

The Group has applied the new policy prospectively to transactions occurring on or after 1 January 2010. As a consequence, no adjustments were necessary to any of the amounts previously recognized in the consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2. Basis of Preparation

The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), including International Accounting Standards (IAS) and Interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC), respectively.

The consolidated financial statements have been prepared under the historical cost convention, except for available-for-sale financial assets that have been measured at fair value. The consolidated financial statements have been prepared under the going concern principle.

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

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

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

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

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

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

- Amendment to IAS 32 "Financial Instruments: Presentation" - Classification of Rights Issues. This amendment relates to the rights issues offered for a fixed amount of foreign currency which were treated as derivative liabilities by the existing standard. The amendment states that if certain criteria are met, these should be classified as equity regardless of the currency in which the exercise price is denominated. The amendment did not have any impact on the financial position or performance of the Group.

- Amendment to IFRS 1 "First-time Adoption of International Financial Reporting Standards" - Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters. These amendments are not relevant to the Group, as it is an existing IFRS preparer.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2. Basis of Preparation (Continued)

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

- Amendments to IFRIC 14 "IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" - Prepayments of a Minimum Funding Requirement. The amendments apply in limited circumstances: when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements. The amendments permit such an entity to treat the benefit of such an early payment as an asset. These amendments are not relevant to the Group, due to the absence of such arrangements.
- IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments". This interpretation clarifies the requirements of IFRSs when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. This interpretation has no impact on the Group's consolidated financial statements.
- Amendments to various standards and interpretations (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 21, IAS 28, IAS 31, IAS 34 and IFRIC 13), which are part of the IASB's annual IFRS improvements project published in May 2010. These amendments result primarily in removal of inconsistencies and terminology or editorial changes. The effective dates vary standard by standard but most are effective for annual periods beginning on or after either 1 July 2010 or 1 January 2011. The adoption of these amendments has not led to significant changes in the Group's accounting policies and it did not have a material impact on the financial position or performance of the Group.

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

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

- Amendment to IAS 1 "Presentation of Financial Statements" – Other comprehensive income (effective for annual periods beginning on or after 1 July 2012).
- Amendment to IAS 12 "Income Taxes" - Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after 1 January 2012).
- Revised IAS 19 "Employee Benefits" (effective for annual periods beginning on or after 1 January 2013).
- Revised IAS 27 "Separate Financial Statements" (effective for annual periods beginning on or after 1 January 2013).
- Revised IAS 28 "Investments in Associates and Joint Ventures" (effective for annual periods beginning on or after 1 January 2013).
- Amendments to IFRS 1 "First-time Adoption of IFRS" - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (effective for annual periods beginning on or after 1 July 2011).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2. Basis of Preparation (Continued)

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

- Amendment to IFRS 7 “Financial Instruments: Disclosures” - Transfer of Financial Assets (effective for annual periods beginning on or after 1 July 2011).
- IFRS 9 “Financial instruments” (effective for annual periods beginning on or after 1 January 2015). This standard addresses the classification and measurement of financial assets.
- IFRS 10 “Consolidated Financial Statements” (effective for annual periods beginning on or after 1 January 2013).
- IFRS 11 “Joint Arrangements” (effective for annual periods beginning on or after 1 January 2013).
- IFRS 12 “Disclosure of Interests in Other Entities” (effective for annual periods beginning on or after 1 January 2013).
- IFRS 13 “Fair Value Measurement” (effective for annual periods beginning on or after 1 January 2013).

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

2.3. Comparative Figures

Comparative figures represent the Group’s audited consolidated financial statements for the year ended 31 December 2010, prepared in accordance with IFRS.

The Group’s management has assessed that the effects of error adjustments from the previous period are not materially significant and therefore, no restatement of comparative figures was performed. The total negative effect of error adjustments charged to the accompanying consolidated statement of comprehensive income for the year ended 31 December 2011 amounts to RSD 142,578 thousand.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4. Fixed and Mobile Telephony Income

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

2.4.1. Fixed Telephony Income

(a) Telephony Traffic

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

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

(b) Telecommunication Subscription

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

Subscriptions of the Consolidated Subsidiaries "Telekom Srpske" and "Mtel" are invoiced monthly.

(c) New Subscribers

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

(d) Income from Other Telecommunication Services

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

2.4.2. Mobile Telephony Income

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4. Fixed and Mobile Telephony Income (Continued)

2.4.3. Multi-Element Agreements (MEA)

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

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

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

2.4.4. Combined Service Packages

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

2.5. Income and Expenses from International Traffic Settlements

2.5.1. Income and Expenses from International Fixed Telephony Traffic Settlements

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

In addition, the Parent Company and the Consolidated Subsidiary “Telekom Srpske” provide transiting services of incoming traffic from foreign operators which terminate in other incumbent operators’ networks.

2.5.2. Income and Expenses from Roaming

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

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

2.6. Interconnection Income and Expenses

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6. Interconnection Income and Expenses (Continued)

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

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

2.7. Operating Leases

Leases where the Group 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 consolidated statement of comprehensive income (profit and loss) in the period to which they relate.

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

2.8. Sales of Handsets and Cost of Goods Sold

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

2.9. Maintenance and Repairs

The maintenance and repair of property, plant and equipment are expensed as incurred at the effective amounts, and are recognized in the consolidated statement of comprehensive income.

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

2.10. Borrowing Costs

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Consolidated statement of financial position and consolidated statement of comprehensive income items stated in the consolidated financial statements are valued by using currency of primary economic environment (functional currency).

As disclosed in Note 2.2, the accompanying consolidated financial statements are stated in thousands of Dinars (RSD), which represents the functional and official reporting currency of the Group.

Assets and liabilities' components denominated in foreign currencies are translated into RSD at the official exchange rates published by the National Bank of Serbia prevailing at the reporting date (Note 38).

Foreign currency transactions are translated into RSD, i.e. functional currencies of the Consolidated Subsidiaries at the official exchange rates of respective central banks in effect at the date of each transaction.

Foreign exchange gains or losses arising upon the translation of assets, liabilities and transactions are credited or debited as appropriate, to the consolidated statement of comprehensive income (Note 13).

Income or expenses arising upon the translation of assets and liabilities by applying contractual foreign currency clause are credited or debited as appropriate, to the consolidated statement of comprehensive income (Note 13).

The results and the financial position of all the Group entities (none of which has the currency of a hyperinflatory economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(a) Assets and liabilities for each statement of financial position presented are translated at the closing rate at each reporting date;
(b) Income and expenses for each statement of comprehensive income presented are translated at average exchange rate for the period; and
(c) All resulting exchange differences are recognized in other comprehensive income and as a separate component of the Group's equity.

Translation differences on non-monetary assets, such as equities classified as available for sale, are included in other comprehensive income.

Goodwill arising on the acquisition of a foreign entity is treated as an asset of a foreign entity and translated at the closing rate at the reporting date.

2.12. Property, Plant and Equipment

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.12. Property, Plant and Equipment (Continued)

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

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

Capital improvements, renewals and repairs that extend the useful life of an asset are capitalized. Repairs and maintenance are expensed as incurred and are shown as operating expenses (Note 2.9).

Gains or losses from the disposal of property and equipment are credited directly to “Other operating income” (Note 6), whereas any losses arising on the disposal of property and equipment are charged to “Other operating expenses” (Note 11).

The useful lives are reviewed at least at each financial year-end and, if there is a change in the expected pattern of consumption of the future economic benefits embodied in the asset, the depreciation rate is changed to reflect the changed pattern.

2.13. Intangible Assets

As of 31 December 2011, intangible assets consist of goodwill, customer relationship, brand name, software, licenses and other rights.

Intangible assets are stated at cost less accumulated amortization (excluding goodwill) and accumulated impairment losses, if any.

Goodwill represents the excess of the cost of an acquisition over the fair value of the “Telekom Srbija’s” share of the net identifiable assets of the acquired subsidiaries “Telekom Srpske” and “HD-WIN” (Note 35) at the acquisition date. Goodwill on acquisition of the subsidiary is included in intangible assets. Separately recognized goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

Contractual customer relationships acquired in a business combination are recognized at fair value at the acquisition date. The contractual customer relations have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method over the expected life of the customer relationship.

Brand name represents recognized identified value on acquisition of 51% of capital of the company “HD-WIN”. “Arena Sport” brand name is a recognized trademark in the provision of sport content to customers through TV distributors, by both current and potential customers. Brand name generates cost-saving benefits equal to royalty fees being paid for a comparable brand. Mentioned royalty savings have been calculated on the basis of projected revenues from distribution of TV rights and median royalty rate of comparable licensed products. Indefinite useful life of brand name is assumed.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.13. Intangible Assets (Continued)

Software and licenses are stated at cost less accumulated amortization.

Costs associated with maintaining computer software programmes are recognized as an expense as incurred. Research and development costs are recognized as an expense as incurred (Note 11).

2.14. Depreciation and Amortization

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

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

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

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

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

UMTS/GSM license	6.67%-10%
Licenses for fixed wireless access (CDMA)	10%
License – WiMAX	20%
Software licenses	20% – 50%
Software licenses – mobile telephony	10%
Software	20% – 33.33%

Depreciation and amortization on property, equipment and intangible assets begins when the related assets are placed in service. Land and assets with indefinite useful life (goodwill and brand name) are not subject to amortization.

The calculation of the depreciation and amortization for tax purposes is determined by the Law on Corporate Income Tax of the Republic of Serbia ("RS Official Gazette", no. 25/2001, 80/2002, 43/2003, 84/2004 and 18/2010) and the Rules on the Manner of Fixed Assets Classification in Groups and Depreciation for Tax Purposes ("RS Official Gazette", no. 116/2004 and 99/2010), i.e. by the Law on Corporate Income Tax of Montenegro and the Republic of Srpska. Different depreciation methods used for the financial reporting purposes and the tax purposes give raise to deferred taxes (Note 14(c)).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.15. Impairment of Non-financial Assets

In accordance with adopted accounting policy, at each reporting date the Group's management reviews the carrying amounts of the Group's intangible assets and property and equipment. If there is any indication that such assets have been impaired, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. If the recoverable amount of an asset is estimated to be lower than its carrying value, the carrying amount of the asset is reduced to its recoverable amount, being the higher of an asset's fair value less costs to sell and value in use. Impairment losses, representing a difference between the carrying amount and the recoverable amount of tangible and intangible assets, are recognized in the consolidated statement of comprehensive income as required by IAS 36 "Impairment of Assets".

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

Assets that have an indefinite useful life, for example goodwill and brand name, are not subject to amortization and are tested annually for impairment.

2.16. Inventories

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

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

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

Valuation of Mobile Telephones on Stock

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

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

The valuation of the inventories is carried at cost whereas the expense (material for rendering services) is realized when the mobile phone is sold, i.e. delivered to the user based on multi-element agreement (Note 2.4.3).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.17. Financial Instruments

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

Financial assets and financial liabilities are recognized in the consolidated statement of financial position on the date upon which the Group becomes counterparty to the contractual provisions of a specific financial instrument.

2.17.1. Financial Assets

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

The Group’s financial assets include cash and short-term deposits, employee loans and other non-current financial assets, trade and other receivables.

The Group has classified its financial assets into the following categories: “loans and receivables”, “held-to-maturity investments” and “available-for-sale financial investments”. The Group has not classified any of its financial assets upon initial recognition as at fair value through profit and loss.

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

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

(a) Loans and Receivables

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

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 non-current receivables. Employee housing loans are measured based on their amortized cost using the interest rate at which the Group could obtain long-term borrowings, which is approximately the effective interest rate. Other non-current financial assets also encompass rental payments in advance measured at amortized cost.

An allowance for impairment of receivables from employees is established when there is objective evidence that the Group 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.17. Financial Instruments (Continued)

2.17.1. Financial Assets (Continued)

(a) Loans and Receivables (Continued)

Accounts Receivable

Accounts receivable are stated at their nominal values as reduced by appropriate allowances for estimated irrecoverable amounts. An allowance for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 60 days overdue) are considered indicators that the receivable is impaired.

A provision for impairment is made on the basis of the ageing of the receivables balances and historical experience, and when the partial or full collection of an account receivable is deemed to be no longer probable. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of loss is recognised in the consolidated statement of comprehensive income within “Other operating expenses” (Note 11). 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 impairment are credited to “Other operating income” (Note 6).

(b) Held-to-Maturity Investments

Bills of exchange and debentures with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortized cost using the effective interest method less impairment.

If there is objective evidence that such assets have been impaired, the amount of the impairment loss for investments held-to-maturity is measured as the difference between the investments’ carrying amount and the present value of expected future cash flows discounted at the investment's original effective interest rate, and it is charged to other operating expenses.

(c) Available-for-Sale Financial Investments

Equity securities (shares) and listed redeemable notes held by the Group that are traded in an active market are classified as being available-for-sale.

Available-for-sale financial assets are subsequently measured at fair value. The fair values of securities quoted in active markets are based on current bid prices. For unquoted investments a reasonable estimate of fair value is determined by reference to the current market value of another instrument which is substantially the same or is based on the expected cash flows or underlying net asset base of the investment.

Unrealised gains or losses arising from changes in fair value are recognized as other comprehensive income in the available–for-sale reserve (investments revaluation reserve) until the investment is derecognized, at which time the cumulative gain or loss is recognized in profit and loss, or determined to be impaired, at which time the cumulative loss is reclassified to the profit and loss and removed from the available-for-sale reserve.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.17. Financial Instruments (Continued)

2.17.1. Financial Assets (Continued)

(c) Available-for-Sale Financial Investments (Continued)

The fair value of available-for-sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the closing rate at the consolidated statement of financial position date. The change in fair value attributable to translation differences that result from a change in amortized cost of the asset is recognized in the consolidated statement of comprehensive income, and other changes are recognized in equity.

2.17.2. Financial Liabilities

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

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

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

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., nominal value), and are subsequently stated at the amortized cost that is computed based on the contractual interest rate. The Group's management judges that the effects of application of contractual instead of effective interest rate as required by IAS 39 "Financial Instruments: Recognition and Measurement", have no material effect on the consolidated financial statements. Other non-current liabilities are presented at the amortized cost based on the effective interest rate. Loans bear mostly variable market interest rates and prepaid loan origination fees are deferred over the life of the loan using the straight-line method.

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

(b) Operating Liabilities

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.17. Financial Instruments (Continued)

2.17.3. Offsetting Financial Instruments

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

2.18. Accrued Expenses and Income

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

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

2.19. Cash and Cash Equivalents

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

2.20. Granted Assets

Granted assets (e.g., telephony equipment, local area networks and related equipment) received from municipalities and other entities are capitalized at invoiced, or fair (market) value.

Such assets are credited to deferred income at fair value, and are released to current income as performed in the amount of the depreciation of the related assets.

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

2.21. Provisions and Contingencies

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

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

Provisions for legal proceedings represent the Group management’s best estimates of the expenditures required to settle such obligations (Note 28).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21. Provisions and Contingencies (Continued)

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed (Note 34(a)) unless the possibility of an outflow of resources embodying economic benefits is remote.

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

2.22. Employee Benefits

(a) Employee Taxes and Contributions for Social Security

In accordance with the prevailing tax regulations, the Group has an obligation to pay taxes 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 Group 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 Group has no legal obligation to pay further benefits due to its employees by the stated pension funds upon their retirement.

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

(b) Obligations for Retirement Benefits and Jubilee Anniversary Awards

Pursuant to the signed collective bargaining agreements (CBAs), the Parent Company and the Consolidated Subsidiaries “Telekom Srpske” and “Telus” are obligated to pay retirement benefits in the amount equal to three monthly salaries, which can not to be lower than three average gross salaries paid in the aforementioned companies.

Pursuant to the general collective bargaining agreements in Montenegro, the Consolidated Subsidiary “Mtel” is obliged to pay to the employees retirement benefits in the amount equal to two minimal salaries, whereat the minimal salary for standard employee performance and full-time engagements for an average of 176 hours per month can not be lower than 30% of the average wage in Montenegro in the previous six-month period.

Furthermore, the Parent Company and the Consolidated Subsidiary “Telekom Srpske” provide between one half and three average monthly salaries to be paid out as a jubilee employment anniversary award. The Consolidated Subsidiary “Mtel” is obliged to provide jubilee awards for 10, 20, 30 and 35 years of employment as fixed amounts for payment in accordance with its Collective Bargaining Agreement.

In the Parent Company, the number of monthly salaries for jubilee employment anniversary awards corresponds to the total number of the employee’s years of service in the Parent Company or in JP PTT (except for the ten-year jubilee award, which is related only to the years of service in the Parent Company).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.22. Employee Benefits (Continued)

(b) Obligations for Retirement Benefits and Jubilee Anniversary Awards (Continued)

In the Consolidated Subsidiary "Telekom Srpske", the number of monthly salaries for jubilee employment anniversary awards corresponds to the number of the employee's years of service in the Consolidated Subsidiary. On 11 January 2012, a new Collective Agreement entered into force in the Consolidated Subsidiary, which among other things, changed the number of monthly salaries paid to employees as jubilee awards. The provisions of the new Collective Agreement were taken into account when determining the present value of the employees' accumulated rights to receive jubilee anniversary awards as of 31 December 2011.

The number of monthly salaries to be paid out as the jubilee employment anniversary awards is presented in the table below:

Total Number of Service Years	Number of Salaries	
	Parent Company	Consolidated Subsidiary "Telekom Srpske"
10	1/2	1/2
20	1	1
30	2	2
35	3	-

In accordance with the Director's Decision and the adopted Budget for 2012, the Consolidated Subsidiary "Telus" as of 31 December 2011 recognized the funds for payment of employment anniversary awards to employees with at least 5 years of service in the said company. The Group recognized long-term liabilities for retirement benefits and employment anniversary awards by discounting expected future payments to its present value, based on the actuarial calculation. Since these are long-term employees' benefits, and not post employment benefits, actuarial gains and losses as well as past service cost are recognized in the period in which they arise.

(c) Termination of Employment (Voluntary Resignations)

At its LIX regular meeting held on 13 July 2011, the Parent Company's Managing Board adopted the Business policy for stimulating the voluntary resignation of employees from the Company. Funds for this purpose are planned in the Revised Business Plan for 2011.

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

Contests were conducted and completed throughout 31 December 2011. The total of 597 employees left the Parent Company on this basis. In 2010, there were no voluntary employee resignations from the Parent Company.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.22. Employee Benefits (Continued)

(c) Termination of Employment (Voluntary Resignations) (Continued)

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

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

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

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

(d) Short-Term Compensated Absences

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

(e) Employee Profit-Sharing

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.23. Taxes and Contributions

(a) Income Taxes

Current Income Tax

Current income tax is calculated and paid in accordance with the effective Law on Corporate Income Tax of the Republic of Serbia ("RS Official Gazette", no. 25/2001, 80/2002, 43/2003, 84/2004 and 18/2010) and by-laws, Income Tax Law of the Republic of Srpska, Corporate Income Tax Law of Montenegro and Corporate Income Tax Law of the Netherlands.

Income tax is payable at the rate of 10% in the Republic of Serbia and the Republic of Srpska, i.e. 9% in Montenegro, and 20% upon the amount of EUR 200 thousand and 25% upon exceeded EUR 200 thousand in the Netherlands, on the tax base reported in the annual corporate income tax return, and can be reduced by any applicable tax credits.

The taxable base stated in the Tax returns includes the profit stated in the statement of comprehensive income, as adjusted for differences that are specifically defined under the effective tax regulations of the Republic of Serbia, the Republic of Srpska, Montenegro and the Netherlands.

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

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

Tax regulations prevailing in Montenegro do not envisage such tax relief, while tax regulations prevailing in the Republic of Srpska envisage such tax relief only for production registered activities.

The tax regulations in the Republic of Serbia, the Republic of Srpska and Montenegro do not envisage that any tax losses of the current period be used to recover taxes paid within a specific carry back period. However, any current year loss may be used to reduce taxable profit in future periods, but not for longer than five ensuing years.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.23. Taxes and Contributions (Continued)

(a) Income Taxes (Continued)

Deferred Income Tax

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

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

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

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

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

Deferred income taxes related to items that are recorded directly in equity are also recognized in equity.

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

Taxes, contributions and other duties that are not related to the operating result, include property taxes, various other taxes and contributions paid pursuant to republic and municipal regulations. These taxes and contributions are included within other operating expenses (Note 11).

2.24. Earning per Share

The Group discloses basic earning per share. Basic earning per share is calculated by dividing profit attributable to the ordinary equity holders of the Parent Company by the weighted average number of ordinary shares outstanding during the period (Note 24).

2.25. 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 shareholders.

Dividends for the year that are declared after the reporting period are disclosed as an event after the reporting period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.26. Related Party Disclosures

For the purpose of these consolidated financial statements related legal entities are those entities when one legal entity has a possibility to control another entity or has the right to govern the financial and business operations of the entity, as defined by IAS 24 "Related Party Disclosures".

Relations between the Group and its related parties are regulated at contractual basis and are carried out on commercial terms and conditions. Outstanding balances of receivables and liabilities at the reporting date, as well as transactions occurred during the reporting periods with related parties are separately disclosed in notes to the consolidated financial statements (Note 32).

2.27. Operating Segment Information

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

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

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

3. FINANCIAL RISK MANAGEMENT

In the ordinary course of business, the Group 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 Group's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management has been defined by the accounting and financial policies adopted by the Managing Board of the Parent Company and the Boards of Directors of the Consolidated Subsidiaries. There have been no changes in the risk management policies during the year ended 31 December 2011.

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

	2011	2010
Financial assets		
Available-for-sale securities	480	537
Held-to-maturity investments	5,795	5,843
Other non-current financial assets (excluding non-current rentals)	2,222,430	1,623,661
Trade and other receivables, excluding prepayments and accrued income	18,188,825	17,845,960
Cash and cash equivalents	17,941,876	9,785,260
	38,359,406	**29,261,261**
Financial liabilities at amortized cost		
Borrowings	56,465,634	74,489,000
Payables and other current liabilities, excluding accruals	20,360,318	10,562,627
	76,825,952	**85,051,627**

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

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

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

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1. Market Risk

(a) Currency Risk

The Parent Company and the Consolidated Subsidiary “HD-WIN” are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to EUR. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities denominated in foreign currency.

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

The Consolidated Subsidiaries are not considerably or at all exposed to foreign exchange risk because they have no operations abroad (“Telus”), or because they either conduct transactions in local currency and in EUR for which the local currency is linked by a fixed rate of exchange (“Telekom Srpske”), or they conduct transactions in the local functional currency (“Mtel”, “FiberNet” and “TS:NET”).

The Group has receivables and liabilities denominated in foreign currencies; therefore timely matching of inflows and outflows in the same currency as a protection from currency risk has been maximized. In addition, during the current reporting period the Parent Company entered into agreements on forward transactions.

At 31 December 2010, if the local currency (RSD) has strengthened/weakened by 10% against all currencies other than functional currency (currency (i.e. RSD/EUR exchange rate was RSD 94.1768/115.1050 for EUR 1) with all other variables held constant, profit after tax for the year 2011 would have been RSD 3,507,232 thousand (2010: RSD 5,672,626 thousand) higher/lower, mainly as a result of foreign exchange gains/losses on translation of borrowings denominated in foreign currencies and receivables/liabilities from international settlement that mostly relate to the Parent Company.

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

At 31 December 2011, financial assets in the amount of RSD 13,964,930 thousand (31 December 2010: RSD 10,218,710 thousand) are denominated in EUR, which represents 63.8% (2010: 69.9%) of the total financial assets of the Group denominated in foreign currencies.

At 31 December 2011, financial liabilities denominated in EUR amount to RSD 50,705,357 thousand (31 December 2010: RSD 66,973,855 thousand), which represents 91.1% (2010: 92.7%) of the total financial liabilities of the Group denominated in foreign currencies.

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1. Market Risk (Continued)

(b) Interest Rate Risk

The Group is exposed to risk from changes in interest rates, which, through changes in the level of market interest rates, affect its financial position and cash flows. As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises mainly from long-term borrowings from banks and suppliers. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

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

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

The gross interest rates of the Consolidated Subsidiary "Telekom Srpske" range within the aforementioned rates. Interest rates on long-term cash and commodity loans granted to the Consolidated Subsidiary "Mtel" do not exceed Euribor increased by 4% per annum, i.e. an interest rate equal to Euribor increased by margin up to 7% per annum on financial loans.

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

At 31 December 2011, if interest rates on currency-denominated borrowings at that date (both from banks and suppliers) had been 0.1 percentage point higher/lower on an annual basis with all other variables held constant, profit after tax for the year 2011 would have been RSD 39,898 thousand (2010: RSD 65,559 thousand) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

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

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1. Market Risk (Continued)

(c) Price Risk

The Group is not exposed to equity securities price risk because it does not have significant investments classified in the consolidated statement of financial position either as available-for-sale or at fair value through profit and loss (consolidated statement of comprehensive income).

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

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

Pursuant to the Decision of the Managing Board of the Agency dated 16 June 2011, starting from 1 August 2011, the subscription fee for a direct fixed telephony connection in the Republic of Serbia has been increased to RSD 430 and includes 300 free pulses (instead of the previous 150). Local calls rates were increased, whereas long distance call rates were reduced. In addition, pursuant to the Agency’s Decision, the rates for termination in the fixed network for traffic coming from the mobile network were reduced, while rates for termination of traffic coming from other fixed networks were increased and brought to cost basis.

In accordance with the Law on Telecommunications of the Republic of Srpska, the Communications Regulatory Agency of Bosnia and Herzegovina grants approval to the operator with a significant market power for voice telephone services over mobile or fixed networks as well as leased lines. The Consolidated Subsidiary “Telekom Srpske” has an obligation to offer unbundled access to the local loop to other operators.

3.2. Liquidity Risk

The Group manages its assets and liabilities in such a way that it can fulfil its due obligations at all times. Liquidity is operationally managed by the management and is centralised in the Parent Company, i.e. in the Consolidated Subsidiaries.

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

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

In addition, pursuant to the individual internal policies of the Parent Company and the Consolidated Subsidiaries, dispersion in authorities in respect of decision making process in procurement of goods and services has been made. This dispersion has been provided by setting up the prescribed limits up to which authorized person or management bodies may decide.

3. FINANCIAL RISK MANAGEMENT (Continued)

3.2. Liquidity Risk (Continued)

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

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

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

	Up to 3 month	From 3 to 12 months	From 1 to 2 years	From 2 to 5 years	Over 5 years	Total
Financial assets						
At 31 December 2011						
Non-interest bearing	33,922,442	262,041	228,732	677,526	1,368,957	36,459,698
Fixed interest rate instruments	15,258,163	1,502,142	493,259	193,395	139,148	17,586,107
Total	**49,180,605**	**1,764,183**	**721,991**	**870,921**	**1,508,105**	**54,045,805**
At 31 December 2010						
Non-interest bearing	27,958,543	599,752	1,241,410	282,623	1,245,432	31,327,760
Fixed interest rate instruments	8,668,353	1,427,556	221,349	293,564	172,635	10,783,457
Total	**36,626,896**	**2,027,308**	**1,462,759**	**576,187**	**1,418,067**	**42,111,217**
Financial liabilities						
At 31 December 2011						
Non-interest bearing	13,228,997	7,711,123	171,076	71,922	1,884	21,185,002
Fixed interest rate instruments	440,286	742,803	364,953	770,927	-	2,318,969
Fluctuating interest rate instruments	3,007,148	29,632,924	9,272,568	13,400,372	547,280	55,860,292
Total	**16,676,431**	**38,086,850**	**9,808,597**	**14,243,221**	**549,164**	**79,364,263**
At 31 December 2010						
Non-interest bearing	10,531,302	57,938	3,748	-	-	10,592,988
Fixed interest rate instruments	445,327	446,809	1,137,970	949,484	316,495	3,296,085
Fluctuating interest rate instruments	5,934,238	19,859,076	30,136,984	16,437,968	1,992,197	74,360,463
Total	**16,910,867**	**20,363,823**	**31,278,702**	**17,387,452**	**2,308,692**	**88,249,536**

Maturity structure of borrowings is presented in Note 25(b), while liabilities towards suppliers (Note 29) are payable within 12 months.

3. FINANCIAL RISK MANAGEMENT (Continued)

3.2. Liquidity Risk (Continued)

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts discloses in the table are the contractual undiscounted payments. The table includes both interest and principal cash flows.

	Up to 3 month	From 3 to 12 months	From 1 to 2 years	From 2 to 5 years	Over 5 years	Total
At 31 December 2011						
Interest-bearing loans and borrowings	3,574,353	30,828,610	9,808,597	14,243,221	549,164	59,003,945
Accounts payable	8,050,023	49,767	-	-	-	8,099,790
Other current liabilities	5,052,055	7,208,473	-	-	-	12,260,528
Total	**16,676,431**	**38,086,850**	**9,808,597**	**14,243,221**	**549,164**	**79,364,263**
At 31 December 2010						
Interest-bearing loans and borrowings	6,380,120	20,331,943	31,278,702	17,387,452	2,308,692	77,686,909
Accounts payable	7,164,333	31,880	-	-	-	7,196,213
Other current liabilities	3,366,414	-	-	-	-	3,366,414
Total	**16,910,867**	**20,363,823**	**31,278,702**	**17,387,452**	**2,308,692**	**88,249,536**

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

3.3. Credit Risk

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

The Group is exposed to credit risk to a limited degree. Credit risk is managed by taking certain measures and activities on individual basis of the Group's entities, which are appropriate to their activities. In case of default in payments, the Group's entities disable further rendering of services to the customers.

In addition, the Group 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 Group also carries out the following measures: rescheduling of debts, compensations with corporate customers, initializing lawsuit, out-of-court settlements and other.

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

Information on credit risk exposure with respect to these receivables is disclosed in Note 20 to the consolidated financial statements.

3. FINANCIAL RISK MANAGEMENT (Continued)

3.3. Credit Risk (Continued)

Repayment of loans granted to the Group's employees is secured through the administrative ban on salaries, i.e. a salary deduction in the appropriate amount of the instalment. The employees leaving the Group member companies enter into agreements related to the repayment of the outstanding loan portion upon their leaving.

3.4. Capital Risk Management

The Group has adopted a financial capital concept and its maintenance pursuant to which the capital has been defined on the basis of nominal cash units. According to the foundation method, the Parent Company is a closed joint stock entity (Note 24).

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

The Group's objectives when managing capital are to safeguard the Group'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 owners. In order to maintain or adjust the capital structure, the Group 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 Group's strategy in respect of capital risk management has remained unchanged from the previous year.

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

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

	2011	**2010**
Total non-current and current borrowings	56,465,634	74,489,000
Less: Cash and cash equivalents (Note 23)	(17,941,876)	(9,785,260)
Net debt*	**38,523,758**	**64,703,740**
Capital	161,222,605	154,209,554
Total capital**	**199,746,363**	**218,913,294**
Gearing ratio	**19.3%**	**29.6%**

** Net debt is calculated as total borrowings (including current and non-current borrowings as shown in the consolidated statement of financial position) less cash and cash equivalents.*

*** Total capital is calculated as equity as shown in the consolidated statement of financial position plus net debt.*

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

3. FINANCIAL RISK MANAGEMENT (Continued)

3.5. Judgements on the Effects of the Global Financial Crisis

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

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

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

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

- *The effect of the crisis to the settlement of liabilities arising from loans extended in dinars, and, especially, in foreign currencies.* Although the Group's current liabilities as of 31 December 2011 exceed its current assets by RSD 19,443,140 thousand, the Group does not have liquidity problems, and/or problems with settlement of its liabilities. During 2011, the Parent Company repaid the borrowing per Arrangement A from Citibank N.A., London in the amount of EUR 69.96 million. As of 31 December 2011, the Parent Company completely repaid borrowings from Deutsche Bank A.G., London branch and Banca Intesa a.d., Belgrade. Moreover, the Group has considerable equity, which can also mitigate market risks. The management expects that the Company will be able to fulfil all its contracted liabilities arising from extended loans in accordance with the contracted terms.

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

3. FINANCIAL RISK MANAGEMENT (Continued)

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

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

The management deems that, in the given circumstances, it undertakes all necessary measures in order to secure the sustainable growth and development of the Group in the future. Furthermore, the management cannot reliably estimate the further effects of the crisis to the economic environment in the Republic of Serbia and the neighbouring countries, or the impact on the financial position and the results of the Group's operations, but they consider that the crisis cannot jeopardize the Group's ability to continue as a going concern.

3.6. Fair Value of Financial Assets and Liabilities

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

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

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

The Group does not have financial assets or financial liabilities carried at fair value in the consolidated statement of financial position. Securities available-for-sale, which comprise shares of banks listed in an active market, amounts to RSD 480 thousand as of 31 December 2011 (31 December 2010: RSD 537 thousand). The fair value of the financial instruments traded in active markets is based on quoted market prices at the reporting date. These instruments are included in level 1 of the fair value measurement hierarchy. Apart from the aforementioned financial instruments, the Group does not have any other financial assets or liabilities that are measured at fair value subsequent to their initial recognition.

The fair values of cash and short-term deposits, trade receivables, other receivables, trade payables and other current liabilities approximate their current amounts largely due to the short-term maturities of these instruments.

The fair value of financial assets measured at amortized cost (loans to employees) is estimated by discounting cash flows using a rate based on the market interest rate at which the Group could obtain long-term loans, and which approximates the effective interest rate.

3. FINANCIAL RISK MANAGEMENT (Continued)

3.6. Fair Value of Financial Assets and Liabilities (Continued)

The Group's management considers that the carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values.

The fair value of non-current borrowings is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments. Such fair value does not significantly differ from the carrying amount of non-current financial placements and borrowings stated in the Group's consolidated financial statements.

The fair values of financial assets and financial liabilities at the reporting date approximate their carrying amounts disclosed in Note 3 to the consolidated financial statements. The fair value of borrowings is disclosed in Note 25(a) to the consolidated financial statements.

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the consolidated financial statements in accordance with IFRS requires the Group's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date, as well as income and expenses for the reporting period.

These estimations and related assumptions are based on information available as of the reporting date. Actual results could differ from those estimates. These estimates and underlying assumptions are reviewed on an ongoing basis, and changes in estimates are recognized in the periods in which they become known.

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

Useful Lives of Intangible Assets, Property and Equipment

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

The Group's management believes that the accounting estimate related to the determination of the useful lives of intangible assets, property and equipment is a critical accounting estimate since it involves assumptions about technological development in an innovative industry.

Further, due to the significant weight of long-lived assets in the total assets, the impact of any changes in these assumptions could be material to the Group's financial position, and the results of its operations. As an example, if the Group was to shorten the average useful life for 10%, this would result in additional depreciation expense of approximately RSD 2,288,481 thousand for the twelve-month period.

4. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Impairment of Non-Financial Assets

At each reporting date, the Group's management reviews the carrying amounts of the Group's intangible assets and property and equipment presented in the consolidated financial statements. If there is any indication that such assets have been impaired, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying value, the carrying amount of the asset is reduced to its recoverable amount.

An impairment review requires Group's management to make subjective judgements concerning the cash flows, growth rates and discount rates of the cash generating units under review.

Impairment of Goodwill

The Group annually performs goodwill impairment test for the purpose of review if there is any indication of goodwill impairment in accordance with accounting policy disclosed in Note 2.13. The recoverable amount of cash generating units (CGU) has been determined based on fair value calculation, applying the income approach through Discounted Cash Flow method.

IAS 36 "Impairment of Assets" defines the recoverable amount as the higher of CGU's fair value less costs to sell and its value in use. If it is determined that either fair value less costs to sell or value in use exceeds the asset's carrying amount, the asset is not impaired and it is not necessary to estimate the other amount. These calculations require the use of estimates (Note 15).

If pre-tax discount rate used to discount cash flows was 0.5% higher than the rate estimated by the Group's management (for example for fixed telephony and internet services 11.8% instead of 11.3%, and for mobile telephony 11.6% instead of 11.1%), there would be no indications of goodwill impairment as of 31 December 2011.

Impairment of Accounts Receivable and Other Receivables

The Group calculates impairment for doubtful receivables based on estimated losses resulting from the inability of its customers make required payments.

The Group bases its estimate on the aging of the account receivables balance and its historical write-off experience, customer credit-worthiness and changes in its customer payment terms when evaluating the adequacy of the impairment loss for doubtful accounts. These involve assumptions about future customer behaviour and the resulting future cash collections.

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

Income and Expenses from International Traffic

The Parent Company and some of its subsidiaries ("Telekom Srpske" and "Mtel") have entered into numerous agreements on international traffic in fixed and mobile telephony.

The respective income and expenses, as well as receivables and payables resulting from these agreements are presented in the accompanying consolidated financial statements, and are associated with revenues and expenses generated on all incoming and outgoing international calls realized with countries with which the Parent Company and the above subsidiaries have direct international settlement.

4. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Income and Expenses from International Traffic (Continued)

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

Accounting for Provisions and Contingencies

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

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

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

Deferred Tax Assets

Deferred tax assets are recognized for all unused tax credits and tax losses available for carry forward to the extent to which taxable profit will be available against which the unused tax credits and tax losses can be utilized. Significant estimate of the management is necessary to determine the amount of deferred tax assets which can be recognized, based on the period in which it was created and the amount of future taxable profits (Note 14(c)).

Retirement and Other Post-Employment Benefits to Employees

The costs of defined employee benefits payable upon the termination of employment, i.e. retirement in accordance with the legal requirements, and the costs of jubilee awards are determined based on the actuarial valuation. The actuarial valuation includes an assessment of the discount rate, future movements in salaries, mortality rates and future increases in post-employment benefits. As these plans are long-term ones, significant uncertainties influence the outcome of the assessment. The actuarial valuation assumptions are disclosed in Note 27 to the consolidated financial statements.

Were the discount rate used to differ by 1 percentage point from the Group's management estimates, the provision for retirement benefits and anniversary awards would be an estimated RSD 146,649 thousand lower or RSD 168,135 thousand higher.

5. SALES

	2011	2010
Fixed telephony services:		
Domestic market	37,077,001	36,639,231
Foreign market	14,116,147	14,503,326
Related parties	207,399	361,287
	51,400,547	**51,503,844**
Mobile telephony services:		
Domestic market	32,726,550	32,773,528
Foreign market	18,428,229	20,338,519
Related parties	-	61,458
	51,154,779	**53,173,505**
Internet retail services:		
Domestic market	7,016,898	4,965,955
Foreign market	1,442,024	1,161,473
Related parties	-	14
	8,458,922	**6,127,442**
Multimedia services (IPTV):		
Domestic market	812,907	357,794
Foreign market	402,306	60,246
Related parties	-	20
	1,215,213	**418,060**
Physical/technical security and cleaning:		
Related parties	-	380,706
Domestic market	598,992	280,115
	598,992	**660,821**
Sales of handsets:		
Others	206,919	264,024
Related parties	-	1,972
	206,919	**265,996**
Total	**113,035,372**	**112,149,668**

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

As disclosed in Note 3.1(c) to the consolidated financial statements, starting from 1 August 2011, the subscription fee in the Republic of Serbia has been increased to RSD 430 and 300 free pulses have been included in the above fee for residential customers (instead of the previous 150 pulses). Furthermore, local call rates were increased, whereas long distance call rates were reduced. According to the Decision of the Agency, the rates for termination in the fixed network for traffic coming from the mobile network were reduced, while rates for termination of traffic coming from other fixed networks were increased and brought to cost basis.

5. SALES (Continued)

Structure by sales category is presented in the table below:

	2011	2010
Fixed telephony services:		
Traffic	25,072,923	27,510,009
Subscription	16,960,444	14,589,635
Leased circuit and data services	3,574,669	4,445,868
Connection and installation services	979,054	720,262
Interconnection	2,071,090	1,397,780
Wholesale of internet services	1,820,037	2,061,889
CDMA services	643,475	558,831
Other	278,855	219,570
	51,400,547	**51,503,844**
Mobile telephony services:		
Prepaid services	22,789,932	24,298,332
Postpaid services	*18,702,317*	*18,136,286*
- Traffic	10,078,445	10,252,235
- Subscription	8,623,872	7,884,051
Interconnection	7,895,421	7,799,966
National roaming – VIP Mobile d.o.o., Belgrade	28,438	239,093
Roaming	1,543,415	2,505,930
Other	195,256	193,898
	51,154,779	**53,173,505**
Retail of internet services	**8,458,922**	**6,127,442**
Multimedia services (IPTV)	**1,215,213**	**418,060**
Physical/technical security and cleaning:		
Physical/technical security	238,533	316,074
Cleaning	357,264	342,377
Other	3,195	2,370
	598,992	**660,821**
Sales of handsets:		
Fixed and other devices	9,385	6,671
Mobile phones	197,534	259,325
	206,919	**265,996**
Total	**113,035,372**	**112,149,668**

6. OTHER OPERATING INCOME

	2011	2010
Granted assets:		
- Intangible assets and equipment (Note 26)	437,787	462,638
- Inventories	17,195	2,138
- Other	2,395	11,225
	457,377	**476,001**
Reversal of impairment losses (Note 11(c))	1,973,266	1,466,150
Customer contract cancelation	446,997	501,147
Revenue from collected court costs	383,555	178,516
Sublicense revenues	285,786	-
Release of provision for retirement benefits and jubilee awards (Note 27)	218,659	151,366
Rental income	200,666	165,476
Gains on sale of material and waste material	115,875	121,896
Penalties	75,134	132,818
Fair value adjustment – employee loans	52,978	-
Damage compensations	36,840	35,111
Liabilities waived	20,350	1,035,162
Release of provision for litigations (Note 28)	13,102	11,370
Gains on sale of intangible assets, property and equipment	10,907	17,678
Recoveries of bad debt	2,246	3,914
Other income	753,354	694,471
Total	**5,047,092**	**4,991,076**

Liabilities waived totalling RSD 1,035,162 thousand for the year ended 31 December 2010 mostly relate to write-offs of the Consolidated Subsidiary's "Mtel" trade payables in the amount RSD 1,030,085 thousand (EUR 9,953,723).

7. WAGES, SALARIES AND OTHER PERSONNEL EXPENSES

	2011	2010
Gross salaries	12,628,040	11,924,278
Contributions on behalf of the employer	2,906,501	2,645,031
	15,534,541	**14,569,309**
Employee profit-sharing	1,302,793	1,434,249
Withholding tax	144,755	159,361
	1,447,548	**1,593,610**
Retirement benefits for voluntary termination of employment	1,558,095	-
Other personnel expenses	2,286,226	2,362,093
Total	**20,826,410**	**18,525,012**

7. WAGES, SALARIES AND OTHER PERSONNEL EXPENSES (Continued)

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

8. CHARGES OF OTHER NETWORK OPERATORS

	2011	2010
Interconnection:		
- Fixed telephony	3,483,985	3,290,212
- Mobile telephony	5,291,105	5,065,233
	8,775,090	**8,355,445**
International settlement and leased circuits	3,123,218	3,480,827
Roaming	1,158,500	1,669,110
Total	**13,056,808**	**13,505,382**

9. COST OF MATERIAL AND MAINTENANCE

	2011	2010
Material for rendering services	4,532,618	3,342,990
Fuel and energy	1,504,145	1,275,038
SIM cards	167,225	129,731
Spare parts	213,729	432,690
ADSL modems	438,193	736,841
Inventories for mobile internet access	53,049	116,349
Tools and inventories	46,808	36,288
Other material	940,156	943,419
	7,895,923	**7,013,346**
Cost of goods sold	226,201	311,962
Maintenance expenses	4,935,502	4,628,454
Transport expenses	1,255,012	1,314,090
Total	**14,312,638**	**13,267,852**

10. DEPRECIATION AND AMORTIZATION

	2011	2010
Amortization charge (Note 15)	3,969,749	3,896,782
Depreciation charge (Note 16)	21,541,813	20,704,462
Total	**25,511,562**	**24,601,244**

11. OTHER OPERATING EXPENSES

	2011	2010
Telecommunication license fees, approvals and frequency fees:		
Licenses for mobile telephony (a)	160,950	399,938
Licenses for fixed telephony (b)	93,537	84,575
Radio frequency, RRL, RBS and other fees	548,726	632,065
	803,213	**1,116,578**
Allowances for impairment of advances paid and receivables (c)	3,672,235	4,362,001
Marketing, advertisement and sponsorship fees	2,487,620	2,887,846
Consignment sale fees	1,308,615	1,307,339
Indirect taxes	1,214,219	1,088,198
Broadcast content fee	1,213,653	523,913
Insurance premiums	588,562	564,133
Fees and charges	407,345	871,386
Public utility services and heating	319,719	296,434
Bank charges	259,466	371,267
Losses on sale and disposal of intangible assets, property and equipment	242,493	252,210
Software license	212,347	203,130
Direct write-off of material and goods	200,938	411,036
Youth employment expenses	195,234	232,379
Grants and donations	159,933	197,355
Education and professional training	154,599	168,519
Audit fee and other professional services	136,634	152,313
Hygiene and security services	43,953	41,736
Data processing fees	93,296	37,200
Entertainment	67,868	77,922
Provision for litigations (Note 28)	32,206	120,689
Write-down of material (Note 19)	21,709	18,902
Provision for retirement benefits and jubilee awards (Note 27)	9,486	13,864
Fair value adjustment – employee loans	-	57,025
Research expenses	991	9,470
Other	1,183,023	1,450,765
Total	**15,029,357**	**16,833,610**

(a) The mobile telephony licence fee amounting to RSD 160,950 for the year ended 31 December 2011 (2010: RSD 399,938 thousand) relate to the License for public mobile telecommunication network and services for public mobile telecommunication network in accordance with GSM/ GSM1800 and UMTS/IMT-2000 standards, granted by the Agency for Telecommunications of the Republic of Serbia (RATEL) to the Parent Company on 28 July 2006 and the GSM/UMTS license granted by the Agency for Electronic Communications and Postal Services of Montenegro to the Consolidated Subsidiary "Mtel".

Out of the total amount of the above licenses fee, RSD 44,675 thousand relates to the Parent Company's license fee (2010: RSD 296,145 thousand), while the amount of RSD 116,275 thousand relates the license fee of the Consolidated Subsidiary "Mtel" (2010: RSD 103,793 thousand).

11. OTHER OPERATING EXPENSES (Continued)

(a) For 2011, the mobile telephony license fee of the Parent Company is calculated in the amount of 0.5% of the revenues earned from the sales in the commercial year for which the fee is paid pursuant to the new Rule Book on fees for the performance of electronic communications activities ("RS Official Gazette", no. 93 dated 8 December 2010), effective from 1 January 2011. For 2010, the license fee of the Parent Company was calculated in the amount of 0.9% of the total revenues earned in the commercial year for which the fee was to be paid.

(b) The fixed telephony license fee amounting to RSD 93,537 thousand (2010: RSD 84,575 thousand) relate to the Parent Company's fee for the License for construction, possessing and exploitation of public fixed telecommunication network and rendering public fixed telecommunication services, the fee payable by the Consolidated Subsidiary "Mtel" for the WiMAX Licence and the fee for the License for public fixed telephony operator issued to the Consolidated Subsidiary "Telekom Srpske".

The License for construction, possessing and exploitation of public fixed telecommunication network and rendering public fixed telecommunication services was issued to the Parent Company for the period throughout 9 June 2017, and the Parent Company may, in six months notice prior to the expiration of this period, submit the request for extension of the existing license. The fee for the year ended 31 December 2011 amounts to RSD 40,870 thousand (2010: RSD 40,750 thousand).

Pursuant to the new Rule Book on fees for the performance of electronic communications activities, effective in the Republic of Serbia from 1 January 2011, the license fee for 2011 was calculated in the amount of 0.08% of the revenues earned from the sales in the commercial year for which the fee is being paid, for the public fixed telecommunications network services provided via operator's own access network (voice service, data transmission, Internet access, media content transmission, etc.). For 2010, the license fee was calculated in the amount of 0.1% of the total revenue earned from services the license was issued for.

The Consolidated Subsidiary "Mtel" calculates and pays a monthly fee for the WiMAX License in the amount equal to 1.5% of revenue generated in the previous month from services the license relates to. The fee for the year ended 31 December 2011 amounts to RSD 5,376 thousand (2010: RSD 7,309 thousand).

The Consolidated Subsidiary "Telekom Srpske" calculates and pays "Fee for the usage of the License for public fixed telephony operator and for work in relation to management and monitoring of the license" to the Communications Regulatory Agency of Bosnia and Herzegovina. The fee for the year ended 31 December 2011 amounts to RSD 47,291 thousand (2010: RSD 36,516 thousand).

11. OTHER OPERATING EXPENSES (Continued)

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

	Advances for property and equipment (Note 17)	Trade receivables (Note 20)	Advances for goods and services (Note 20)	Other current assets (Note 21)	Total
Balance as of 1 January 2010	**83,565**	**10,238,495**	**41,427**	**501,642**	**10,865,129**
Charge for the year	17,802	4,164,438	69,603	110,158	4,362,001
Reversal of impairment losses (Note 6)	(55,613)	(1,365,291)	(33,436)	(11,810)	(1,466,150)
Transfer out of the books based on the year-end count	-	(433,485)	-	(829)	(434,314)
Other movements	(463)	26,317	(1,347)	11,631	36,138
Exchange differences	132	251,330	52	1,115	252,629
Balance as of 31 December 2010	**45,423**	**12,881,804**	**76,299**	**611,907**	**13,615,433**
Charge for the year	40,596	3,457,186	101,726	72,727	3,672,235
Reversal of impairment losses (Note 6)	(58,319)	(1,798,398)	(93,147)	(23,402)	(1,973,266)
Transfer out of the books based on the year-end count	(73)	(447,112)	-	(17,576)	(464,761)
Transfer (from)/to	-	(427,379)	20,433	(17,862)	(424,808)
Other movements	(492)	7,010	(424)	(1,725)	4,369
Exchange differences	(12)	(17,984)	(4)	95	(17,905)
Balance as of 31 December 2011	**27,123**	**13,655,127**	**104,883**	**624,164**	**14,411,297**

12. INTEREST EXPENSE, NET

	2011	2010
INTEREST INCOME		
Cash and cash equivalents	735,105	660,275
Short-term deposits	199,845	149,053
Penalty and other interest	514,521	533,455
Total	**1,449,471**	**1,342,783**
INTEREST EXPENSE		
Borrowings:		
- in the country	(212,498)	(271,426)
- abroad	(1,829,727)	(2,160,963)
Penalty interest	(10,466)	(25,999)
Total	**(2,052,691)**	**(2,458,388)**
Interest expense, net	**(603,220)**	**(1,115,605)**

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

13. FOREIGN EXCHANGE GAINS/(LOSSES), NET

	2011	2010
FOREIGN EXCHANGE GAINS		
Foreign exchange gains	2,416,335	1,711,714
Gains from foreign currency clause application	328,339	664,073
Total	**2,744,674**	**2,375,787**
FOREIGN EXCHANGE LOSSES		
Foreign exchange losses	(1,361,972)	(7,345,491)
Losses from foreign currency clause application	(349,033)	(1,032,662)
Total	**(1,711,005)**	**(8,378,153)**
Foreign exchange gains/(losses), net	**1,033,669**	**(6,002,366)**

14. INCOME TAXES

(a) Components of Income Taxes

	2011	2010
Current tax expense	1,752,660	1,284,205
Deferred tax income, net	(406,728)	(337,235)
Total income tax expense	**1,345,932**	**946,970**

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

	2011	2010
Profit before tax	**24,574,938**	**17,932,164**
Income tax at prescribed rates	**2,490,585**	**1,783,266**
Non-deductible expenses	257,903	199,862
Income reconciliation	52,709	68,880
Utilized tax credits	(1,455,265)	(1,105,038)
Income tax expense	**1,345,932**	**946,970**
Effective tax rate	*5.5%*	*5.3%*

(c) Deferred Tax Assets/Liabilities

Deferred tax assets/liabilities relate to the temporary differences arising between the carrying values of property, equipment and intangible assets and their tax base, and then to unpaid accrued public fees, provisions and retirement benefits, as well as deferred tax liabilities arising from business combinations, i.e. acquisition of the Consolidated Subsidiary "Telekom Srpske" and Consolidated Subsidiary "HD-WIN".

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

	2011	2010
Balance as of 1 January	**1,266,720**	**1,076,482**
Effects of temporary differences arising from different depreciation rates credited to the consolidated statement of comprehensive income	153,314	188,408
Effects of temporary differences arising from retirement benefits credited to the consolidated statement of comprehensive income	53,354	73,968
Effects of other temporary differences	1,134	(92,707)
Exchange differences	(1,701)	20,569
Balance as of 31 December	**1,472,821**	**1,266,720**

14. INCOME TAXES (Continued)

(c) Deferred Tax Assets/Liabilities (Continued)

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

	2011	2010
Balance as of 1 January	**2,176,619**	**2,133,774**
Effects of temporary differences credited to the consolidated statement of comprehensive income	(198,926)	(167,566)
Deferred taxes arising from business combination	41,025	-
Exchange differences	(22,760)	210,411
Balance as of 31 December	**1,995,958**	**2,176,619**

Unrecognized Deferred Tax Assets

The Group did not recognize deferred tax assets arising on not utilized tax credits and tax losses carried forward amounting to RSD 13,097,233 thousand as of 31 December 2011 (31 December 2010: RSD 12,201,079 thousand). This is due to uncertainty regarding utilization of credits carried forward.

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

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

The aforementioned tax credits expire as follows:

Date of origin/ Tax credit carry forward	Expiration date	31 December 2011	31 December 2010
2003	2013	1,130,339	1,130,414
2004	2014	1,898,932	1,899,006
2005	2015	1,592,525	1,592,599
2006	2016	1,026,961	1,028,036
2007	2012	-	14,745
2007	2017	1,552,021	1,552,096
2008	2013	36,822	40,938
2008	2018	1,559,955	1,560,029
2009	2014	54,409	54,855
2009	2019	1,024,608	1,024,682
2010	2020	2,304,605	2,304,679
2011	2021	916,056	-
Total		**13,097,233**	**12,201,079**

15. INTANGIBLE ASSETS

	Goodwill	Customer relations	Licenses	Software	Other intangible assets	Intangible assets under develop-ment	Total
Cost as of 1 January 2010	**30,528,110**	**15,909,326**	**18,859,007**	**12,170,242**	**-**	**924,768**	**78,391,453**
Additions	-	-	-	-	-	1,471,885	1,471,885
Transfer from intangible assets under development	-	-	234,557	875,179	-	(1,109,736)	-
Disposals	-	-	(652)	(422,405)	-	-	(423,057)
Transfer (from)/to	-	-	172	-	-	(402,296)	(402,124)
Other movements	-	-	468,127	(32,086)	-	14,930	450,971
Exchange differences	3,059,337	1,594,333	969,352	134,876	-	-	5,757,898
Balance as of 31 December 2010	**33,587,447**	**17,503,659**	**20,530,563**	**12,725,806**	**-**	**899,551**	**85,247,026**
Additions	-	-	-	-	-	1,256,125	1,256,125
Transfer from intangible assets under development	-	-	79,017	636,250	422,124	(1,137,391)	-
Additions as of the acquisition date	512,930	-	4,034	-	410,247	-	927,211
Disposals	-	-	(18,728)	(46,289)	-	-	(65,017)
Transfer (from)/to	-	-	312,248	458,214	-	(17,498)	752,964
Other movements	-	-	40,965	-	-	-	40,965
Exchange differences	(272,982)	(142,261)	(80,353)	362	10,760	-	(484,474)
Balance as of 31 December 2011	**33,827,395**	**17,361,398**	**20,867,746**	**13,774,343**	**843,131**	**1,000,787**	**87,674,800**
Accumulated amortization 1 January 2010	**-**	**2,240,863**	**5,148,240**	**9,993,521**	**-**	**20,097**	**17,402,721**
Amortization (Note 10)	-	967,375	1,853,885	1,043,127	-	32,395	3,896,782
Disposals	-	-	(576)	(421,368)	-	-	(421,944)
Other movements	-	-	231,815	12,863	-	(18,862)	225,816
Transfer (from)/to	-	-	-	-	-	(1,235)	(1,235)
Exchange differences	-	243,362	196,995	58,791	-	-	499,148
Balance as of 31 December 2010	**-**	**3,451,600**	**7,430,359**	**10,686,934**	**-**	**32,395**	**21,601,288**
Amortization (Note 10)	-	953,844	1,901,178	1,022,522	-	92,205	3,969,749
Additions as of the acquisition date	-	-	426	-	-	-	426
Disposals	-	-	(17,035)	(35,912)	-	-	(52,947)
Other movements	-	-	-	1,356	-	-	1,356
Transfer (from)/to	-	-	112	27,629	-	(32,395)	(4,654)
Exchange differences	-	(3,740)	357	3,943	-	-	560
Balance as of 31 December 2011	**-**	**4,401,704**	**9,315,397**	**11,706,472**	**-**	**92,205**	**25,515,778**
Net book value as of:							
- 31 December 2011	**33,827,395**	**12,959,694**	**11,552,349**	**2,067,871**	**843,131**	**908,582**	**62,159,022**
- 31 December 2010	**33,587,447**	**14,052,059**	**13,100,204**	**2,038,872**	**-**	**867,156**	**63,645,738**

15. INTANGIBLE ASSETS (Continued)

Goodwill amounting to RSD 33,827,395 thousand as of 31 December 2011 (31 December 2010: RSD 33,587,447 thousand) represents the excess of the cost of an acquisition over the fair value for the Parent Company's share of the net identifiable assets and contingent liabilities of the acquired subsidiary "Telekom Srpske" in the amount of RSD 33,314,465 thousand (31 December 2010: RSD 33,587,447 thousand), and the acquired subsidiary "HD-WIN" in the amount of RSD 512,930 thousand (Note 35).

Pursuant to the Share Purchase Agreement, the Parent Company acquired 319,428,193 ordinary shares of "Telekom Srpske" at the par value of 1 KM, representing 65.005851% of total share capital of "Telekom Srpske". With the closing of the transaction on 18 June 2007, the Parent Company effectively obtained control of "Telekom Srpske", thus "Telekom Srpske" has been consolidated in the Group's financial statements since that date (the acquisition date). The goodwill is attributable to "Telekom Srpske's" strong position and profitability, as well as to significant synergies emerging as a consequence of an increasing market share as well as efficiency increases resulting from utilization of common capacities.

On 2 August 2011 the Parent Company paid in the contribution for the purchase of the Telecommunications Company "HD-WIN" d.o.o., Belgrade and acquired 51% of interest in the capital of this company. The goodwill in the amount of RSD 512,930 thousand is attributable to significant synergies of IPTV platform and the plans for development of the WEB TV and other applications as well as to access to sport contents that "HD-WIN" offers.

Impairment of Goodwill Test

In accordance with adopted accounting policy described in Note 2.13., to the consolidated financial statements, during the annual test for impairment of goodwill acquired in a business combination on acquisition of Consolidated Subsidiary "Telekom Srpske" as of 31 December 2011, fixed telephony and broadband services and mobile telephony of the Consolidated Subsidiary "Telekom Srpske" are treated as cash generating units (CGU).

As of 31 December 2011 and 2010, the carrying amount of goodwill is allocated on CGUs as follows:

	2011	2010
Fixed telephony and internet services	5,544,659	5,591,229
Mobile telephony	27,769,806	27,996,218
	33,314,465	**33,587,447**

Goodwill is based on two elements, the going concern element of the acquired business ("Telekom Srpske") and all acquirer-specific synergies from the acquisition. The Parent Company expects the most significant synergy will be realized on the "Telekom Srpske" level as a whole.

The CGU's recoverable amount has been determined based on fair value calculation, applying the income approach through Discounted Cash Flow method. The analysis is based on the "Telekom Srpske" Budget for 2012 and the management's expectations related to the "Telekom Srpske" performance for the period from 2012 to 2016. Values in use of CGU were estimated as the sum of the net present value of cash flow which is expected to be generated by the use of invested business equity.

15. INTANGIBLE ASSETS (Continued)

Impairment of Goodwill Test (Continued)

The aforementioned Plan of operations projects growth of total fixed line services and broadband services revenues by 1.3% in 2013, by 1.0% in 2014, by 0.7% in 2015 and by 1.4% in 2016. In addition, the mobile telephony revenues are projected to grow by 8.0% in 2013, by 5.9% in 2014, by 4.2% in 2015 and by 3.3% in 2016, respectively.

The key assumptions used for the calculation of the value of the CGU are as follows:

- Determination of CGU's value in use is based on estimating the future cash inflows to be derived from continuing use of CGU. Projections used to derive values in use of fixed telephony and broadband services and mobile telephony of "Telekom Srpske" as CGUs, cover the five-year period from 2012 to 2016.
- In determination of value in use, projections of future operations were estimated for the CGU in its current operation conditions. Cash inflows and outflows from activities related to introduction of new technology are excluded from examination.
- The Beta coefficient measures the volatility of the return on a specific stock in relation to the market. As of the valuation date, the unlevered Beta for "Telekom Srpske" per group was set as the median Beta of companies in the same industry group, excluding their financing structure, and then corrected by the median debt-equity ratio for the comparable companies in the same industry group in order to include influence of their financing structure. Beta calculated in such way amounts to 0.5 in fixed telephony, 0.6 in mobile telephony.
- The adequate discount rate is estimated as the weighted average cost of capital (WACC) and amounts to 11.3% in fixed telephony and broadband services and 11.1% in mobile telephony. This rate was used to discount projected net cash flows for the period 2012 to 2016, as well as the residual value, to their present value.

Comparison of the carrying amount with the recoverable amount of each CGU as of 31 December 2011 is presented as follows:

FIXED TELEPHONY AND INTERNET SERVICES	In 000 RSD	In 000 KM
Recoverable amount of cash generating unit	47,329,079	884,622
Carrying amount of cash generating unit	40,356,173	754,292
Excess over carrying amount	**6,972,906**	**130,330**
CONCLUSION		*There is no impairment*

MOBILE TELEPHONY	In 000 RSD	In 000 KM
Recoverable amount of cash generating unit	71,249,989	1,331,725
Carrying amount of cash generating unit	66,274,558	1,238,729
Excess over carrying amount	**4,975,431**	**92,996**
CONCLUSION		*There is no impairment*

Based on the conducted impairment test, there is no indication of goodwill impairment at 31 December 2011 since each CGU's recoverable amount exceeds its carrying value.

15. INTANGIBLE ASSETS (Continued)

Customer relationship represents a contractual customer relationship of the Consolidated Subsidiary "Telekom Srpske". The contractual customer relationship consists of two assets: any contract in effect at the date of the business combination, and the relationship that may extend beyond the period of the actual contract validity.

Licenses relate to the GSM/UMTS licenses, other licences for mobile telephony, license for wireless fixed access (CDMA and WiMAX) and other licenses.

As of 31 December 2011, the carrying value of the GSM/UMTS licenses amounts to RSD 6,112,899 thousand (31 December 2010: RSD 6,853,217 thousand), the carrying value of the licenses for wireless fixed access (CDMA and WiMAX) amounts to RSD 44,490 thousand (31 December 2010: RSD 71,770 thousand), the carrying value of other mobile telephony licenses amounts to RSD 5,009,160 thousand (31 December 2010: RSD 5,924,584 thousand), while the carrying value of other licenses amounts to RSD 385,800 thousand (31 December 2010: RSD 250,633 thousand).

In April 2007, the Consolidated Subsidiary "Mtel", Podgorica was granted two licenses by the Agency for Electronic Communications and Postal Services of Montenegro (the "Agency"): the License for construction, possessing and exploitation of the combined public mobile telecommunication network and rendering public mobile telecommunication services in accordance with GSM/DCS-1800 and IMT-2000/UMTS (UMTS and GSM network) totalling EUR 16 million, and the License for providing public telecommunication services through wireless fixed access in the radio-frequency range from 3400-3600 MHz (WiMAX) totalling EUR 1.05 million. The Licenses are valid in Montenegro for a 15-year period, i.e. for a 5-year period from the date of enactment of the licenses. "Mtel" is obligated to pay an annual license fee for both licenses to the Agency, in the amount equal to 1.5% of total revenue earned in the preceding calendar year, generated from services the licenses relate to.

As collateral provided to secure the regular repayment of the loans granted by NLB banka d.d., Ljubljana, Slovenia, the License GSM-UMTS no. 01-124 issued by the Telecommunications Agency, registered under no. R-07062000034 in the Register of pledges with the Commercial Court in Podgorica was pledged (Note 25(c)/ii/). The net book value of the pledged license amounts to RSD 1,148,628 thousand as of 31 December 2011 (31 December 2010: RSD 1,270,626 thousand).

The Consolidated Subsidiary "Telekom Srpske" was granted the License for rendering GSM services in the territory of Bosnia and Herzegovina by the Communications Regulatory Agency of Bosnia and Herzegovina for a 15-year period from the date of granting the license, commencing from 12 October 2004. The net book value of this licence amounts to RSD 3,939,577 thousand as of 31 December 2011 (31 December 2010: RSD 4,503,329 thousand).

On 26 March 2009, the Communications Regulatory Agency of Bosnia and Herzegovina issued the License for provision of mobile services in universal mobile telecommunication systems to the Consolidated Subsidiary "Telekom Srpske" (UMTS license) for a 15-year period commencing from 1 April 2009. As of 31 December 2011, the net book value of this license amounts to RSD 1,024,697 thousand (31 December 2010: RSD 1,079,263 thousand).

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

16. PROPERTY, PLANT AND EQUIPMENT

	Land, phone lines, cable sewers and flats	Switches and transmitting devices	Other equipment	Investments in PP&E not owned by the Group	Construction in progress	Total
Cost as of 1 January 2010	**96,610,231**	**111,632,807**	**12,249,432**	**9,808,329**	**24,706,291**	**255,007,090**
Additions	-	-	-	-	18,575,887	18,575,887
Transfer from construction in progress	6,290,054	11,642,220	1,205,409	628,434	(19,766,117)	-
Grants (Note 26)	-	-	-	-	67,680	67,680
Disposals	(345,521)	(2,020,767)	(475,936)	(97,610)	(27,492)	(2,967,326)
Transfer (from)/to	(3,096)	(412,710)	18,680	-	(35,816)	(432,942)
Transfer from inventories	-	-	-	-	104,801	104,801
Other movements	2,093	(9,314)	(2,307)	(1,903)	(30,236)	(41,667)
Exchange differences	2,185,892	2,282,179	435,811	65,456	424,401	5,393,739
Balance as of 31 December 2010	**104,739,653**	**123,114,415**	**13,431,089**	**10,402,706**	**24,019,399**	**275,707,262**
Additions	-	-	-	-	13,360,698	13,360,698
Transfer from construction in progress	3,502,036	11,750,251	1,039,710	403,152	(16,695,149)	-
Grants (Note 26)	-	-	-	-	26,010	26,010
Additions as of the acquisition date	-	-	245,453	1,548	-	247,001
Disposals	(155,336)	(3,064,812)	(408,724)	(15,554)	(504,944)	(4,149,370)
Transfer (from)/to	(2,323)	36,628	2,044	(23,420)	(866,621)	(853,692)
Transfer (from)/to inventories	-	278,831	-	-	(6,170)	272,661
Other movements	(716)	7,101	2,412	-	-	8,797
Exchange differences	(182,663)	(187,365)	(37,651)	(5,657)	(55,940)	(469,276)
Balance as of 31 December 2011	**107,900,651**	**131,935,049**	**14,274,333**	**10,762,775**	**19,277,283**	**284,150,091**
Accumulated depreciation 1 January 2010	**31,212,729**	**55,488,002**	**6,692,851**	**7,089,223**	**710,094**	**101,192,899**
Transfer from construction in progress	70,495	327,977	23,250	29,641	(451,363)	-
Depreciation (Note 10)	4,887,396	12,539,844	1,521,690	1,074,656	680,876	20,704,462
Disposals	(253,509)	(1,197,508)	(427,580)	(62,273)	(46)	(1,940,916)
Transfer (from)/to	(2,357)	883	2,013	(539)	1,235	1,235
Other movements	193	(180,508)	(45,112)	-	(225,441)	(450,868)
Exchange differences	344,569	607,398	139,977	17,133	353	1,109,430
Balance as of 31 December 2010	**36,259,516**	**67,586,088**	**7,907,089**	**8,147,841**	**715,708**	**120,616,242**
Transfer from construction in progress	67,907	376,841	37,236	19,939	(501,923)	-
Depreciation (Note 10)	5,084,955	13,247,950	1,586,476	886,139	736,293	21,541,813
Additions as of the acquisition date	-	-	33,874	101	-	33,975
Disposals	(100,709)	(2,060,764)	(346,810)	(14,931)	(281,494)	(2,804,708)
Transfer (from)/to	(1,025)	1,040	(15)	-	4,654	4,654
Other movements	(221)	4,409	1,739	-	-	5,927
Exchange differences	(303)	(1,150)	(2,275)	(226)	202	(3,752)
Balance as of 31 December 2011	**41,310,120**	**79,154,414**	**9,217,314**	**9,038,863**	**673,440**	**139,394,151**
Net book value as of:						
- 31 December 2011	**66,590,531**	**52,780,635**	**5,057,019**	**1,723,912**	**18,603,843**	**144,755,940**
- 31 December 2010	**68,480,137**	**55,528,327**	**5,524,000**	**2,254,865**	**23,303,691**	**155,091,020**

16. PROPERTY, PLANT AND EQUIPMENT (Continued)

Cost of fully-depreciated property, equipment and intangible assets amounts to RSD 44,410,255 thousand as of 31 December 2011 (31 December 2010: RSD 36,477,723 thousand).

Construction in progress includes completed investments not yet transferred to property and equipment amounting to RSD 6,929,469 thousand as of 31 December 2011 (31 December 2010: RSD 6,153,721 thousand). The Group has charged depreciation for these investments.

Cost of construction in progress without any additions/investments for more than one year amounts to RSD 835,075 thousand as of 31 December 2011 (31 December 2010: RSD 1,855,125 thousand).

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

As collateral for the regular repayment of the long-term loan extended by Nova Ljubljanska banka – NLB d.d., Ljubljana, Slovenia to the Consolidated Subsidiary "Mtel" amounting to RSD 1,744,015 thousand as of 31 December 2011, pledge on its telecommunication equipment acquired from the foreign supplier Ericsson Credit A.B., Sweden, was registered. The purchase value (cost) of the pledged equipment amounts to RSD 3,220,140 thousand. The pledge was inscribed in the Pledge Registry of the Commercial Court in Podgorica on 24 September 2008 under the registration number R-08092400020 (Note 25(c)/ii/). The pledge was extended in the Pledge Registry of the Commercial Court in Podgorica on 22 September 2011 under the registration number C-1109220006.

As collateral for the regular repayment of the long-term loan extended by Hypo Alpe-Adria-Bank a.d., Podgorica to the Consolidated Subsidiary "Mtel" amounting to RSD 230,175 thousand as of 31 December 2011, the pledge on its equipment with the purchase value of RSD 610,244 thousand was registered. The pledge on equipment, acquired from the foreign supplier Intracom S.A. Telecom Solution, Greece, was inscribed in the Pledge Registry of the Commercial Court in Podgorica on 18 June 2009 under the registration number R-09061800166 (Note 25(c)/ii/).

As collateral for the regular repayment of the long-term loan extended by Podgoricka banka Societe Generale Group a.d., Podgorica to the Consolidated Subsidiary "Mtel" amounting to EUR 261,602 as of 31 December 2011, the pledge on its equipment was constituted, and the owner "Telekom Srpske" issued the "Letter of Support".

16. PROPERTY, PLANT AND EQUIPMENT (Continued)

The pledge on the telecommunication equipment acquired from the foreign supplier Ericsson AB, Stockholm, Sweden, with the purchase value of RSD 373,463 thousand, was inscribed on 16 February 2011 in the Pledge Registry of the Commercial Court in Podgorica under the registration number R-11021600017 (Note 25(c)/ii/). The pledge was supplemented on 6 July 2011 under the registration number M-11070600199 to the amount of RSD 45,101 thousand. In that manner, the Consolidated Subsidiary "Mtel" fulfilled its contractual obligation to ensure that pledged equipment amount to minimum EUR 4 million by 30 June 2011.

Pursuant to the Agreement on the telecommunication equipment pledge dated 15 September 2008, as collateral provided for regular repayment of the long-term loan extended by Ericsson Credit A.B., Sweden to the Consolidated Subsidiary "Mtel" in the amount of RSD 432,368 thousand as of 31 December 2011 (Note 25(c)/iv/), the pledge on its telecommunication equipment acquired from the foreign supplier Ericsson Credit A.B., Sweden, with the purchase value amounting to RSD 2,661,852 thousand, was registered. This pledge was inscribed in the Pledge Registry of the Commercial Court in Podgorica on 24 September 2008 under the registration number R-08092400053. The pledge was extended in the Pledge Registry of the Commercial Court in Podgorica on 22 September 2011 under the registration number C-1109220005.

Capital expenditure contracted for at the reporting date but not yet incurred, representing capital commitments, amount to RSD 3,510,840 thousand (Note 33(b)).

Lease rentals amounting to RSD 5,384,107 thousand (2010: RSD 5,366,412 thousand), mostly relating to the lease of business premises, warehouses and premises for radio base stations are included in the consolidated statement of comprehensive income within operating expenses.

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

17. ADVANCES FOR PROPERTY AND EQUIPMENT

	2011	2010
Payments in advance for property and equipment:		
- in RSD	165,203	364,103
- in foreign currency	197,721	177,340
Payments in advance for investments in property and equipment not owned by the Group	3,738	8,963
Payments in advance for non-current rent	147,065	58,793
	513,727	**609,199**
Less: Allowance for impairment (Note 11(c))	(27,123)	(45,423)
Balance as of 31 December	**486,604**	**563,776**

18. OTHER NON-CURRENT FINANCIAL ASSETS

	2011	2010
Loans to employees:		
- Residential	1,813,739	1,964,131
- For repurchase of apartments and vehicles	14,838	14,999
Other non-current loans	1,078	905
	1,829,655	1,980,035
Less: Fair value adjustment	(668,486)	(723,575)
Total loans	**1,161,169**	**1,256,460**
Non-current receivables	708,186	269,162
Term financial deposits	350,292	102,136
Other non-current financial assets	9,058	6,380
Placements to employees with respect to solidarity purposes	-	1,429
Non-current rentals	166,930	291,358
Balance as of 31 December	**2,395,635**	**1,926,925**

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

/i/ Employee residential loans are associated with the non-interest-bearing loans granted to the employees of the Parent Company and the Consolidated Subsidiary "Telekom Srpske" to address housing needs. In the Parent Company, the principal amount of the loans is expressed in EUR and is adjusted bi-annually to account for the changes in the RSD-EUR foreign exchange rate. Such loans are repayable in monthly instalments, and in most instances have 25-year maturities.

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

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

The fair value of loans to employees is based on cash flows discounted using a rate based on the market interest rate at which the Parent Company could obtain long-term loans and that reflect market rate for similar financial instruments in the current reporting period – 5.71% per annum (year ended 31 December 2010: 5.36% per annum). The Consolidated Subsidiary "Telekom Srpske" used a discount rate of 5.5% per annum (2010: 5.5% 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 in the Group is secured through the administrative ban on their salaries. None of the loans to employees is either past due or impaired.

18. OTHER NON-CURRENT FINANCIAL ASSETS (Continued)

Other long-term placements amounting to RSD 708,186 thousand as of 31 December 2011 include long-term receivables arising with respect to the Advertising Space Lease Contract for the seven-year period that the Parent Company concluded with the company “Stampa sistem” d.o.o., Belgrade in the amount of RSD 526,822 thousand, while the remaining amount of RSD 181,364 thousand relates to the long-term receivables of the Consolidated Subsidiary “Telekom Srpske” from the Government of the Republic of Srpska.

19. INVENTORIES

	2011	2010
Material and fuel	4,455,193	4,618,021
Spare parts	1,958,104	2,020,744
Tools	3,264,380	2,995,502
Waste material	15,716	105,639
	9,693,393	9,739,906
Less: Allowance for impairment		
Material and spare parts	(21,709)	(18,902)
Tools in use	(2,646,978)	(2,441,002)
Waste material	(15,716)	(105,639)
	7,008,990	**7,174,363**
Goods in warehouses	211,755	265,107
Goods in retail	33,408	29,232
	245,163	**294,339**
Balance as of 31 December	**7,254,153**	**7,468,702**

The amount of write-down of inventories recognized as an expense and included in other operating expenses totalled RSD 21,709 thousand (2010: RSD 18,902 thousand) (Note 11).

The cost of tools in use recognized as an expense is included in cost of material and maintenance (Note 9).

20. ACCOUNTS RECEIVABLE

	2011	2010
Trade receivables		
Fixed telephony, internet and multimedia services	10,702,730	9,771,127
Mobile telephony	13,855,869	14,148,722
International settlement of fixed telephony	1,474,009	1,878,709
Roaming	390,737	542,952
Interconnection	1,357,528	1,129,987
Other receivables	259,550	79,384
	28,040,423	**27,550,881**
Receivables from related parties		
OTE (Note 32(a))	2,876	7,629
	2,876	**7,629**
Payments in advance for goods and services	**739,561**	**625,171**
Gross accounts receivable	**28,782,860**	**28,183,681**
Less: Allowance for impairment		
Accounts receivable (Note 11(c))	(13,655,127)	(12,881,804)
Payments in advance (Note 11(c))	(104,883)	(76,299)
	(13,760,010)	**(12,958,103)**
Balance as of 31 December	**15,022,850**	**15,225,578**

Trade receivables are predominantly non-interest bearing.

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

The average collection period during the year ended 31 December 2011 was 47 days (year ended 31 December 2010: 48 days).

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

20. ACCOUNTS RECEIVABLE (Continued)

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

	2011	2010
Up to 30 days	11,818,875	11,237,824
From 30 to 60 days	2,223,683	2,639,428
From 60 to 180 days	2,176,862	3,490,960
From 180 to 360 days	2,140,778	2,988,407
Over 360 days	10,422,662	7,827,062
Total	**28,782,860**	**28,183,681**

As of 31 December 2011, receivables of RSD 15,022,850 thousand (31 December 2010: RSD 15,225,578 thousand) were considered to be fully performing.

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

As of 31 December 2011, receivables from fixed and mobile telephony services in the amount of RSD 1,987,433 thousand (31 December 2010: RSD 3,295,612 thousand) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

As of 31 December 2011, receivables in the amount of RSD 13,760,010 thousand (31 December 2010: RSD 12,958,103 thousand) were impaired and provided for in the amount of RSD 13,760,010 thousand (31 December 2010: RSD 12,958,103 thousand). It was assessed that a part of the receivables is expected to be recovered.

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

	2011	2010
RSD – local currency	10,837,887	10,548,467
EUR	1,992,744	2,454,110
BAM (KM)	1,951,524	2,004,514
Other currencies	240,695	218,487
Total	**15,022,850**	**15,225,578**

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

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

21. OTHER CURRENT ASSETS AND PREPAYMENTS

	2011	2010
Other receivables		
Other receivables from sales	250,510	251,023
Interest receivable	75,329	35,563
Receivables from employees	240,338	160,983
Overpaid taxes and contributions	34,655	31,643
Receivables for war damages on property and equipment and inventories	139,202	139,202
Receivables from the state institutions	96,537	90,493
Other receivables	644,177	296,222
	1,480,748	**1,005,129**
Current portion of non-current receivables from the Government of the Republic of Srpska	**50,816**	-
Deferred value added tax	740,791	550,819
Overpaid value added tax	13,892	122,398
	754,683	**673,217**
Short-term financial placements		
Time deposits in local currency	349,308	325,000
Time deposits in foreign currency	1,893,487	1,501,405
Other placements	1,888	1,853
	2,244,683	**1,828,258**
Accruals		
Prepaid expenses:		
Banks' commissions for a syndicated loan	73,618	281,921
Long-term loan origination fee	14,096	15,695
Rent	92,423	84,300
Insurance premiums	33,555	40,740
Licenses and frequencies fees	31,146	
Other	859,215	134,238
	1,104,053	**556,894**
Other current assets, gross and prepayments	**5,634,983**	**4,063,498**
Less: Allowance for impairment (Note 11(c))		
Other receivables from sales	(245,167)	(244,792)
Interest receivable	(6,147)	(6,157)
Receivables from employees	(4,384)	(4,117)
Overpaid taxes and contributions	(437)	(394)
Receivables for war damages on property and equipment and inventories	(139,202)	(139,202)
Receivables from the state institutions	(87,450)	(85,412)
Other receivables	(140,736)	(131,833)
Short-term financial placements	(641)	-
	(624,164)	**(611,907)**
Balance as of 31 December	**5,010,819**	**3,451,591**

21. OTHER CURRENT ASSETS AND PREPAYMENTS (Continued)

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

As of 31 December 2011, short-term financial placements (RSD 2,242,795 thousand) mostly relate to cash deposits placed with commercial banks for the period from 3 to 12 months.

Other current assets are predominantly non-interest bearing. The management of the Group considers that the carrying amounts net of related allowance for impairment disclosed above reasonably approximate fair values at the reporting date.

22. ACCRUED INCOME

	2011	2010
Accrued income:		
- International settlement of fixed telephony	417,811	553,360
- Mobile telephony	1,619,107	1,046,607
Other accrued income	81,284	25,620
Balance as of 31 December	**2,118,202**	**1,625,587**

As of 31 December 2011, accrued income arising from fixed telephony international settlement comprises uninvoiced revenue from international settlement for November and December 2011 in the estimated amount of RSD 328,284 thousand and unsettled international traffic settlements for the period prior to November 2011 amounting to RSD 89,527 thousand.

As of 31 December 2011, accrued income from mobile telephony traffic comprises accrued income from roaming services for November and December of 2011 estimated to RSD 212,609 thousand and uninvoiced income arising from International GSM roaming contracts – Network operators' discounts amounting to RSD 1,406,498 thousand.

23. CASH AND CASH EQUIVALENTS

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

	2011	2010
Current accounts	3,168,057	1,938,861
Foreign currency accounts	14,771,190	7,843,190
Cash coupons	2,629	3,209
Balance as of 31 December	**17,941,876**	**9,785,260**

24. EQUITY

/i/ Share Capital

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

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

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

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

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

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

The ultimate parent of the Group at 31 December 2011 and 2010 is the Republic of Serbia.

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

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

24. EQUITY (Continued)

/i/ Share Capital (Continued)

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

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

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

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

/ii/ Other Capital

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

/iii/ Reserves

Reserves amounting to RSD 15,099,742 thousand as of 31 December 2011 (31 December 2010: RSD 15,342,074 thousand) consist of legal reserves, statutory reserves, available-for-sale reserve (investments revaluation reserve) and foreign currency translation reserve.

The following describes the nature and purpose of each reserve within equity:

Legal Reserves

Legal reserves of the Group have been created from profit allocation, made in accordance with the relevant provision of the Companies Laws in the Republic of Srpska and the previously valid Company Law in the Republic of Serbia in the amount of not less than 5% of the net profit for the year.

Statutory Reserves

Statutory reserves represent the reserves formed in prior years in accordance with the previously valid legislation, by transferring a portion of initial capital contribution to statutory reserves, for the purpose of reconciling the value of capital with the amount registered with the Court Register.

24. EQUITY (Continued)

/iii/ Reserves (Continued)

Available-for-Sale Reserve (Investments Revaluation Reserve)

This reserve is used to record fair value changes (gains/losses) on financial assets classified as available for sale.

Foreign Currency Translation Reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries into the reporting currency, i.e. RSD.

Movements in reserves during the year were as follows:

	Legal reserves	Statutory reserves	Available-for-sale reserve	Translation reserve	Total reserves
Balance as of 1 January 2010	**1,028,997**	**24,509**	**239**	**9,740,880**	**10,794,625**
Transfer from retained earnings to legal reserves	271,528	-	-	-	271,528
Recognized in other comprehensive income:					
Fair value gains on available-for-sale financial assets, net	-	-	15	-	15
Currency translation differences	-	-	-	4,275,906	4,275,906
Balance as of 31 December 2010	**1,300,525**	**24,509**	**254**	**14,016,786**	**15,342,074**
Transfer from retained earnings to legal reserves	268,187	-	-	-	268,187
Recognized in other comprehensive income:					
Fair value losses on available-for-sale financial assets, net	-	-	(33)	-	(33)
Currency translation differences	-	-	-	(510,486)	(510,486)
Balance as of 31 December 2011	**1,568,712**	**24,509**	**221**	**13,506,300**	**15,099,742**

/iv/ Basic Earnings per Share

	2011	2010
Profit attributable to equity holders of the Parent Company (A)	21,861,746	15,145,828
Weighted average number of ordinary shares in issue (B)	1,080,000	1,080,000
Basic earnings per share (A/B)	**20.24**	**14.02**

25. BORROWINGS

(a) Structure of Borrowings

	2011	2010
Non-current borrowings		
Loans from:		
- Domestic banks	-	116,970
- Foreign banks	2,644,471	22,971,304
- Other financial institutions	-	35,085
	2,644,471	**23,123,359**
Commodity loans	**19,620,081**	**24,250,825**
Total non-current financial and commodity loans	*22,264,552*	*47,374,184*
Other non-current financial liabilities	1,103,409	2,072,599
Total	**23,367,961**	**49,446,783**
Current portion of non-current borrowings		
Loans from domestic banks	100,098	1,277,996
Loans from foreign banks	21,568,003	12,529,980
Loans from other financial institutions	34,800	70,237
Commodity loans	9,802,413	9,948,007
Other financial liabilities	1,589,859	697,614
Total	**33,095,173**	**24,523,834**
Balance as of 31 December	**56,463,134**	**73,970,617**

The fair value of non-current borrowings, which is based on cash flows discounted using a rate based on the interest rate of 5.71% per annum (2010: 5.36% per annum), amounts to RSD 22,358,328 thousand as of 31 December 2011 (31 December 2010: RSD 47,067,586 thousand).

The fair value of current portion of non-current borrowings equals their carrying amount.

(b) Maturity of Borrowings

	2011	2010
Up to 1 year – current portion of non-current borrowings	33,095,173	24,523,834
From 1 to 2 years	9,191,608	30,380,824
From 2 to 3 years	6,641,225	7,060,864
From 3 to 4 years	4,951,601	5,590,848
From 4 to 5 years	2,043,787	4,125,316
Over 5 years	539,740	2,288,931
Balance as of 31 December	**56,463,134**	**73,970,617**

25. BORROWINGS (Continued)

(c) Detailed Breakdown of Borrowings per Creditors

		31 December 2011		31 December 2010	
	Currency	In foreign currency	In RSD thousand	In foreign currency	In RSD thousand
/i/ Loans from domestic banks					
Banca Intesa a.d., Belgrade	EUR	-	-	10,000,000	1,054,982
Vojvodjanska banka a.d., Novi Sad	EUR	625,500	65,401	1,875,000	197,809
Beobanka a.d. in bankruptcy, Belgrade	EUR	331,582	34,697	331,582	34,981
Komercijalna banka a.d., Belgrade	EUR	-	-	1,016,074	107,194
		957,082	**100,098**	**13,222,656**	**1,394,966**
/ii/ Loans from foreign banks					
Citibank N.A., Great Britain	EUR	190,120,000	19,894,328	260,080,000	27,437,972
Deutsche Bank A.G., London branch	EUR	-	-	40,000,000	4,219,928
EFG New Europe Funding, the Netherlands	EUR	8,900,000	931,304	12,900,000	1,360,927
NLB banka d.d., Slovenia	EUR	16,666,667	1,744,015	19,696,970	2,077,995
Hypo Alpe- Adria- Bank a.d., Montenegro	EUR	2,199,663	230,175	3,833,831	404,462
Eurobank EFG Ltd., Cyprus	EUR	11,000,000	1,151,050	-	-
Podgoricka banka Societe Generale Group a.d., Montenegro	EUR	2,500,000	261,602	-	-
		231,386,330	**24,212,474**	**336,510,801**	**35,501,284**
/iii/ Loans from other financial institutions					
EBRD	EUR	332,565	34,800	998,328	105,322
		332,565	**34,800**	**998,328**	**105,322**
/iv/ Foreign commodity loans					
BNP Paribas, London branch	EUR	27,579,945	2,885,990	36,603,641	3,861,618
KfW, Germany	EUR	1,336,952	139,900	6,155,993	649,448
Nokia Siemens, Finland, Austria and the Netherlands	EUR	71,113,128	7,441,342	77,120,706	8,136,096
Ericsson Credit A.B., Sweden	EUR	36,353,064	3,804,017	34,363,873	3,625,327
Credit Agricole Cib Sverige, Sweden	EUR	27,175,632	2,843,683	33,436,635	3,527,505
Huawei Technologies Co. Ltd., China	EUR	14,273,916	1,493,635	37,383,103	3,943,850
Huawei Technologies Pte. Ltd., Singapore	EUR	5,946,199	622,216	4,426,424	466,980
Alcatel Lucent S.A., France	EUR	6,826,508	714,332	5,379,712	567,550
OTP Bank Plc, Hungary	EUR	1,062,414	111,172	1,328,017	140,103
NEC Europe Ltd., Hungary	EUR	-	-	100,943	10,649
Sitronics, the Czech Republic	EUR	1,013,430	106,046	1,772,548	187,001
Intracom S.A., Greece	EUR	5,680,435	594,406	7,705,706	812,938
Skandinaviska Enskilda Bank, Sweden	EUR	6,089,686	637,230	7,382,367	778,826
Commerzbank AG, Hamburg branch	EUR	3,298,413	345,149	4,397,883	463,969
EuroBank EFG Factors S.A., Greece	EUR	139,480	14,595	758,391	80,009
Government of Spain (Amper & Alcatel)	USD	2,256,290	182,472	2,256,290	179,243
Alcatel Lucent Italia S.p.A., Italy	EUR	790,003	82,666	1,106,004	116,682
Alcatel Lucent S.p.A., Belgium	EUR	1,455,993	152,356	2,563,544	270,449
China Development Bank, Shenzhen branch	EUR	15,787,174	1,651,984	-	-
Elsag Datamat S.p.A., Italy	EUR	366,987	38,402	471,841	49,779
/v/ Other commodity loans			**5,560,901**		**6,330,810**
Total commodity loans			*29,422,494*		*34,198,832*
/vi/ Other financial liabilities			**2,693,268**		**2,770,213**
Total borrowings			**56,463,134**		**73,970,617**
Less: Current portion of non-current borrowings					
/i/ Loans from domestic banks			(100,098)		(1,277,996)
/ii/ Loans from foreign banks			(21,568,003)		(12,529,980)
/iii/ Loans from other financial institutions			(34,800)		(70,237)
/iv/ Commodity loans			(9,802,413)		(9,948,007)
/v/ Other financial liabilities			(1,589,859)		(697,614)
			(33,095,173)		**(24,523,834)**
Total non-current borrowings			**23,367,961**		**49,446,783**

25. BORROWINGS (Continued)

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

Interest rates on loans granted by banks, foreign suppliers and financial institutions range from Euribor increased by 1% to Euribor increased by 2% per annum.

The Group pays interest at the rate of Euribor increased by 1.8% to Euribor increased by 2% per annum on the commodity loans granted by domestic suppliers.

The Consolidated Subsidiary "Mtel" pays interest at the rate of Euribor increased by 2.25% to Euribor increased by 7% on the commodity and financial loans.

Bank borrowings and commodity loans mature until 2017.

The Group regularly fulfils its due obligations in accordance with the terms of the loans agreements and determined annuity plans. Management expects that the Group will be able to meet all contractual obligations from borrowings on a timely basis going forward.

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

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

Financial liabilities towards Beobanka a.d., Belgrade in bankruptcy, ("Beobanka") in the amount of RSD 34,697 thousand as of 31 December 2011, relate to a loan settled by the former National Bank of Yugoslavia ("NBY") toward LHB Bank, Frankfurt on behalf of Beobanka, as guarantor and the Parent 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 Parent Company cannot settle its liabilities even though it requested the settlement permission from Beobanka.

As of 31 December 2011, the Group has no outstanding debts towards Komercijalna banka a.d., Belgrade, the Republic of Serbia. On 28 September 2011, the Consolidated Subsidiary "Mtel" made an early repayment of the borrowing and completely settled its liabilities arising from the long-term loan granted by this bank.

Domestic banks' loans are secured with 17 blank promissory notes issued by the Parent Company (Note 31(a)).

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

25. BORROWINGS (Continued)

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

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

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

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

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

Long-term borrowing from NLB banka d.d., Ljubljana, Slovenia, amounting to RSD 1,744,015 thousand as of 31 December 2011, relate to the loan agreement entered into by the Consolidated Subsidiary “Mtel” the for the purpose of financing the purchase of the GSM/UMTS License, purchase of telecommunication equipment and financing the start up costs.

As collateral provided to secure the regular repayment of the aforementioned loan, the pledge on the License GSM/UMTS no. 01-124, granted by the Agency for Electronic Communications and Postal Service of Montenegro, was inscribed and registered under no. R-07062000034 in the Pledge Registry of the Commercial Court in Podgorica (Note 15). In relation to the aforementioned loan arrangement, the owners of the Consolidated Subsidiary “Mtel” issued the “Letter of Comfort”, by which they gave additional guarantees for the preservation of liquidity and solvency and timely settlement of the above liability.

In addition, as collateral for the repayment of the aforementioned loan, the pledge over 85% of capital of the Consolidated Subsidiary “Mtel”, registered under no. R-07062000026 with the Register of pledges with the Commercial Court in Podgorica was constituted, as well as the pledge on the telecommunication equipment acquired from the foreign supplier Ericsson A.B., Sweden inscribed in the Pledge Registry of the Commercial Court in Podgorica under the registration number R-08092400020 (Note 16), and 10 authorized promissory notes supported with notes authorization clause were provided.

25. BORROWINGS (Continued)

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

/ii/ Long-term borrowings from Hypo Alpe-Adria-Bank a.d., Podgorica, amounting to RSD 230,175 thousand as of 31 December 2011, relate to the loan facility extended to the Consolidated Subsidiary "Mtel" in 2009. The loan is secured by the pledge on the telecommunication equipment acquired from the foreign supplier Intracom S.A. Telecom Solution, Greece, registered under no. R-09061800166 in the Pledge Registry of the Commercial Court in Podgorica (Note 16), and 20 authorized promissory notes supported with notes authorization clause.

Long-term borrowings of the Consolidated Subsidiary "Mtel" from Eurobank EFG Ltd., Cyprus, as of 31 December 2011 amount to RSD 1,151,050 thousand. The loan is secured with 10 authorized promissory notes supported with notes authorization clause, and a corporate guarantee in the amount of EUR 11 million issued by the Consolidated Subsidiary "Telekom Srpske". The Consolidated Subsidiary "Mtel" is obliged to ensure that there is no change of control in the existing ownership structure during the agreement period.

As of 31 December 2011, liabilities toward Societe Generale Group a.d., Podgorica in the amount of RSD 261,602 thousand relate to the loan agreement entered into by the Consolidated Subsidiary "Mtel". As collateral provided to secure the regular repayment of the aforementioned loan, in addition to 15 blank promissory notes supported with notes authorization clause, the telecommunication equipment acquired from the foreign supplier Ericsson A.B., Sweden, registered under no. R-11021600017 in the Register of pledges with the Commercial Court in Podgorica, was pledged, and the "Letter of support" by the Consolidated Subsidiary "Telekom Srpske" was issued. The pledge was amended on 6 July 2011 in the amount of RSD 45,101 thousand, within the Consolidated Subsidiary has fulfilled the obligation that pledge value must be in the amount of EUR 4 million until 30 June 2011 (Note 16).

/iii/ Liabilities towards the EBRD in the total amount of RSD 34,800 thousand as of 31 December 2011, relate to two loans granted to the Consolidated Subsidiary "Telekom Srpske" in 1998 and 2002 for urgent reconstruction of telecommunications.

/iv/ As of 31 December 2011, liabilities to BNP Paribas, London branch, amount to RSD 2,885,990 thousand. The loan was initially granted by Ericsson Credit A.B., Sweden, and it has been secured with assigned collateral rights on the Company's equipment (Note 16).

Collateral right is registered at the Register of pledges with the Agency for Commercial Registers of the Republic of Serbia, based on the Agreement and Commercial Register Agency' Decisions. In 2006 and 2007, the long-term borrowing from Ericsson Credit A.B., Sweden was transferred from Ericsson Credit A.B., Sweden to BNP Paribas, London branch. The substitution of a pledgee has not yet been registered in the Register of pledges.

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

25. BORROWINGS (Continued)

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

/iv/ As collateral for the regular repayment of the long-term loan extended by Ericsson Credit A.B., Sweden amounting to RSD 432,368 thousand as of 31 December 2011, the pledge was inscribed on telecommunication equipment of the Consolidated Subsidiary "Mtel", acquired from the foreign supplier Ericsson Credit A.B., Sweden and the pledge was registered in the Pledge Registry of the Commercial Court in Podgorica under the registration no. R-08092400053 (Note 16).

On 12 March 2010, the Consolidated Subsidiary "Mtel" and the creditor Ericsson Credit AB, Stockholm, Sweden concluded the agreement on the write-off of "Mtel's" liabilities in the amount of EUR 9 million.

Pursuant to the Loan Agreement signed with Ericsson Credit A.B., Sweden on 29 September 2011, the Consolidated Subsidiary "Mtel" is required to meet certain key performance indicators (Debt coverage, Total debts against capital and Current liquidity ratio). The outstanding liability in respect of this loan amounts to RSD 156,279 thousand as of 31 December 2011.

At 31 December 2011, the Consolidated Subsidiary "Mtel" has not fulfilled all required ratios, which gives the creditor the possibility to consider all of its receivables past due in full. Considering the fact that the creditor signed a statement dated 3 February 2011, by which it waived the right to use the clauses entitling it to request the settlement of the aforementioned liabilities until 31 March 2012, at the reporting date the management classified the non-current portion of this loan within non-current borrowings.

/v/ Other commodity loans total RSD 5,560,901 thousand as of 31 December 2011 (31 December 2010: RSD 6,330,810 thousand).

The total contract value of the work is principally financed with 10 percent advances, whereas 90 percent is financed from the loans provided by the project contractors. Repayment period of the aforementioned loans, as well as grace period, depends on contracted value of the particular loan. Commodity loans provided on this basis are primarily secured by the appropriate number of blank promissory notes issued in favour of the beneficiary, the construction contractor (Note 31(a)).

/vi/ Other long-term financial liabilities totalling RSD 2,693,268 thousand as of 31 December 2011 mostly relate to the liabilities for GSM license and UMTS license granted to the Consolidated Subsidiary "Telekom Srpske" by the Communications Regulatory Agency of Bosnia and Herzegovina, in the amount of RSD 729,308 thousand (KM 13.6 million) and RSD 1,115,233 thousand (KM 20.8 million), respectively.

/vii/ Undrawn commodity loans amount to RSD 3,510,840 thousand as of 31 December 2011 (31 December 2010: RSD 2,470,477 thousand). The majority of these loans have been granted at variable interest rates.

The facilities expiring within one year amount to RSD 679,827 thousand as of 31 December 2011 (31 December 2010: RSD 458,621 thousand), the facilities expiring from one up to 5 years amount to RSD 2,626,615 thousand (31 December 2010: RSD 2,011,856 thousand) and the facilities expiring over five years amount to RSD 204,398 thousand.

26. DEFERRED INCOME

	2011	2010
Grants from local municipalities	1,661,615	1,843,526
Grants from mobile telephony suppliers	911,338	1,352,611
Grants from other suppliers	173,984	191,247
Donations	263,840	357,404
Balance as of 31 December	**3,010,777**	**3,744,788**

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

Movements in deferred income during the year were as follows:

	2011	2010
Balance as of 1 January	**3,744,788**	**4,206,137**
Grants received during the year (Note 16)	26,010	67,680
Released to the consolidated statement of comprehensive income (Note 6)	(437,787)	(462,638)
Exchange differences and other movements	(322,234)	(66,391)
Balance as of 31 December	**3,010,777**	**3,744,788**

Other movements during the year ended 31 December 2011 in amount of RSD 316,975 thousand mostly relate to the adjustment of value of assets received free of charge from the suppliers . The value of equipment delivered upon the delivery agreement has been reduced pro rata, since granted assets could have been allocated to the specific purchases.

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

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

	2011	2010
Municipalities	20,054	-
Ericsson A.B., Sweden	1,087	7,761
Other	4,869	20,890
Total	**26,010**	**67,680**

27. EMPLOYEE BENEFITS

	2011	2010
Liability for retirement benefits	759,554	912,591
Liability for jubilee anniversary awards	1,152,287	1,387,918
Balance as of 31 December	**1,911,841**	**2,300,509**

Movements on employee benefits during the year were as follows:

	Retirement benefits	Jubilee anniversary awards	Total
Balance as of 1 January 2010	1,012,554	1,500,139	2,512,693
Charge for the year (Note 11)	13,864	-	13,864
Utilized	(7,861)	(115,602)	(123,463)
Release of provision (Note 6)	(125,347)	(26,019)	(151,366)
Exchange differences	19,381	29,400	48,781
Balance as of 31 December 2010	**912,591**	**1,387,918**	**2,300,509**
Charge for the year (Note 11)	1,220	8,266	9,486
Utilized	(25,298)	(146,428)	(171,726)
Release of provision (Note 6)	(98,646)	(120,013)	(218,659)
Other movements and exchange differences	(30,313)	22,544	(7,769)
Balance as of 31 December 2011	**759,554**	**1,152,287**	**1,911,841**

Liabilities for employee benefits have been recorded in the consolidated financial statements on the basis of the Report of an independent actuary as of 31 December 2011 and they are stated in the amount of discounted present value of future payments to the Group's employees, based on the assumptions applicable in economic environment in which the Parent Company and the Consolidated Subsidiaries operate.

In the Parent Company, when determining the present value of the expected outflow at 31 December 2011, the discount rate of 9% has been used, as it corresponds to the long-term rates of return on the high-performance debt securities, i.e. bonds of the Republic of Serbia, treasury bills of the National bank of Serbia and corporate shares from the A listing traded on the Belgrade Stock Exchange. This rate represents an appropriate rate according to the IAS 19 "Employee Benefits" in the absence of a developed market for high quality corporate bonds. The liability for employee benefits was determined in line with the Parent Company's Collective Agreement and the assumption of 6% nominal salary increase rate per annum, which reflects the projected long-term inflation rate, the median value of employees' service promotion and employee fluctuation rate ranging from 2% to 7% per annum.

27. EMPLOYEE BENEFITS (Continued)

When calculating the present value of retirement benefits and jubilee awards in the Consolidated Subsidiary "Telekom Srpske" the following assumptions were used: the discount rate of 7% per annum, projected salaries' growth of 4.5% per annum, projected year of service for retirement – 40 years for men and 35 years for women and projected employee fluctuation based on historic turnover data during the previous period, officially published mortality rates and other necessary conditions for the employees rights on long-term benefits.

28. PROVISIONS FOR OTHER LIABILITIES

	2011	2010
Provision for litigations	256,186	251,601
Other provisions for likely events	61,554	62,058
Balance as of 31 December	**317,740**	**313,659**

Movements in provisions during the year were as follows:

	Litigations	Other provisions	Total
Balance as of 1 January 2010	**141,471**	**56,406**	**197,877**
Charge for the year (Note 11)	120,689	-	120,689
Utilized	(3,035)	-	(3,035)
Release of provision (Note 6)	(11,370)	-	(11,370)
Exchange differences	3,846	5,652	9,498
Balance as of 31 December 2010	**251,601**	**62,058**	**313,659**
Charge for the year (Note 11)	32,206	-	32,206
Utilized	(13,594)	-	(13,594)
Release of provision (Note 6)	(13,102)	-	(13,102)
Exchange differences	(925)	(504)	(1,429)
Balance as of 31 December 2011	**256,186**	**61,554**	**317,740**

Provision for litigations was recognized based on the best estimate of probable adverse effects of charges brought against the Group. This estimate is based on the professional opinion of the competent legal departments of the Parent Company and the Consolidated Subsidiaries (Note 34(a)).

Other provisions for likely events amounting to RSD 61,554 thousand as of 31 December 2011 (31 December 2010: RSD 62,058 thousand) completely relate to the provision recognized by the Consolidated Subsidiary "Telekom Srpske" for the adjustments proposed by the Supreme Office for the Public Sector Auditing of the Republic of Srpska, based on the unrecognized multilateral compensation dating from the year of 2002 in the aforementioned amount.

29. ACCOUNTS PAYABLE

	2011	2010
Trade payables for equipment and services	7,247,290	5,876,794
Trade payables for telecommunication services:		
- Fixed telephony	517,778	694,134
- Mobile telephony	143,191	364,875
- Interconnection	21,981	26
Related parties' trade payables (Note 32(a))	2,119	3,015
Advances received	167,431	257,369
Balance as of 31 December	**8,099,790**	**7,196,213**

As of 31 December 2011, accounts payable amounting to RSD 2,707,245 thousand (31 December 2010: RSD 3,188,056 thousand) are denominated in foreign currency, mainly EUR.

Trade payables are non-interest bearing. The Group regularly settles its due obligations to suppliers.

The average payment period during the year ended 31 December 2011 was 50 days (year ended 31 December 2010: 59 days).

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

30. OTHER CURRENT LIABILITIES AND ACCRUALS

	2011	2010
Other liabilities		
Gross salaries	467,202	457,404
Interest payable	27,857	19,727
Dividends payable (a)	10,217,758	1,013,884
Liabilities to employees	47,106	21,083
Other liabilities	265,216	272,777
	11,025,139	**1,784,875**
Accruals and deferred income		
Accrued expenses from international traffic:		
International settlement (b)	279,232	298,521
Roaming (c)	1,694,423	1,030,040
	1,973,655	**1,328,561**
Accrued other expenses:		
Employee profit-sharing (d)	1,484,533	1,678,713
Accrued vacations	429,193	448,443
Accrued interest expenses (e)	282,718	296,343
Accrued other expenses (f)	6,297,414	6,298,464
	8,493,858	**8,721,963**
Deferred income:		
Mobile phone services	895,865	887,199
Chip cards	16,994	39,342
Lease	402,912	173,931
Fixed telephony subscription	1,221,750	1,123,158
Subscription for special telephone services	73,670	79,213
Other deferred income	27,273	16,963
	2,638,464	**2,319,806**
Deferred liabilities for value added tax	227,072	154,789
Value added tax and other tax liabilities	1,098,578	1,581,539
Balance as of 31 December	**25,456,766**	**15,891,533**

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

30. OTHER CURRENT LIABILITIES AND ACCRUALS (Continued)

(a) As of 31 December 2011, dividends payable totalling RSD 10,217,758 thousand relate to the liabilities to Parent Company's shareholders in the amount of RSD 8,894,476 thousand and liabilities of the Consolidated Subsidiary "Telekom Srpske" toward its minority shareholders in the amount of RSD 1,323,282 thousand.

Liabilities of the Parent Company relate to the dividends payable to its shareholders: the Republic of Serbia in the amount of RSD 7,115,581 thousand and OTE in the amount of RSD 1,778,895 thousand.

On 29 December 2011, the Parent Company's Shareholders Assembly passed the Decision on distribution of the interim dividends based on the Parent Company's financial statements for the nine-month period ended 30 September 2011. It is envisaged that the above mentioned liability to the shareholder OTE should be settled by the end of January 2012. The final amount of dividends that belongs to the shareholders will be determined subsequent to the adoption of the Parent Company's financial statements for the year ended 31 December 2011 (Notes 24/i/ and 37(b)).

(b) As of 31 December 2011, accrued expenses arising from fixed international traffic totalling RSD 279,232 thousand comprise liabilities for uninvoiced expenses for November and December 2011 in the estimated amount of RSD 233,956 thousand and unreconciled liabilities arising from international traffic settlements for the period until November 2011 in the amount of RSD 45,276 thousand.

(c) As of 31 December 2011, accrued roaming expenses totalling RSD 1,694,423 thousand relate to uninvoiced roaming services for November and December 2011, estimated to RSD 179,970 thousand and uninvoiced expenses based on the International GSM roaming contract – Network operators' discounts amounting to RSD 1,514,453 thousand.

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

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

(f) Accrued other expenses amounting to RSD 6,297,414 thousand as of 31 December 2011 mostly relate to estimated uninvoiced expenses for services provided by suppliers during the year ended 31 December 2011.

31. OFF-BALANCE SHEET ITEMS

	2011	2010
Issued promissory notes (a)	10,100,998	9,848,336
Guarantees received (b)	1,313,450	51,738
Property and equipment in liquidation	1,141,475	2,072,932
Other off-balance sheet items (c)	2,998,467	4,834,441
Balance as of 31 December	**15,554,390**	**16,807,447**

(a) Promissory notes were issued in favour of banks, state authorities and suppliers as collateral for securing regular and timely repayment of financial and commodity loans, as well as other liabilities from ordinary course of business.

Promissory notes issued in favour of state authorities represent collateral for securing repayment of liabilities to the Ministry of Finance of the Republic of Srpska for the loans granted by EBRD and the Ministry of Finance and Treasury of Bosnia and Herzegovina for the GSM license.

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

	2011	2010
Issued promissory notes in favour of:		
- Banks	5,764,933	5,688,227
- State authorities	3,429,358	2,244,712
- Suppliers	906,707	1,915,397
Balance as of 31 December	**10,100,998**	**9,848,336**

(b) Guarantees received relate to guarantees issued by banks as collateral for timely and regular repayment of commodity loans and other liabilities toward foreign banks and suppliers.

(c) Other off-balance sheet items amounting to RSD 4,834,441 thousand as of 31 December 2010 mostly relate to commission and consignment sale of goods in the Consolidated Subsidiary “Telekom Srpske” in the amount of RSD 3,160,636 thousand.

32. RELATED PARTY DISCLOSURES

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

(a) Outstanding balances of receivables and liabilities as of 31 December 2011 and 2010, arising from the purchase and/or sale of goods/services from/to the shareholders (Note 24) are summarized below:

	2011	2010
RECEIVABLES		
OTE		
Gross accounts receivable (Note 20)	2,876	7,629
Accrued income from international settlement	14,299	5,217
Balance as of 31 December	**17,175**	**12,846**

	2011	2010
LIABILITIES		
OTE		
Accounts payable (Note 29)	2,119	3,015
Dividends payable (Note 30(a))	1,778,895	-
Accrued expenses from international settlement	1,560	16,576
Balance as of 31 December	**1,782,574**	**19,591**

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

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

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

32. RELATED PARTY DISCLOSURES (Continued)

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

	2011	2010
JP PTT		
Revenues:		
Income from fixed telephony, internet and other services	-	264,812
Income from mobile telephony	-	61,458
Physical/technical security and cleaning	-	380,706
Mobile phones	-	1,972
	-	**708,948**
Expenses:	-	
Rents	-	(2,028,473)
Cost of delivery and collection of phone bills and telegrams	-	(776,595)
Printing services	-	(2,009)
Electricity	-	(246,160)
Electronic data processing	-	(37,200)
City land rental fee	-	(992)
Postal services	-	(20,898)
Utilities	-	(28,311)
Maintenance	-	(33,025)
CALL centre services	-	(12,085)
Fees and commissions	-	(7,392)
Other		(9,145)
	-	**(3,202,285)**
Net expenses	**-**	**(2,493,337)**
OTE		
Revenues:		
International settlement	207,399	96,511
	207,399	**96,511**
Expenses:		
International settlement	(26,361)	(30,738)
	(26,361)	**(30,738)**
Net income	**181,038**	**65,773**
Total revenues/(expenses), net	**181,038**	**(2,427,564)**

Income and expenses presented for the year ended 31 December 2010, arising from transactions with JP PTT, relate to the period from January to September 2010, when, subsequent to the transfer of the shares to the Republic of Serbia JP PTT ceased to be the shareholder of the Parent Company (Note 24/i/).

32. RELATED PARTY DISCLOSURES (Continued)

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

	2011	**2010**
Gross salaries	439,428	390,353
Compensations for business trips	28,971	23,559
Residential housing loans	144,796	149,845
Employee profit-sharing	90,554	87,570
Loans for repurchase of vehicles	27,989	28,791
Other benefits	3,207	2,994
Total	**734,945**	**683,112**

The housing loans to key management personnel are repayable monthly over at most 25 years and have been granted under the same conditions as for other Group's employees (Note 18). No provision has been required for the loans made to key management personnel.

33. COMMITMENTS

Commitments comprise the following:

	2011	**2010**
Operating lease commitments (a)	11,880,407	11,537,921
Construction of the mobile and fixed-line telecommunication network (b)	3,510,840	2,470,477
Balance as of 31 December	**15,391,247**	**14,008,398**

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

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

	2011	**2010**
Up to 1 year	2,105,574	1,862,811
From 1 to 5 years	5,923,149	5,294,853
Over 5 years	3,851,684	4,380,257
	11,880,407	**11,537,921**

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

33. COMMITMENTS (Continued)

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

34. CONTINGENT LIABILITIES

(a) Litigations

As of 31 December 2011, the total estimated value of potential damage claims arising from legal proceedings filed against the Group and still in course amounts to RSD 4,375,548 thousand (31 December 2010: RSD 4,187,858 thousand), excluding penalty interest that may arise thereto.

Out of the aforementioned amount, the estimated contingent liabilities arising from lawsuits filed against the Parent Company amount to RSD 786,282 thousand (31 December 2010: RSD 732,947 thousand), while the remaining damage claims relate to the following Consolidated Subsidiaries: “Telekom Srpske” in the amount of RSD 3,484,227 thousand (31 December 2010: RSD 3,353,870 thousand), “Mtel” in the amount of RSD 19,938 thousand (31 December 2010: RSD 24,828 thousand), “Fibernet” in the amount of RSD 74,552 thousand (31 December 2010: RSD 75,163 thousand) and “Telus” in the amount of RSD 10,549 thousand (31 December 2010: RSD 1,050 thousand), respectively.

On 19 May 2010, the lawsuit against the Consolidated Subsidiary “Telekom Srpske” was filed by the company “Aneks”, Banja Luka claiming damages in the amount of RSD 2,219,356 thousand based on an illegal agreement, abuse of dominant position as well as unfair competition on the telecommunication market of Bosnia and Herzegovina.

On 26 February 2010, the lawsuit against the Consolidated Subsidiary “Telekom Srpske” was filed by the company “Crumb Group” Bijeljina. The latter amended the lawsuit in January 2012, increasing the value of the damage claim from KM 10 million to KM 17 million, i.e., RSD 909,535 thousand. The claim is based on preventing the plaintiff to conclude an agreement on interconnection and accession to the existing telecommunications infrastructure.

In addition, the corporation “Herm Multinational Corporation”, the United States of America, filed a lawsuit in the amount of RSD 65,657,383 thousand against “Jat Airways” a.d., Belgrade, the Parent Company and the Republic of Serbia. The damage claim arises from the plaintiff’s allegations that the corporation is the legal successor of the company “Slovenj Gradec” d.o.o., Slovenia, and that the liabilities to it have not been settled in accordance with the Agreement on the construction of the commercial building in no. 16, Bulevar umetnosti, Novi Beograd. The Agreement on the construction of the aforementioned building was concluded for the first phase by “Jat Airways” a.d., Belgrade in 1988, and for the second phase of construction by “Jat Airways” a.d., Belgrade and JP PTT saobracaja “Srbija”, Belgrade in 1994, i.e., significantly before the incorporation of the Parent Company. In November 2011, the dispute was concluded by the court decision which determined that the lawsuit had been withdrawn. In January 2012, the Parent Company submitted to the court the request for the issuance of the certificate of finality of judgment on the decision to withdraw the lawsuit. In March 2012, the competent court issued the certificate of finality of judgment to the Parent Company.

34. CONTINGENT LIABILITIES (Continued)

(a) Litigations (Continued)

The final outcome of the legal proceedings still in course is uncertain. As disclosed in Note 28 to the consolidated financial statements, as of 31 December 2011, the Group recognized the amount of RSD 256,186 thousand (31 December 2010: RSD 251,601 thousand) for potential losses that might arise as a result of the aforementioned legal claims. The Group's management considers that no material liabilities will arise as a result of the remaining legal proceedings still in course, other than those provided for.

(b) Tax Risks

Tax systems in the Republic of Serbia and the states where the major Consolidated Subsidiaries operate – the Republic of Srpska and Montenegro are undergoing continuous amendments. Tax period in the Republic of Serbia, Republic of Srpska and Montenegro is considered to be open in the five-year period. In different circumstances, tax authorities could have different approach to some issues, and could detect additional tax liabilities together with related penalty interest and fines. The Group's management believes that tax liabilities recognized in the accompanying consolidated financial statements are fairly presented.

35. BUSINESS COMBINATIONS DURING THE REPORTING PERIOD

As disclosed in Note 1 to the consolidated financial statements, the Parent Company's Managing Board at its regular LIX meeting held on 13 July 2011 brought the Decision on acquisition of the Telecommunications Company "HD-WIN" d.o.o., Belgrade ("HD-WIN"), which is entitled for sport broadcasting rights on the territory of the Republic of Serbia, Bosnia and Herzegovina, Montenegro and Croatia.

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

The acquisition date, when the Parent Company effectively obtained control of "HD-WIN" and paid in the above mentioned consideration was 2 August 2011, thus "HD-WIN" has been consolidated in the Group financial statements as of that date.

As a result of the aforementioned acquisition, it is expected that the Group will increase its presence and market share at multimedia services market.

"HD-WIN" contributed to consolidated revenues in the amount of RSD 315,610 thousand and reduced consolidated net profit by RSD 432,140 thousand for the period from 2 August until 31 December 2011.

If the acquisition of "HD-WIN" had occurred on 1 January 2011, the Group's revenue would have been RSD 122,926,908 thousand and profit for the year would have been RSD 22,957,256 thousand. These amounts have been calculated using the Group's accounting policies.

35. BUSINESS COMBINATIONS DURING THE REPORTIGN PERIOD (Continued)

The purchase consideration was fully paid in cash. Details of net assets acquired and goodwill are as follows:

Purchase consideration:	
- Cash paid	790,476
Total purchase consideration	**790,476**
Fair value of net assets acquired	(277,546)
Goodwill (Note 15)	**512,930**

The goodwill is attributable to "HD-WIN" brand, as well as to significant synergies emerging as a consequence of an increasing market share at multimedia services market, as well as efficiency increases resulting from utilization of common capacities.

The assets and liabilities as of 2 August 2011 arising from the acquisition are as follows:

	Fair value	Acquiree's carrying amount
Intangible assets	1,509,818	1,099,571
Property, plant and equipment	221,349	221,349
Non-current financial placements	9,524	9,524
Inventories	775	775
Accounts receivables	80,451	80,451
Other current assets	1,783	1,783
Cash and cash equivalents	838,521	51,949
Borrowings, total	(45,265)	(45,265)
Other non-current liabilities	(163,075)	(171,245)
Current portion of non-current liabilities	(853,419)	(853,419)
Accounts payable	(1,002,555)	(1,002,555)
Other current liabilities and accruals	(5,858)	(5,858)
Deferred tax liabilities, net	(47,839)	(6,814)
Net assets/(liabilities)	**544,210**	**(619,754)**
Non-controlling interest (49%)	(266,664)	
Net assets acquired	**277,546**	
Purchase consideration settled in cash		790,476
Cash and cash equivalents acquired		(427,646)
Cash outflow on acquisition		**362,830**

There was no acquisition by the Parent Company in the year ended 31 December 2010.

36. OPERATING SEGMENT INFORMATION

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

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

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

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

The accounting policies of the reportable segments are the same as the Group's accounting policies disclosed in Note 2 to the consolidated financial statements.

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

36. OPERATING SEGMENT INFORMATION (Continued)

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

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

	Mobile telephony	Internet	Multimedia services	Fixed telephony and other services	Total
Sales	51,352,313	8,458,922	1,215,213	52,008,924	113,035,372
Other operating income	2,746,684	113,325	32,309	2,154,774	5,047,092
Inter-segment settlement	5,992,683	63	-	9,899,300	15,892,046
Operating income	**60,091,680**	**8,572,310**	**1,247,522**	**64,062,998**	**133,974,510**
Wages, salaries and other personnel expenses	(4,141,740)	(1,705,941)	(899,494)	(14,079,235)	(20,826,410)
Charges of other network operators	(6,449,605)	-	-	(6,607,203)	(13,056,808)
Cost of material and maintenance	(7,761,747)	(739,012)	(170,223)	(5,641,656)	(14,312,638)
Depreciation and amortization	(10,380,196)	(493,770)	(768,905)	(13,868,691)	(25,511,562)
Rental costs	(2,169,361)	(356,428)	(198,672)	(2,659,646)	(5,384,107)
Other operating expenses	(7,370,610)	(568,458)	(1,047,765)	(6,042,524)	(15,029,357)
Inter-segment settlement	(6,553,558)	(3,027,624)	-	(6,310,864)	(15,892,046)
Operating expenses	**(44,826,817)**	**(6,891,233)**	**(3,085,059)**	**(55,209,819)**	**(110,012,928)**
Operating profit/(loss)	**15,264,863**	**1,681,077**	**(1,837,537)**	**8,853,179**	**23,961,582**
Interest income	591,073	62,377	6,401	789,621	1,449,472
Interest expense	(1,237,950)	(45,367)	(52,082)	(717,293)	(2,052,692)
Foreign exchange gains, net	522,262	19,028	11,036	481,343	1,033,669
Other financial income	12,425	-	-	170,482	182,907
	(112,190)	**36,038**	**(34,645)**	**724,153**	**613,356**
Profit/(loss) before tax	**15,152,673**	**1,717,115**	**(1,872,182)**	**9,577,332**	**24,574,938**
Income tax expense	(771,142)	(87,386)	-	(487,404)	(1,345,932)
Profit/(loss) for the year	**14,381,531**	**1,629,729**	**(1,872,182)**	**9,089,928**	**23,229,006**

36. OPERATING SEGMENT INFORMATION (Continued)

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

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

	Mobile telephony	Internet	Multimedia services	Fixed telephony and other services	Total
Sales	53,432,830	6,127,442	418,060	52,171,336	112,149,668
Other operating income	2,849,749	49,252	20,283	2,071,792	4,991,076
Inter-segment settlement	6,259,084	63	-	8,597,567	14,856,714
Operating income	**62,541,663**	**6,176,757**	**438,343**	**62,840,695**	**131,997,458**
Wages, salaries and other personnel expenses	(3,648,943)	(1,115,501)	(657,211)	(13,103,357)	(18,525,012)
Charges of other network operators	(6,734,343)	-	-	(6,771,039)	(13,505,382)
Cost of material and maintenance	(6,783,318)	(1,004,895)	(174,439)	(5,305,200)	(13,267,852)
Depreciation and amortization	(9,493,635)	(373,342)	(447,481)	(14,286,786)	(24,601,244)
Rental costs	(2,242,478)	(208,836)	(135,883)	(2,779,215)	(5,366,412)
Other operating expenses	(9,776,746)	(451,437)	(764,652)	(5,840,775)	(16,833,610)
Inter-segment settlement	(5,860,929)	(2,482,064)	-	(6,513,721)	(14,856,714)
Operating expenses	**(44,540,392)**	**(5,636,075)**	**(2,179,666)**	**(54,600,093)**	**(106,956,226)**
Operating profit/(loss)	**18,001,271**	**540,682**	**(1,741,323)**	**8,240,602**	**25,041,232**
Interest income	474,560	42,426	2,480	823,317	1,342,783
Interest expense	(1,258,723)	(29,023)	(28,621)	(1,142,021)	(2,458,388)
Foreign exchange losses, net	(2,705,192)	(29,950)	(44,045)	(3,223,179)	(6,002,366)
Other financial income	8,657	-	-	246	8,903
	(3,480,698)	**(16,547)**	**(70,186)**	**(3,541,637)**	**(7,109,068)**
Profit/(loss) before tax	**14,520,573**	**524,135**	**(1,811,509)**	**4,698,965**	**17,932,164**
Income tax expense	(696,453)	(25,137)	-	(225,380)	(946,970)
Profit/(loss) for the year	**13,824,120**	**498,998**	**(1,811,509)**	**4,473,585**	**16,985,194**

Inter-segment revenues and expenses are eliminated on consolidation.

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

The sale revenue from external customers reported to the management is measured in a manner consistent with that in the consolidated statement of comprehensive income.

36. OPERATING SEGMENT INFORMATION (Continued)

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

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

	Mobile telephony	Internet	Multimedia services	Fixed telephony and other services	Total
Assets	82,861,321	5,502,139	1,465,239	133,489,007	**223,317,706**
Liabilities	50,574,515	2,921,706	2,366,052	39,400,275	**95,262,548**
Capital expenditure (Notes 15 and 16)	5,718,515	340,014	884,259	7,674,035	**14,616,823**

Segments' assets do not include Goodwill (RSD 33,827,395 thousand) and deferred tax assets (RSD 1,472,821 thousand), while segments' liabilities do not include deferred tax liabilities (RSD 1,995,958 thousand) income tax payable (RSD 136,811 thousand), as these assets and liabilities are managed on the Group's level.

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

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

	Mobile telephony	Internet	Multimedia services	Fixed telephony and other services	Total
Assets	83,710,096	4,087,783	1,435,611	135,963,240	**225,196,730**
Liabilities	57,176,700	2,116,999	1,774,664	42,867,339	**103,935,702**
Capital expenditure (Notes 15 and 16)	7,243,077	2,739,115	1,117,345	8,948,235	**20,047,772**

Segments' assets do not include Goodwill (RSD 33,587,447 thousand), deferred tax assets (RSD 1,266,720 thousand) and receivables for overpaid income tax (RSD 270,978 thousand), while segments' liabilities do not include deferred tax liabilities (RSD 2,176,619 thousand), as these assets and liabilities are managed on the Group's level.

(b) Information about Geographical Areas

The country of origin of the Group (the Parent Company), which is also the main operating territory, is the Republic of Serbia. Revenues from sales are allocated on the basis of the country in which the service is provided. The Group's revenues from sales are predominantly generated in the Republic of Serbia (69.2%).

36. OPERATING SEGMENT INFORMATION (Continued)

(b) Information about Geographical Areas (Continued)

Revenues generated in the Republic of Srpska amount to 19.3%, while revenues generated in Montenegro amount to 3.2% of the total consolidated revenues. The remaining revenues (8.3%) relate to international settlement services, roaming and other services on foreign markets.

Total assets are allocated based on where the assets are located. The total of non-current assets of the Group other than financial instruments (other non-current financial assets) and deferred tax assets (there are no employment benefit assets and right arising under insurance contracts) located in the Republic of Serbia amounts to RSD 111,132,534 thousand as of 31 December 2011, and represents 53.6% of total non-current assets (31 December 2010: RSD 117,185,403 thousand or 53.4%).

The total of these non-current assets located in other countries amounts to RSD 96,269,032 thousand or 46.4% (31 December 2010: RSD 102,115,131 thousand or 46.6%). Out of this amount, 92.5% (RSD 89,091,912 thousand) and 6.9% (RSD 6,603,555 thousand) of the non-current assets are located in the Republic of Srpska and Montenegro, respectively, while 0.6% of the non-current assets of the Group (RSD 573,565 thousand) are located in other foreign countries.

(c) Information about Major Customers

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

37. EVENTS AFTER THE REPORTING PERIOD

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

In order to finance the payment of the share of the minority shareholder OTE in the Parent Company's capital, as well as to refinance the existing liabilities related to the "Term and Revolving Facilities Agreement" (Note 25(c)/ii/), on 9 January 2012 the Parent Company entered into a "Term Facilities Agreement" with the financial institutions (original creditors – 19 banks), whereby Unicredit Bank AG, London branch acts as a facility agent and Unicredit Bank Srbija a.d., Belgrade as a payment agent.

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

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

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

37. EVENTS AFTER THE REPORTING PERIOD (Continued)

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

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

The interim dividend distribution was approved based on the Parent Company's financial statements for the nine-month period ended 30 September 2011. The final amount of dividend will be determined subsequent to the adoption of the Parent Company's financial statements for the year ended 31 December 2011 (Notes 24/i/ and 30(a)).

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

On 25 January 2012, the Parent Company paid EUR 380 million to the minority shareholder OTE for its share in the Parent Company's capital in the following way: EUR 320 million from the loan and EUR 60 million from its own funds. Subsequent to the above mentioned date, OTE ceased to be the shareholder of the Parent Company (Note 24/i/).

38. EXCHANGE RATES

The official exchange rates of the National Bank of Serbia for the major currencies used in the translation of consolidated statement of financial position items denominated in foreign currencies as of 31 December 2011 and 2010 into the functional currency (RSD) were as follows:

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

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