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

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

and

Independent Auditor's Report

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

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated financial statements of the Joint stock Telecommunications Company "Telekom Srbija" a.d., Belgrade and its subsidiaries (together the "Group"), which comprise the consolidated balance sheet as of 31 December 2012, and the consolidated income statement, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information. The consolidated statistical annex represents an integral part of these consolidated financial statements.

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 the accounting regulations prevailing in the Republic of Serbia, based on the Law on Accounting and Auditing ("Official Gazette of the Republic of Serbia", no. 46/2006, 111/2009 and 99/2011), and for such internal control as management determines is necessary to enable the preparation of 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 2012, and their financial performance and their cash flows for the year then ended in accordance with the accounting regulations prevailing in the Republic of Serbia, based on the Law on Accounting and Auditing, and accounting policies disclosed in Note 2 to the consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

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

Emphasis of Matter

We draw attention to Note 34(a) to the consolidated financial statements disclosing that as of 31 December 2012 the estimated contingent liabilities arising from lawsuits filed against the Group amount to RSD 5,670,223 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 competent legal departments, the provision for potential losses arising from pending litigations recognized in the Group's consolidated financial statements amounts to RSD 257,603 thousand as of 31 December 2012 (Note 26). 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, 25 April 2013

Milovan Popovic
Certified Auditor

Društvo za reviziju BDO d.o.o. Beograd

GROUP'S MANAGEMENT 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 its financial performance and its cash flows for the reporting period then ended in accordance with the accounting regulations prevailing in the Republic of Serbia, based on the Law on Accounting and Auditing. The 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 2012, set out on pages 4 to 101, the Group has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that the Republic of Serbia accounting regulations based on the Law on Accounting and Auditing ("RS Official Gazette", no. 46/2006, 111/2009 and 99/2011) have been followed.

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

Predrag Culibrk
Director General

Prof. dr Milenko Dzeletovic
Finance Executive Director

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

	Note	2012	2011
OPERATING INCOME			
Sales	5	117,736,401	113,130,032
Own-work and goods capitalized		45,978	34,572
Other operating income	6	1,640,556	932,216
		119,422,935	**114,096,820**
OPERATING EXPENSES			
Cost of goods sold		(394,644)	(209,843)
Cost of material	7	(8,715,552)	(7,912,281)
Wages, salaries and other personnel expenses	8	(19,289,360)	(20,826,410)
Depreciation, amortization and provisions	9	(26,154,177)	(25,553,254)
Other operating expenses	10	(39,016,439)	(35,045,788)
		(93,570,172)	**(89,547,576)**
OPERATING PROFIT		**25,852,763**	**24,549,244**
Financial income	11	3,369,354	4,377,151
Financial expenses	12	(13,040,194)	(3,763,795)
Other income	13	2,799,159	3,985,644
Other expenses	14	(6,853,794)	(4,430,728)
PROFIT FROM OPERATIONS BEFORE TAX		**12,127,288**	**24,717,516**
NET LOSS FROM DISCONTINUED OPERATIONS	15	(142,139)	(142,578)
PROFIT BEFORE TAX		**11,985,149**	**24,574,938**
INCOME TAXES	16		
Current tax expense		(1,129,447)	(1,752,660)
Deferred tax income		1,429,898	406,728
PROFIT FOR THE YEAR		**12,285,600**	**23,229,006**
PROFIT ATTRBUTABLE TO:			
Owners of the Parent		10,710,275	21,861,746
Non-controlling interests		1,575,325	1,367,260
		12,285,600	**23,229,006**
Earnings per share			
Profit attributable to the owners of the Parent			
Basic earnings per share	25/iv/	**0.01**	**20.24**

The accompanying notes on pages 12 to 101
are an integral part of these consolidated financial statements.

The accompanying consolidated financial statements were authorised for issue by the Supervisory Board of the Group on 25 April 2013 and were signed on its behalf by:

Predrag Culibrk
Director General

Prof. dr Milenko Dzeletović
Finance Executive Director

CONSOLIDATED BALANCE SHEET
As of 31 December 2012
In RSD thousand

	Note	31 December 2012	31 December 2011
ASSETS			
Non-current assets			
Intangible assets	17	63,944,169	62,337,644
Advances for intangible assets		40,446	144,690
Property, plant and equipment	18	137,222,814	144,744,248
Advances for property and equipment	19	283,442	341,914
Equity investments		1,438	2,783
Other long-term financial placements	20	2,076,569	2,225,922
		203,568,878	**209,797,201**
Current assets			
Inventories	21	6,777,183	7,254,153
Non-current assets held for sale		30,761	-
Advances to suppliers		404,644	634,678
Accounts receivable	22	15,279,110	15,245,397
Receivables for overpaid income tax		869,592	-
Short-term financial placements		3,655,220	2,294,858
Cash and cash equivalents	23	15,878,596	17,941,876
Value added tax, prepayments and accrued income	24	6,361,374	3,976,938
		49,256,480	**47,347,900**
Deferred tax assets	16(c)	**2,699,796**	**1,472,821**
TOTAL ASSETS		**255,525,154**	**258,617,922**
EQUITY AND LIABILITIES			
Equity	25		
Share capital		100,000,000	82,512,552
Other capital		8,588	8,588
Reserves		1,621,739	1,593,442
Foreign currency translation reserve		19,468,775	13,506,300
Treasury shares		(16,502,510)	-
Retained earnings		11,998,189	44,549,405
		116,594,781	**142,170,287**
Non-controlling interests		**19,958,648**	**19,052,318**
Total equity		**136,553,429**	**161,222,605**
Long-term provisions and liabilities			
Long-term provisions	26	2,460,349	2,229,581
Long-term borrowings	27	50,880,047	22,264,552
Other long-term liabilities	27	1,796,583	1,103,409
		55,136,979	**25,597,542**
Current liabilities			
Short-term borrowings	27	33,004,747	33,097,673
Accounts payable	28	8,092,080	8,099,790
Other current liabilities	29	1,942,782	11,025,139
Value added tax and other tax liabilities, accruals and deferred income	30	18,843,698	17,442,404
Income tax payable		-	136,811
		61,883,307	**69,801,817**
Deferred tax liabilities	16(c)	**1,951,439**	**1,995,958**
TOTAL EQUITY AND LIABILITIES		**255,525,154**	**258,617,922**
OFF-BALANCE SHEET ITEMS	31	**11,549,481**	**15,554,390**

The accompanying notes on pages 12 to 101
are an integral part of these consolidated financial statements.

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

	Attributable to the equity holders of the Parent							
	Share capital	**Other capital**	**Reserves**	**Treasury shares**	**Retained earnings**	**Total**	**Non-controlling interests**	**TOTAL EQUITY**
Balance as of 1 January 2011	**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
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)
Dividends declared and paid	-	-	-	-	(13,565,455)	(13,565,455)	(1,957,201)	(15,522,656)
Acquisition of a 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**
Profit for the year ended 31 December 2012	-	-	-	-	10,710,275	10,710,275	1,575,325	12,285,600
Fair value losses on available-for-sale financial assets, net	-	-	(32)	-	-	(32)	(17)	(49)
Currency translation differences	-	-	5,962,475	-	-	5,962,475	1,566,387	7,528,862
Dividends declared	-	-	-	-	(2,286,436)	(2,286,436)	(2,235,365)	(4,521,801)
Treasury shares of the Parent Company	-	-	-	(16,502,510)	(23,459,278)	(39,961,788)	-	(39,961,788)
Transfer (from)/to	17,487,448	-	-	-	(17,487,448)	-	-	-
Transfer from retained earnings to legal reserves	-	-	28,329	-	(28,329)	-	-	-
Balance as of 31 December 2012	**100,000,000**	**8,588**	**21,090,514**	**(16,502,510)**	**11,998,189**	**116,594,781**	**19,958,648**	**136,553,429**

The accompanying notes on pages 12 to 101
are an integral part of these consolidated financial statements.

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

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and advances received	135,420,745	131,390,966
Other receipts from operating activities	1,345,918	1,185,636
Payments to suppliers and advance payments to suppliers	(58,786,403)	(52,381,460)
Payments for wages, salaries and other personnel expenses	(21,092,768)	(20,587,441)
Interest paid	(3,550,584)	(2,023,141)
Income tax paid	(2,131,660)	(1,259,631)
Other public charges paid	(10,677,773)	(10,512,676)
Net cash flows from operating activities	**40,527,475**	**45,812,253**
CASH FLOWS FROM INVESTING ACTIVITIES		
Receipts from sale of intangible assets and property and equipment	91,983	9,727
Other financial placements (net inflows)	637,926	306,653
Interest received	811,348	949,257
Purchase of intangible assets and property and equipment	(15,363,246)	(14,616,823)
Other financial placements (net outflows)	(1,417,049)	(636,976)
Net cash flows used in investing activities	**(15,239,038)**	**(13,988,162)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Net repayments of long - term and short - term borrowings (net inflows)	29,082,696	-
Net repayments of long-term borrowings and other liabilities (net inflows)	133,047	844,423
Purchase of treasury shares	(39,961,788)	-
Net repayments of long - term and short - term borrowings (net outflows)	-	(18,867,789)
Dividends paid	(13,842,804)	(6,384,293)
Net cash flows used in financing activities	**(24,588,849)**	**(24,407,659)**
Net increase in cash and cash equivalents	699,588	7,416,432
Cash and cash equivalents at beginning of year	17,941,876	9,785,260
Cash acquired in business combination	-	427,646
Foreign exchange (losses)/gains on translation of cash and cash equivalents, net	(2,762,868)	312,538
Cash and cash equivalents at end of year (Note 23)	**15,878,596**	**17,941,876**

The accompanying notes on pages 12 to 101
are an integral part of these consolidated financial statements.

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

I GENERAL CORPORATE INFORMATION

	2012	2011
Number of months of operations (1 to 12)	12	12
Size indication (1 to 3)	3	3
Ownership structure indication (1 to 5)	4	4
Number of foreign entities holding a share in capital	-	1
Average number of employees, based on the number at the end of each month (whole number)	13,550	13,598

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

	Cost	Accumulated depreciation/ amortization	Net book value
1. Intangible assets			
Balance at beginning of year	87,281,678	(24,799,344)	62,482,334
Additions during the year	8,061,451	-	8,061,451
Disposals	(2,515,863)	-	(6,559,170)
Revaluation	-	-	-
Balance at end of year	**92,827,266**	**(28,842,651)**	**63,984,615**
2. Property, plant, equipment and biological assets			
Balance at beginning of year	284,500,698	(139,414,536)	145,086,162
Additions during the year	20,432,417	-	20,432,417
Disposals	(8,786,373)	-	(28,012,323)
Revaluation	-	-	-
Balance at end of year	**296,146,742**	**(158,640,486)**	**137,506,256**

III INVENTORY STRUCTURE

	2012	2011
Material	6,616,020	7,008,990
Work in progress	-	-
Finished goods	-	-
Merchandise	161,163	245,163
Non-current assets held for sale	30,761	-
Payments in advance	404,644	634,678
Total	**7,212,588**	**7,888,831**

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

IV CAPITAL STRUCTURE

	2012	2011
Share capital	100,000,000	82,512,552
Out of which: foreign capital	-	16,502,510
Stakes of a limited liability company	-	-
Out of which: foreign capital	-	-
Stakes of partnership or limited partnership	-	-
Out of which: foreign capital	-	-
State-owned capital	-	-
Socially-owned capital	-	-
Stakes in cooperatives	-	-
Other capital	8,588	8,588
Total	**100,008,588**	**82,521,140**

V SHARE CAPITAL STRUCTURE

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

VI RECEIVABLES AND LIABILITIES

	2012	2011
Trade receivables (balance at end of year)	14,978,857	14,386,732
Accounts payable (balance at end of year)	8,054,523	8,025,694
Receivables from insurance companies for damage compensations during the year (debit turnover without opening balance)	4,717	611
Value added tax – previous tax (annual amount as per tax returns)	11,174,562	10,588,167
Accounts payable (credit turnover without opening balance)	110,860,386	100,347,486
Liabilities for net salaries and fringe benefits (credit turnover without opening balance)	10,537,475	10,722,082
Liabilities for payroll taxes born by the employee (credit turnover without opening balance)	1,450,411	1,505,103
Liabilities for payroll contributions born by the employee (credit turnover without opening balance)	3,182,093	2,987,804
Liabilities for dividends, profit-sharing and personal income of the employer (credit turnover without opening balance)	4,477,990	15,535,609
Liabilities to individuals for services rendered based on agreements (credit turnover without opening balance)	526,341	572,198
Liabilities for VAT (annual amount as per tax returns)	20,155,202	18,612,970
Control total	**185,402,557**	**183,284,456**

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

VII OTHER EXPENSES

	2012	2011
Fuel and energy	1,724,601	1,504,145
Gross salaries and fringe benefits	15,155,242	14,157,416
Payroll taxes and contributions born by the employer	1,990,715	2,935,220
Gross benefits of individuals for services rendered based on agreements	810,419	918,371
Gross remuneration to the Managing Board's and Supervisory Board's members	26,440	21,577
Other personal expenses	1,306,544	2,793,826
Production services	34,607,770	31,599,857
Rental expenses	6,077,043	5,383,788
Land-rental expenses	133,112	122,232
Research and development costs	22,853	991
Depreciation/amortization charge	25,765,693	25,511,562
Insurance premium costs	645,716	588,562
Bank charges and payment operations costs	554,552	259,466
Membership fees	87,181	75,370
Taxes	1,732,220	1,214,219
Contributions	-	-
Interest expenses	4,588,859	2,052,691
Interest expenses and a portion of financial expenses	4,588,859	2,052,691
Interest expenses on borrowings from banks and other financial institutions	3,668,827	1,053,553
Costs of humanitarian, cultural, health, educational, scientific and religious purposes, environmental protection and sports purposes	211,614	159,933
Control total	**103,698,260**	**92,405,470**

VIII OTHER INCOME

	2012	2011
Income from sale of goods	66,542	12,292
Premiums, subventions, subsidies, regress, compensations and recovery of tax duties	11,503	337
Conditional donations	465,073	457,377
Land-rental income	304	-
Membership fees	-	-
Interest income	1,353,393	1,449,471
Interest income on accounts and deposits held with banks and other financial institutions	734,054	934,950
Dividend income	-	-
Control total	**2,630,869**	**2,854,427**

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

IX OTHER INFORMATION	2012	2011
Excise duties (as per annual calculation of excise duties)	-	-
Customs and other import duties (annual total as per calculation)	947,835	656,619
Capital subventions and other government grants for construction and acquisition of property, plant, equipment and intangible assets	-	-
Government grants for premiums, regress and coverage of current operating expenses	-	-
Other government grants	-	-
Foreign donations and other non-refundable funds, received either in cash or in kind from foreign legal entities and/or individuals	-	1,087
Entrepreneurs' personal income from net profit (to be completed only by entrepreneurs)	-	-
Control total	**947,835**	**657,706**

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

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

The accompanying notes on pages 12 to 101
are an integral part of these consolidated financial statements.

1. CORPORATE INFORMATION

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

Pursuant to Article 14a of the Law on Communications of the Republic of Serbia, JP PTT assigned certain exclusive and non-exclusive operating rights to “Telekom Srbija” for an initial period of twenty years, with the right to an extension for additional ten years. In consideration of such transfer and assignment rights, the Parent Company issued a certificate representing 1,080,000 fully-paid, registered ordinary voting shares with an individual par value of RSD 10 thousand and also performed a special issuance of “Golden Share” to the Government of the Republic of Serbia.

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

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. At that time, the entities, STET International Netherlands NV, Amsterdam (“STET”) and Hellenic Telecommunications Organization A.E., Athens (“OTE”) acquired 29 percent and 20 percent of the Parent Company’s share capital, respectively. This transaction was duly registered with the Commercial Court of Belgrade on 13 June 1997 under the inscription number Fi. 7276/97.

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

For the purpose of sale of the major portion of the Parent Company’s shares owned by the Republic of Serbia, in 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 Parent Company to the Republic of Serbia, without compensation, of the Board of Directors of JP PTT dated 20 September 2010, on 24 September 2010 JP PTT and the Government of the Republic of Serbia concluded the Agreement on the transfer of the shares of Telekom Srbija a.d., Belgrade without compensation – Gift. Pursuant to this Agreement, the Republic of Serbia became the major shareholder and the legal owner of 80 percent of the Parent Company’s shares.

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

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

1. CORPORATE INFORMATION (Continued)

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

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 fixed voice services, data transmission, leased lines, private circuits and broadband services, additional mobile telephony services, fixed satellite services, Internet and multimedia 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 lasted until 9 June 2005, when, pursuant to the previously applicable Law on Telecommunications of the Republic of Serbia, such market position was legally rescinded.

On 28 July 2006, the 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 ("RATEL"), and accordingly all fees concerning the license and frequencies are payable to RATEL (Note 10).

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

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

Since 31 March 2009, the 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 Company, "Orion Telekom" d.o.o., Belgrade also possesses this license.

According to the Decision made by RATEL in February 2010, a License for public fixed telecommunication networks and services for the territory of the Republic of Serbia was granted to the Company "Telenor" d.o.o., Belgrade for the ten-year period.

In October 2012, the Company "Serbia Broadband - Srpske kablovske mreze" d.o.o., Belgrade commenced providing fixed-line telephony services for the territory of the Republic of Serbia.

1. CORPORATE INFORMATION (Continued)

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.

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

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

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

On 29 November 2011, the Agency submitted the decisions according to which the 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 of (physical) access to network elements and attributable assets (including the shared and full unbundled access to the local loop), wholesale market of broadband access, wholesale market for leased lines and retail market for publicly available telephone service from fixed location.

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

1. CORPORATE INFORMATION (Continued)

In November 2012, RATEL postponed until further notice the beginning of the implementation of the Rule Book on number portability in public telephone networks at a fixed location ("RS Official Gazette", no. 52/2011), which was scheduled for 1 December 2012.

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

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

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

On 31 March 2005, at its 18th 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.

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 Consolidated Subsidiary "Telekom Srpske" signed an Agreement on the purchase of 49% equity interest in the Consolidated Subsidiary "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 Consolidated 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 Consolidated Subsidiary.

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 the Joint stock company "Telekomunikacije Republike Srpske" ("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.

1. CORPORATE INFORMATION (Continued)

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 2012, the total founding capital of the above mentioned Consolidated Subsidiary, after additional contributions, 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 above mentioned Consolidated Subsidiary has been founded as a closed Joint Stock Company with Limited Liability. Principal business activities of the Consolidated 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 Parent Company. As of 31 December 2012, the total founding capital of the above mentioned Consolidated Subsidiary, after additional contributions, amounts to EUR 2.8 million.

The Parent Company's Managing Board at its regular 59th meeting held on 13 July 2011 made 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 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 2012, the Group had 13,201 employees (31 December 2011: 13,271 employees). Out of this number, the Parent Company had 9,042 employees (31 December 2011: 9,048 employees), while the Consolidated subsidiaries had 4,159 employees (31 December 2011: 4,223 employees).

These consolidated financial statements were authorised for issue by the Supervisory Board of the Parent Company on 25 April 2013.

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") for the year ended 31 December 2012:

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 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 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.

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

Since 1 January 2010, the Group has applied revised IAS 27 “Consolidated and Separate Financial Statements” for transactions with non-controlling interests and the accounting for loss of control or significant influence. 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 revised standard 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 of the Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared in accordance with the accounting regulations prevailing in the Republic of Serbia, which are based on the Law on Accounting and Auditing (“RS Official Gazette”, no. 46/2006, 111/2009 and 99/2011) that prescribes International Accounting Standards (IAS), i.e. International Financial Reporting Standards (IFRS) as a basis of preparation and presentation of the financial statements.

The 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.

The consolidated financial statements are presented in the format prescribed by the “Rulebook on the Contents and Form of the Financial Statements of Enterprises, Cooperatives and Entrepreneurial Ventures” (“RS Official Gazette”, no. 114/2006, 5/2007, 119/2008 and 2/2010, 101/2012 and 118/2012), which differ from the presentation and titles of certain general purpose financial statements and the presentation of certain items as required under Revised IAS 1 “Presentation of Financial Statements”. The application of the revised standard is mandatory for the first time for the annual periods beginning on 1 January 2009.

Accordingly, the accompanying consolidated financial statements do not fully comply with IFRS, and therefore, they cannot be considered as the consolidated financial statements prepared and presented in accordance with IFRS.

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 2011, except for the adoption of new standards and interpretations, noted below.

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

The application of the following new and amended standards and IFRIC interpretations to existing standards mandatory for the first time for the financial year beginning on 1 January 2012, did not result in substantial changes to the Group’s accounting policies and did not have an impact on the Group’s accompanying consolidated financial statements:

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2. Basis of Preparation of the Consolidated Financial Statements (Continued)

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

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

- Amendments to IFRS 1 "First-time Adoption of IFRS" - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (effective for annual periods beginning on or after 1 July 2011).

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

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

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

(b) New Standards, Amendments and Interpretations 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 2012. They have not been early adopted and the Group is in the process of assessing their 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).
- Revised IAS 19 "Employee Benefits" (effective for annual periods beginning on or after 1 January 2013).
- Revised IAS 27 "Separate Financial Statements" (effective for annual periods beginning on or after 1 January 2013).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2. Basis of Preparation of the Consolidated Financial Statements (Continued)

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

- Revised IAS 28 “Investments in Associates and Joint Ventures” (effective for annual periods beginning on or after 1 January 2013).
- Revised IAS 32 “Financial Instruments: Presentation” (effective for annual periods beginning on or after 1 January 2014).
- Amendment to IFRS 1 “First-time Adoption of IFRS” - Government Loans (effective for annual periods beginning on or after 1 January 2013).
- Amendment to IFRS 7 “Financial Instruments: Disclosures” – Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2013).
- IFRS 9 “Financial Instruments” (effective for annual periods beginning on or after 1 January 2015). This standard addresses the classification and measurement of financial assets.
- IFRS 10 “Consolidated Financial Statements” (effective for annual periods beginning on or after 1 January 2013).
- IFRS 11 “Joint Arrangements” (effective for annual periods beginning on or after 1 January 2013).
- IFRS 12 “Disclosure of Interests in Other Entities” (effective for annual periods beginning on or after 1 January 2013).
- IFRS 13 “Fair Value Measurement” (effective for annual periods beginning on or after 1 January 2013).
- IFRIC 20 “Stripping Costs in the Production Phase of a Surface Mine” (effective for annual periods beginning on or after 1 January 2013).
- Amendments to various standards (IFRS 1, IAS 1, IAS 16, IAS 32, and IAS 34), which are part of the IASB’s Annual Improvements to IFRSs, 2009-2011 Cycle, issued in May 2012. These amendments result primarily in removal of inconsistencies, clarifications and terminology or editorial changes (effective for annual periods beginning on or after 1 January 2013).
- “Investment Entities” Amendments to IFRS 10, IFRS 12 and IAS 27 (effective for annual periods beginning on or after 1 January 2014).

2.3. Comparative Figures

Comparative figures represent the Group’s audited consolidated financial statements for the year ended 31 December 2011, prepared in accordance with the accounting regulations prevailing in the Republic of Serbia.

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 income statement for the year ended 31 December 2012 amounts to RSD 142,139 thousand (Note 15).

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 used amount. Unused amounts at the end of the reporting period are included under “Deferred income”.

(b) Telecommunication Subscription

The telecommunication subscription represents a fee charged for telephone line usage. Subscriptions are invoiced 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, irrespective of a subscriber’s use of the network.

(c) New Subscribers

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

(d) Income from Other Telecommunication Services

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4. 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. Other revenues generated from the provision of services in accordance with a customer contract, are deferred in the period to which the contract relates.

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

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 network, 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 income statement in the period to which they relate.

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

2.8. Sales of Handsets and Cost of Goods Sold

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

2.9. 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 income statement (Note 10).

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

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 funds.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The items included in the Group's 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 (Note 37), i.e. the functional currencies of the Consolidated Subsidiaries at the official exchange rates published by the respective central banks prevailing at the reporting date.

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 income statement, as part of financial income (Note 11), i.e., financial expense (Note 12).

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

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

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

Translation differences on non-monetary assets, such as equity investments classified as available for sale, are included in the Group's equity.

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. Foreign exchange gains or losses arising therefrom are included in the Group's equity.

2.12. Property, Plant and Equipment

Property, plant and equipment of the Group at 31 December 2012 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, repairs and maintenance that extend the useful life of property and equipment are capitalized; otherwise they are recognized as expenses as incurred (Note 2.9).

Gains or losses from the disposal of property and equipment are credited directly to “Other income” (Note 13), whereas any losses arising on the disposal of property and equipment are charged to “Other expenses” (Note 14).

2.13. Intangible Assets

As of 31 December 2012, intangible assets of the Group consist of goodwill, customer relationship, brand name, software, telecommunications licenses, other licenses and other rights. Intangible assets are stated at cost less accumulated amortization (excluding goodwill and brand name) and potential accumulated impairment losses.

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, recognized liabilities and contingent liabilities of the acquired subsidiaries “Telekom Srpske” and “HD-WIN” at the acquisition date. Goodwill on acquisition of subsidiaries 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 potential impairment testing on an annual basis.

Contractual customer relationships acquired in a business combination for acquisition of the Subsidiary “Telekom Srpske” 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 subsidiary “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.

Software and licenses are stated at cost less accumulated amortization.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.13. Intangible Assets (Continued)

Costs associated with maintaining computer software programmes are recognized as an expense as incurred. Research and development costs are recognized as an expense as incurred (Note 10).

2.14. Depreciation and Amortization

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

The depreciation and amortization of property and equipment and intangible assets are provided at rates based on the estimated useful life of property and equipment as estimated by the Group's management and adopted by the competent managing bodies of Group' companies.

Competent departments of the Group companies revise the useful life of property and equipment at least at each financial year-end and, if there is a change in the expected pattern of consumption of the future economic benefits embodied in the asset, the depreciation rate is changed to reflect the changed pattern.

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

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

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

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

Depreciation and amortization on property, equipment and intangible assets begins when the related assets are placed in service or when they become available for use. Land and assets with indefinite useful life (goodwill and brand name) are not depreciated.

The calculation of the depreciation and amortization for tax purposes is determined by the Law on Corporate Income Tax of the Republic of Serbia ("RS Official Gazette", no. 25/2001, 80/2002, 43/2003, 84/2004, 18/2010, 101/2011 and 119/2012) and the Rules on the Manner of Fixed Assets Classification in Groups and Depreciation for Tax Purposes ("RS Official Gazette", no. 116/2004 and 99/2010), i.e., by the Income Tax Law of the Republic of Srpska and Corporate Income Tax Law of Montenegro. Different depreciation methods used for the financial reporting purposes and the tax purposes give raise to deferred taxes (Note 16(c)).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.15. Impairment of Non-financial Assets

In accordance with adopted accounting policy, at each reporting date the 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 it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of the cash-generating unit to which the asset belongs will be estimated. If the recoverable amount of an asset is estimated to be lower than its carrying value, the carrying amount of the asset is reduced to its recoverable amount, being the higher of an asset's fair value less costs to sell and value in use. Impairment losses, representing a difference between the carrying amount and the recoverable amount of tangible and intangible assets, are recognized in the consolidated income statement 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. Allowances are made for inventories found to be damaged or of a substandard quality or they 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 is mostly realized through MEAs (multi-element agreement), i.e. as a part of a package.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.17. Financial Instruments

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

Financial assets and financial liabilities are recognized in the consolidated balance sheet 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 long-term financial placements, 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 Long-Term Financial Placements

Other long-term financial placements include the long-term interest-free receivables from employees based on approved housing (residential) loans, long-term interest bearing receivables from employees for granted loans as participation in housing loans and in interest, and other long-term loans to employees, as well as other long-term 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 long-term financial placements also encompass rental payments in advance measured at amortized cost, as well as other long-term placements, i.e., receivables.

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 and other receivables are stated at their nominal values, less allowance for impairment. 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 income statement within “Other expenses” (Note 14). When a receivable is uncollectible, it is written off against the allowance account for accounts receivable. Subsequent recoveries of amounts previously written off and reversal of the impairment are credited to “Other income” (Note 13).

(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 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 in the available–for-sale reserve (investments revaluation reserve) within equity 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.

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 balance sheet 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 income statement, 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 a modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated income statement.

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

(a) Loans Received from Banks and Suppliers

Loans received from banks and suppliers are initially recognized at the amount of the loan disbursements received (i.e., fair value), and are subsequently stated at the amortized cost that is computed based on the contractual interest rate. The Group's management judges that the effects of non-application of effective interest rate as required by IAS 39 "Financial Instruments: Recognition and Measurement", have no material effect on the consolidated financial statements. Other non-current liabilities are presented at the amortized cost based on the effective interest rate. Loans bear 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 balance sheet when there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

2.18. Accrued Expenses and Income

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

Computed and uninvoiced expenses for services and works performed during the current reporting period, as well as deferred income, are recorded within accruals.

2.19. 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 the discount rate which reflects interest rate of high-quality securities that are denominated in the currency in which liabilities will be settled (Note 26).

Provisions for legal proceedings represent the Group management’s best estimates of the expenditures required to settle such obligations (Note 26).

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 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.

Taxes 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 of the employee, which cannot to be lower than three average gross salaries paid in the aforementioned companies.

Pursuant to the individual Collective Bargaining Agreement, the Consolidated Subsidiary “Mtel” is obliged to pay to the employee retirement benefits in the amount that is not subject to tax in accordance with the Personal Income Tax Law of Montenegro.

Furthermore, the Parent Company and the Consolidated Subsidiary “Telekom Srpske” are obliged to pay between one half and three, i.e., two average monthly salaries, respectively, 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 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 contingent only on the years of service in the Parent Company).

In the Consolidated Subsidiary “Telekom Srpske”, the number of monthly salaries for jubilee anniversary awards is determined based on the number of the employee’s years of service in the company. On 11 January 2012, the new Collective Bargaining Agreement of the Consolidated Subsidiary “Telekom Srpske” came into force, amending, among other things, the number of monthly salaries to be paid out as the jubilee anniversary awards.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.22. Employee Benefits (Continued)

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

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

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, as of 31 December 2011 the Consolidated Subsidiary "Telus" recognized the funds for payment of employment anniversary awards to employees with at least 5 years of service in the 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 59th 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 Parent Company.

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 2011.

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

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

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 Contribution to Operating Results

Pursuant to the decision of the competent statutory Parent Company's body or other relevant management's decision, the Parent Company recognizes a liability and an expense for employee contribution to the Parent Company's operating result (2011: employee profit-sharing).

Employee profit-sharing includes both fixed and variable component, with a variable component being based on the management estimate on the contribution of each employee to the 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, 18/2010, 101/2011 and 119/2012) 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 and other appropriate by-laws.

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.

Pursuant to the Law on Amendments and Supplements to the Corporate Income Tax Law (“RS Official Gazette”, no. 119/2012), the increased income tax rate of 15% has been applied in the Republic of Serbia starting from January 2013.

The tax base includes the taxable profit, determined by adjusting the taxpayer’s result (profit or loss) reported in the consolidated income statement for the 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, for large-sized and medium-sized entities tax credit is recognized in the amount equal to 20% of the investments in own property and equipment used to perform the core activities and the activities registered in the Memorandum of Association or other document of the taxpayer, but it cannot exceed 50% of a tax liability in the year in which the investment was made.

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

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 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, the 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 net 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 Group’s operating result, include property tax, and various other taxes and contributions paid pursuant to republic and municipal tax regulations. These taxes and contributions are included within other operating expenses (Note 10).

2.24. Earning per Share

The Group discloses basic earnings per share. Basic earnings per share is calculated by dividing net profit attributable to the shareholders, i.e. ordinary equity holders of the Parent Company by the weighted average number of ordinary shares outstanding during the period (Note 25).

2.25. Dividends on Ordinary Shares

Dividends to the Parent Company shareholders 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 the Group has a possibility to control these entities or has the right to govern the financial and business operations of the same, as defined by IAS 24 "Related Party Disclosures".

Relations between the Group and its related parties are regulated at contractual basis. Outstanding balances of receivables and liabilities at the reporting date, as well as transactions occurred during the reporting periods with related parties are separately disclosed in notes to the 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 reviewed by the Group's chief operating decision makers in order to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Common costs allocation is based on the 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 35 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 position and performance.

Risk management has been defined by the accounting and financial policies adopted by the competent management bodies of the companies within the Group. There have been no changes in the risk management policies during the year ended 31 December 2012.

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

	2012	2011
Financial assets		
Available-for-sale securities	473	480
Held-to-maturity investments	6,297	5,795
Other long-term placements and assets	2,071,237	2,222,430
Payments in advance, trade and other receivables, excluding prepayments and accrued income	19,819,074	18,187,578
Short-term financial placements	402,663	1,247
Cash and cash equivalents	15,878,596	17,941,876
	38,178,340	**38,359,406**
Financial liabilities at amortized cost		
Borrowings and other long term liabilities	85,681,377	56,465,634
Payables and other current liabilities, excluding accruals and deferred income	11,227,856	20,360,318
	96,909,233	**76,825,952**

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

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

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

At 31 December 2012, if the functional currency (RSD) has strengthened/weakened by 10% against all currencies other than functional currency (i.e. RSD/EUR exchange rate was RSD 102.3465/125.0901 for EUR 1) with all other variables held constant, profit after tax for the year 2012 would have been RSD 6,823,806 thousand (2011: RSD 3,507,232 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 more sensitive to fluctuations in foreign currency rates during the year ended 31 December 2012 than in 2011 due to the significant decline in value of RSD toward EUR, which was additionally affected by the increase in foreign currency denominated liabilities, influencing consequently equity at 31 December 2012.

At 31 December 2012, financial assets in the amount of RSD 12,384,626 thousand (31 December 2011: RSD 13,964,930 thousand) are denominated in EUR, which represents 57.7% (2011: 63.8%) of the total financial assets of the Group denominated in foreign currencies.

At 31 December 2012, financial liabilities denominated in EUR amount to RSD 67,127,622 thousand (31 December 2011: RSD 50,705,357 thousand), which represents 95.1% (2011: 91.1%) 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, operating results 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 2012 and 2011, 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 denominated in the foreign currency (EUR), i.e., the currency clause tied to EUR.

In the Parent Company, the 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 (RSD), 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 6% 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 or vice versa due to the existing legislation and undeveloped financial market, but undertakes adequate measures to provide loans from banks at the most favourable conditions.

At 31 December 2012, if interest rates on currency-denominated borrowings (both from banks and suppliers) at that date had been 0.1 percentage point higher/lower on an annual basis with all other variables held constant, profit after tax for the year 2012 would have been RSD 69,716 thousand (2011: RSD 39,898 thousand) lower/higher, mainly as a result of higher/lower interest expense.

At 31 December 2012, if interest rates on RSD-denominated loans from suppliers and banks had been 0.1 percentage point higher/lower on an annual basis with all other variables held constant, profit after tax for the year 2012 would have been RSD 52,491 thousand (2011: RSD 6,700 thousand) lower/higher, mainly as a result of higher/lower interest expense.

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 balance sheet either as available-for-sale or at fair value through profit and loss, which effects of changes in fair value are recognised through profit or loss (consolidated income statement).

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 to the Parent Company, 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 was increased to RSD 430 (VAT excluded) and included 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 a 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 and broadband access. The Consolidated Subsidiary “Telekom Srpske” has an obligation to offer unbundled access to the local loop to other operators.

3.2. Liquidity Risk

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

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 relating to contracts, transactions and other activities and deals on behalf of the Parent Company, as follows: the coordinator of sections at the territorial level of organization is limited to the monetary value of up to EUR 3,000, the Function Managers, the Manager of Internal Supervision and the Parent Company's Secretary up to EUR 10,000 and Executive Directors up to EUR 50,000 per legal transaction at the middle exchange rate of the National Bank of Serbia prevailing at the date of legal transaction. The Director General may conclude legal transactions worth from EUR 50,000 to EUR 2.5 million, after being approved by the Executive Directors. In a similar way, 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 2012 and 2011.

The table has been drawn up based on the undiscounted cash flows of financial assets (in the gross amount) and liabilities based on the earliest date on which the 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 2012						
Non-interest bearing	32,271,725	733,698	381,232	1,058,344	1,440,487	35,885,486
Fixed interest rate instruments	17,199,332	2,151,021	88,136	97,150	153,482	19,689,121
Total	**49,471,057**	**2,884,719**	**469,368**	**1,155,494**	**1,593,969**	**55,574,607**
At 31 December 2011						
Non-interest bearing	33,922,442	262,041	228,732	678,987	1,370,024	36,462,226
Fixed interest rate instruments	15,258,163	1,502,142	493,259	191,934	138,081	17,583,579
Total	**49,180,605**	**1,764,183**	**721,991**	**870,921**	**1,508,105**	**54,045,805**
Financial liabilities						
At 31 December 2012						
Non-interest bearing	10,208,641	585,041	794,820	361,462	1,804	11,951,768
Fixed interest rate instruments	-	341,155	341,155	341,155	-	1,023,465
Fluctuating interest rate instruments	12,496,621	24,361,768	32,135,280	21,182,157	267,136	90,442,962
Total	**22,705,262**	**25,287,964**	**33,271,255**	**21,884,774**	**268,940**	**103,418,195**
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**

Maturity structure of borrowings is presented in Note 27(b), while liabilities towards suppliers (Note 28) 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 (including both interest and principal cash flows).

	Up to 3 month	From 3 to 12 months	From 1 to 2 years	From 2 to 5 years	Over 5 years	Total
At 31 December 2012						
Interest-bearing loans and borrowings	11,477,906	25,287,464	33,271,255	21,884,774	268,940	92,190,339
Accounts payable	8,091,580	500	-	-	-	8,092,080
Other current liabilities	3,135,776	-	-	-	-	3,135,776
Total	**22,705,262**	**25,287,964**	**33,271,255**	**21,884,774**	**268,940**	**103,418,195**
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**

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 loans granted to employees, 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 22 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 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 the joint stock entity (Note 25).

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 2012 and 2011 were as follows:

	2012	2011
Total long-term and short-term borrowings – total (Note 27)	85,681,377	56,465,634
Less: Cash and cash equivalents (Note 23)	(15,878,596)	(17,941,876)
Net debt*	**69,802,781**	**38,523,758**
Total equity	136,553,429	161,222,605
Total capital**	**206,356,210**	**199,746,363**
Gearing ratio	**33.8%**	**19.3%**

* *Net debt is calculated as total borrowings (including short-term and long-term borrowings as shown in the consolidated balance sheet) less cash and cash equivalents.*

** *Total capital is calculated as equity as shown in the consolidated balance sheet plus net debt.*

The increase in the gearing ratio at 31 December 2012 resulted primarily from the new borrowings of the Parent Company, from one side, and purchase of own equity instruments, i.e., treasury shares, from the other side.

3. FINANCIAL RISK MANAGEMENT (Continued)

3.5. Judgements on the Effects of the Global Financial Crisis

The effects of the ongoing global financial crisis that had started to become felt in the Republic of Serbia and the countries where the Consolidated Subsidiaries operate in the last quarter of 2008, have continued to cause the liquidity problems, further fluctuations in the exchange rate of the Dinar against foreign currencies and decrease in the commercial activities and the purchasing power of the population and economy during the years 2011 and 2012.

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

The Group's management anticipates that the effects of the crisis to the economic environment in the countries in which the Parent Company and its Consolidated 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 Consolidated 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 2013) 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 possible 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 2012 exceed its current assets by RSD 12,626,827 thousand, the Group does not have liquidity problems, and problems with settlement of its liabilities. In May 2012, the Parent Company completely repaid borrowings from Citibank N.A., London. Moreover, the Group has considerable equity, which can also mitigate market risks. The management expects that the Parent Company and the Consolidated Subsidiaries will be able to repay their borrowings 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, sports 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 countries where the Consolidated Subsidiaries operate, or the impact on the financial position and the results of the Group's operations, but it considers 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.

Since 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 2012 and 2011:

The Group does not have materially significant financial assets or financial liabilities carried at fair value in the consolidated balance sheet. Securities available-for-sale, which mostly comprise shares of banks listed in an active market, amount to RSD 473 thousand as of 31 December 2012 (31 December 2011: RSD 480 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 financial instruments.

3. FINANCIAL RISK MANAGEMENT (Continued)

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

The fair value of financial assets measured at amortized cost (loans to employees and other long-term placements) 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.

The fair value of long-term placements and 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 other long-term 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 27(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 the accounting regulations prevailing in the Republic of Serbia 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 in the consolidated income statement.

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 2,331,809 thousand for the twelve-month period.

4. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Impairment of Non-Financial Assets

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

An impairment review requires Group's management to make subjective judgements concerning the cash flows, growth rates and discount rates of the cash generating units under review (Note 14(c)).

Impairment of Goodwill

The Group annually performs impairment test of goodwill acquired in business combinations on acquisition of Consolidated Subsidiaries, 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 amounts of cash generating units (CGU) have 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 17).

If pre-tax discount rate used to discount cash flows of Consolidated Subsidiary "Telekom Srpske" was 0.5% higher than the rate estimated by the Group's management (for example for fixed telephony and broadband services 10.1% instead of 9.6%, and for mobile telephony 9.9% instead of 9.4%), there would be no indications of impairment of goodwill recognized in the acquisition of the Consolidated Subsidiary "Telekom Srpske" as of 31 December 2012.

If pre-tax discount rate used to discount cash flows of Consolidated Subsidiary "HD-WIN" was 1% higher than the rate estimated by the Group's management, i.e., 15% instead of 14%, as of 31 December 2012 there would be no indications of impairment of goodwill recognized in the acquisition of the Consolidated Subsidiary "HD-WIN".

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 to 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.

4. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Income and Expenses from International Traffic (Continued)

The Parent Company and the Consolidated 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 aforementioned Consolidated Subsidiaries have direct international settlement.

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

Accounting for Provisions for Litigation and Contingencies

The 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 departments, 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 16(c)).

Retirement and Other Benefits to Employees

The costs of defined employee benefits payable upon the termination of employment, i.e. retirement in accordance with the legal requirements, and the costs of jubilee awards are determined based on the actuarial valuation. The actuarial valuation includes an assessment of the discount rate, future movements in salaries, employee fluctuation rates and mortality rates. As these plans are long-term ones, significant uncertainties influence the outcome of the assessment. The actuarial valuation assumptions are disclosed in Note 26 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 158,812 thousand lower or RSD 184,715 thousand higher.

5. SALES

	2012	2011
Fixed telephony services:		
Domestic market	35,208,842	37,174,298
Foreign market	13,567,522	12,978,429
Related parties	6,154	153,038
	48,782,518	**50,305,765**
Mobile telephony services:		
Domestic market	33,996,181	32,726,551
Foreign market	22,274,201	19,753,106
Related parties	2,237	54,361
	56,272,619	**52,534,018**
Internet retail services:		
Domestic market	8,120,948	7,012,802
Foreign market	2,025,391	1,597,639
	10,146,339	**8,610,441**
Multimedia services (IPTV):		
Domestic market	1,248,040	812,907
Foreign market	581,965	255,617
	1,830,005	**1,068,524**
Physical/technical security and cleaning:		
Domestic market	638,378	598,992
	638,378	**598,992**
Sales of handsets:		
Domestic market	66,542	12,292
	66,542	**12,292**
Total	**117,736,401**	**113,130,032**

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 was increased to RSD 430 (VAT excluded) and 300 free pulses were included in the fee (instead of the previous 150 pulses). Furthermore, local call rates were increased, whereas long distance call rates were reduced. According to the Decision of the Agency, the rates for termination in the fixed network for traffic coming from the mobile network were reduced, while rates for termination of traffic coming from other fixed networks were increased and brought to a cost basis.

5. SALES (Continued)

Structure by sales category is presented in the table below:

	2012	2011
Fixed telephony services:		
Traffic	22,690,045	24,048,396
Subscription	17,512,143	16,863,963
Leased circuit and data services	3,516,640	3,583,697
Connection and installation services	508,861	981,572
Interconnection	2,056,060	2,099,563
Wholesale of internet services	1,583,615	1,820,037
CDMA services	634,542	643,475
Other services	280,612	265,062
	48,782,518	**50,305,765**
Mobile telephony services:		
Prepaid services	22,330,092	22,789,932
Postpaid services	*21,276,807*	*18,516,247*
- Traffic	10,204,713	9,526,317
- Monthly fees	11,072,094	8,989,930
Interconnection	8,735,872	7,942,163
National roaming – VIP Mobile d.o.o., Belgrade	-	28,438
Roaming	1,667,177	1,543,415
Incoming international traffic that terminates in the mobile network of Telekom Srbija	1,381,401	1,137,339
Other services	881,270	576,484
	56,272,619	**52,534,018**
Retail of internet services	**10,146,339**	**8,610,441**
Multimedia services (IPTV)	**1,830,005**	**1,068,524**
Physical/technical security and cleaning:		
Physical/technical security	258,623	238,533
Cleaning	373,427	357,264
Other services	6,328	3,195
	638,378	**598,992**
Sales of handsets:		
Fixed and other devices	60,803	9,385
Mobile phones	5,739	2,907
	66,542	**12,292**
Total	**117,736,401**	**113,130,032**

6. OTHER OPERATING INCOME

	2012	2011
Granted assets:		
- Intangible assets and equipment (Note 30(e))	443,537	437,787
- Inventories	16,156	17,195
- Other	5,380	2,395
	465,073	**457,377**
Rental income	130,265	115,998
Sublicense revenues	958,424	285,786
Other income	86,794	73,055
Total	**1,640,556**	**932,216**

7. COST OF MATERIAL

	2012	2011
Material for rendering services	5,400,903	4,519,067
Fuel and energy	1,724,601	1,504,145
SIM cards	119,284	167,225
Spare parts	145,275	214,709
ADSL modems	271,063	438,193
Inventories for mobile Internet access	60,024	69,407
Tools and inventories	39,271	46,808
Other expenses	955,131	952,727
Total	**8,715,552**	**7,912,281**

8. WAGES, SALARIES AND OTHER PERSONNEL EXPENSES

	2012	2011
Gross salaries	14,680,323	13,720,510
Contributions on behalf of the employer	1,919,857	1,810,895
	16,600,180	**15,531,405**
Employee contributions to operating results	503,596	1,447,548
Retirement benefits for voluntary termination in the Parent Company	42,181	1,558,095
Other personnel expenses	2,143,403	2,289,362
Total	**19,289,360**	**20,826,410**

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

9. DEPRECIATION, AMORTIZATION AND PROVISIONS

	2012	2011
Amortization of intangible assets (Note 17)	3,989,300	3,969,749
Depreciation of property and equipment (Note 18)	21,776,393	21,541,813
	25,765,693	**25,511,562**
Provision for retirement benefits and jubilee awards (Note 26)	360,178	9,486
Provision for litigations (Note 26)	28,306	32,206
	388,484	**41,692**
Total	**26,154,177**	**25,553,254**

10. OTHER OPERATING EXPENSES

	2012	2011
Network operators:		
Interconnection:		
- Fixed telephony	3,672,030	3,490,766
- Mobile telephony	6,093,354	5,308,541
International settlement and leased circuits	2,640,618	2,739,170
Outgoing international traffic from the mobile network Telekom Srbija	459,550	350,206
Roaming	869,524	1,165,259
	13,735,076	**13,053,942**
Telecommunication license fees, approvals and frequency fees:		
License for mobile telephony (a)	240,262	111,827
License for fixed telephony (b)	64,438	92,535
Radio frequencies RRL, RBS and other fees	689,155	598,851
	993,855	**803,213**
Rental expenses	6,077,043	5,383,788
Maintenance	5,170,353	4,961,226
Marketing, advertisement and sponsorship fees	2,404,959	2,487,620
Broadcast content fees	2,258,457	1,213,653
Transport expenses	1,321,195	1,255,429
Consignment sale fees	1,275,299	1,308,615
Public utility services	368,636	319,719
Data processing fees	94,989	93,296
Software license	214,370	212,347
Research and development expenses	22,853	991
Other production services	670,685	506,018
Indirect taxes	1,732,220	1,214,219
Insurance premiums	645,716	588,562
Bank charges	554,552	259,466
Fees and charges	444,327	407,345
Youth employment expenses	177,404	195,234
Audit fee and other professional services	153,919	136,634
Education and professional training	151,338	154,599
Entertainment	81,180	67,868
Hygiene and security services	44,367	43,953
Other general expenses	423,646	378,051
Total	**39,016,439**	**35,045,788**

10. OTHER OPERATING EXPENSES (Continued)

(a) The mobile telephony licence fee amounting to RSD 240,262 thousand for the year ended 31 December 2012 (2011: RSD 111,827 thousand) relates to the license for public mobile telecommunication network and services for public mobile telecommunication network in accordance with GSM/GSM1800 and UMTS/IMT-2000 standards, granted by RATEL to the Parent Company (Note 1) 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 183,095 thousand relates to the Parent Company’s license fee (2011: RSD 44,675 thousand), while the amount of RSD 57,167 thousand relates the license fee of the Consolidated Subsidiary “Mtel” (2011: RSD 67,152 thousand).

The Parent Company’s license fee is calculated in the amount of 0.5% of the revenues earned from the sales in the commercial year for which the fee is payable pursuant to the Rule Book on fees for the performance of electronic communications activities (“RS Official Gazette”, no. 93 dated 8 December 2010).

The Consolidated Subsidiary “Mtel” calculates and pays a monthly fee for the GSM/UMTS License in the amount up to 1.5% of revenue generated in the previous month from services the license relates to.

(b) The fixed telephony license fee amounting to RSD 64,438 thousand (2011: RSD 92,535 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 fee for the above license of the Parent Company for the year ended 31 December 2012 amounts to RSD 21,900 thousand (2011: RSD 40,870 thousand).

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

The Consolidated Subsidiary “Mtel” calculates and pays a fee for the WiMAX License in the amount equal to 1.5% of revenue generated in the previous year from services the license relates to. The fee for the year ended 31 December 2012 amounts to RSD 6,553 thousand (2011: RSD 4,374 thousand).

The Consolidated Subsidiary “Telekom Srpske” calculates and pays the “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 2012 amounts to RSD 35,985 thousand (2011: RSD 47,291 thousand).

11. FINANCIAL INCOME

	2012	2011
Interest income	1,353,393	1,449,471
Foreign exchange gains	1,675,634	2,416,335
Gains from foreign currency clause application	310,618	328,339
Other financial revenues	29,709	183,006
Total	**3,369,354**	**4,377,151**

12. FINANCIAL EXPENSES

	2012	2011
Interest expenses:		
- on borrowings in the country	2,230,387	216,696
- on borrowings abroad	2,318,698	1,825,529
- penalty interest	39,774	10,466
	4,588,859	2,052,691
Foreign exchange losses	6,438,457	1,361,972
Losses from foreign currency clause application	2,012,874	349,033
Other financial expenses	4	99
Total	**13,040,194**	**3,763,795**

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

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

Interest expenses on borrowings abroad incurred during the year ended 31 December 2012 also include the amount of RSD 280,180 thousand, representing interest expense for the period January – May 2012 arising from the syndicated loan granted by Citibank N.A., London to the Parent Company (2011: RSD 727,997 thousand), which was repaid in May 2012 (Note 27(c)/ii/).

13. OTHER INCOME

	2012	2011
Reversal of impairment losses (Note 14(a))	1,425,138	1,973,266
Compensations for customers' contracts cancellation	499,870	446,997
Write-off of liabilities	387,235	53,404
Revenue from collected court costs	137,135	383,886
Fair value adjustment of other long-term placements	58,312	-
Damage compensations	47,166	31,461
Gains on sale of material and waste material	44,604	117,183
Release of provision for litigations (Note 26)	19,384	13,102
Gains on sale of intangible assets, property and equipment	15,826	9,599
Penalties	10,094	75,134
Recoveries of bad debts	3,706	2,246
Release of provision for employee benefits (Note 26)	-	218,659
Fair value adjustment – employee loans	-	52,978
Other income	150,689	607,729
Total	**2,799,159**	**3,985,644**

Write-off of liabilities totalling RSD 387,235 thousand during the year ended 31 December 2012 include income from early repayment of the commodity loan granted to the Consolidated Subsidiary "Telekom Srpske" by Nokia Siemens Networks in the amount of RSD 196,138 thousand.

14. OTHER EXPENSES

	2012	2011
Allowances for impairment of advances paid and receivables (a)	3,327,207	3,672,235
Losses on disposal and sale of intangible assets, property and equipment (b)	2,847,446	282,056
Impairment of intangible assets and equipment (c)	38,359	-
Losses on disposal of material and goods:		
- Write-down of material (Note 21)	221,879	21,709
- Direct write-off of material and goods	52,886	188,226
Grants and donations	211,614	159,933
Fair value adjustment – employee loans	19,753	-
Other expenses	134,650	106,569
Total	**6,853,794**	**4,430,728**

14. OTHER EXPENSES (Continued)

(a) Movements in the allowance for impairment of advances paid and receivables during the years ended 31 December 2012 and 2011 were as follows:

	Advances for intangible assets	Advances for property and equipment (Note 19)	Advances for goods and services	Accounts receivable (Note 22)	Total
Balance as of 1 January 2011	**265**	**45,158**	**76,299**	**13,493,711**	**13,615,433**
Charge for the year	2,110	38,486	101,726	3,529,913	3,672,235
Reversal of impairment losses (Note 13)	-	(58,319)	(93,147)	(1,821,800)	(1,973,266)
Transfer out of the books based on the year-end count	-	(73)	-	(464,688)	(464,761)
Transfer (from)/to	-	-	20,433	(445,882)	(425,449)
Other movements	-	(492)	(424)	5,285	4,369
Exchange differences	-	(12)	(4)	(17,889)	(17,905)
Balance as of 31 December 2011	**2,375**	**24,748**	**104,883**	**14,278,650**	**14,410,656**
Charge for the year	-	11,196	67,482	3,248,529	3,327,207
Reversal of impairment losses (Note 13)	(574)	(18,728)	(60,363)	(1,345,473)	(1,425,138)
Transfer out of the books based on the year-end count	-	(422)	(26,781)	(656,575)	(683,778)
Transfer (from)/to	-	-	(30,315)	(178,833)	(209,148)
Other movements	-	-	(238)	(30,907)	(31,145)
Exchange differences	-	125	48	281,651	281,824
Balance as of 31 December 2012	**1,801**	**16,919**	**54,716**	**15,597,042**	**15,670,478**

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

(c) The Consolidated Subsidiary “Mtel” carried out the impairment test of WiMAX assets as of 31 December 2012, by which the carrying amount of WiMAX assets has been reduced by the total amount of RSD 38,359 thousand (EUR 337,767). Circumstances that have lead to the recognition of the impairment losses of RSD 811 thousand (EUR 7,144) and RSD 37,548 thousand (EUR 330,623) on intangible assets and equipment, respectively, are the small probability of generating income from the assets based on WiMAX technology, as well as the non-existence of an active market of the used WiMAX equipment.

WiMAX assets of the Consolidated Subsidiary “Mtel” were taken as a cash generating unit under review. These include a portion of the equipment, licenses and software of the Consolidated Subsidiary “Mtel” based on WiMAX technology, which generates special cash flows in the projected period. For the recoverable amount of such established cash generating unit, its value in use was taken, arrived at based on the projected future cash inflows which may be realised over the expected useful life, using the discount rate of 9.24%. Projections used upon assessment of the value in use cover the period from 2013 to 2018, which, simultaneously, represent the expected useful life of the above mentioned group of the assets.

15. NET LOSS FROM DISCONTINUED OPERATIONS

In accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", in 2012 the Group's management assessed that the effects of error adjustments from previous period were not material, and therefore, the prior year information were not restated. Such adjustments were recorded in the current reporting period.

Total negative effect of error adjustments charged to the consolidated income statement for the year ended 31 December 2012, and recognized within Net loss from discontinued operations, amounted to RSD 142,139 thousand (2011: RSD 142,578 thousand).

16. INCOME TAXES

(a) Components of Income Taxes

	2012	2011
Current tax expense	1,129,447	1,752,660
Deferred tax income, net	(1,429,898)	(406,728)
Total tax (income)/expense, net	**(300,451)**	**1,345,932**

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

	2012	2011
Profit before tax	**11,985,149**	**24,574,938**
Income tax expense at prescribed rates	**1,202,184**	**2,490,585**
Non-deductible expenses	77,592	257,903
Income reconciliation	84,497	52,709
Effect of change in income tax rate	(856,541)	-
Deduction arising from withholding tax	(71)	-
Utilized tax credits	(808,112)	(1,455,265)
Total tax (income)/expense	**(300,451)**	**1,345,932**
Effective tax rate	*-*	*5.5%*

16. INCOME TAXES (Continued)

(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, retirement benefits and impairment of assets 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:

	2012	2011
Balance as of 1 January	**1,472,821**	**1,266,720**
Effects of temporary differences arising from different depreciation rates credited to the consolidated income statement	1,175,820	153,314
Effects of temporary differences arising from retirement benefits credited to the consolidated income statement	41,888	53,354
Effects of other temporary differences	(1,630)	1,134
Exchange differences	10,897	(1,701)
Balance as of 31 December	**2,699,796**	**1,472,821**

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

	2012	2011
Balance as of 1 January	**1,995,958**	**2,176,619**
Effects of temporary differences credited to the consolidated income statement	(213,820)	(198,926)
Deferred taxes arising from business combination	-	41,025
Exchange differences	169,301	(22,760)
Balance as of 31 December	**1,951,439**	**1,995,958**

16. INCOME TAXES (Continued)

(c) Deferred Tax Assets/Liabilities (Continued)

Unrecognized Deferred Tax Assets

The Group did not recognize deferred tax assets arising from unutilized tax credits and tax losses carried forward amounting to RSD 13,729,825 thousand as of 31 December 2012 (31 December 2011: RSD 13,097,233 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 2012	31 December 2011
2003	2013	1,064,661	1,130,339
2004	2014	1,833,253	1,898,932
2005	2015	1,526,846	1,592,525
2006	2016	961,282	1,026,961
2007	2017	1,486,342	1,552,021
2008	2013	25,138	36,822
2008	2018	1,494,276	1,559,955
2009	2014	59,129	54,409
2009	2019	958,929	1,024,608
2010	2020	2,238,926	2,304,605
2011	2021	850,377	916,056
2012	2022	1,230,666	-
Total		**13,729,825**	**13,097,233**

17. INTANGIBLE ASSETS

	Goodwill	Customer relations	Licenses	Software	Other intangible assets	Intangible assets under develop-ment	Total
Cost as of							
1 January 2011	**33,587,447**	**17,503,659**	**20,530,563**	**12,725,806**	**1,043,788**	**1,368,082**	**86,759,345**
Additions	-	-	-	-	-	1,262,643	1,262,643
Transfer from intangible assets under development	-	-	79,017	636,250	428,684	(1,143,951)	-
Additions as of the acquisition date	512,930	-	4,034	-	410,247	-	927,211
Disposals	-	-	(18,728)	(46,289)	(2,469)	(422,124)	(489,610)
Transfer (from)/to	-	-	312,248	458,214	-	(49,000)	721,462
Other movements	-	-	40,965	-	-	-	40,965
Exchange differences	(272,982)	(142,261)	(80,353)	362	7,226	(14,770)	(502,778)
Balance as of 31 December 2011	**33,827,395**	**17,361,398**	**20,867,746**	**13,774,343**	**1,887,476**	**1,000,880**	**88,719,238**
Additions	-	-	-	-	-	2,407,663	2,407,663
Transfer from intangible assets under development	-	-	189,942	778,457	7,938	(976,337)	-
Disposals	-	-	(37,010)	(289,226)	(2,152)	-	(328,388)
Transfer from	-	-	(1,372,885)	(570,404)	(3,656)	(135,713)	(2,082,658)
Exchange differences	2,889,968	1,506,069	998,197	184,549	75,009	(4)	5,653,788
Balance as of 31 December 2012	**36,717,363**	**18,867,467**	**20,645,990**	**13,877,719**	**1,964,615**	**2,296,489**	**94,369,643**
Accumulated amortization and impairment							
1 January 2011	**-**	**3,451,600**	**7,430,359**	**10,686,934**	**738,679**	**32,395**	**22,339,967**
Amortization (Note 9)	-	953,844	1,901,178	1,022,522	-	92,205	3,969,749
Additions as of the acquisition date	-	-	426	-	-	-	426
Long-term rentals per year	-	-	-	-	127,049	-	127,049
Disposals	-	-	(17,035)	(35,912)	(6)	-	(52,953)
Other movements	-	-	-	1,356	-	-	1,356
Transfer (from)/to	-	-	112	27,629	-	(32,395)	(4,654)
Exchange differences	-	(3,740)	357	3,943	94	-	654
Balance as of 31 December 2011	**-**	**4,401,704**	**9,315,397**	**11,706,472**	**865,816**	**92,205**	**26,381,594**
Transfer from intangible assets under development	-	-	6,804	265,422	41	(272,267)	-
Amortization (Note 9)	-	1,061,591	1,799,276	885,570	23,490	219,373	3,989,300
Impairment (Note 14(c))	-	-	748	63	-	-	811
Long-term rentals per year	-	-	-	-	127,342	-	127,342
Disposals	-	-	(33,309)	(180,207)	(2,145)	-	(215,661)
Transfer from	-	-	(534,279)	(398,730)	(6)	(19,765)	(952,780)
Other movements	-	-	-	-	-	220,960	220,960
Exchange differences	-	383,259	350,663	110,819	29,167	-	873,908
Balance as of 31 December 2012	**-**	**5,846,554**	**10,905,300**	**12,389,409**	**1,043,705**	**240,506**	**30,425,474**
Net book value as of:							
- 31 December 2012	**36,717,363**	**13,020,913**	**9,740,690**	**1,488,310**	**920,910**	**2,055,983**	**63,944,169**
- 31 December 2011	**33,827,395**	**12,959,694**	**11,552,349**	**2,067,871**	**1,021,660**	**908,675**	**62,337,644**

17. INTANGIBLE ASSETS (Continued)

Goodwill amounting to RSD 36,717,363 thousand as of 31 December 2012 (31 December 2011: RSD 33,827,395 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 36,204,433 thousand (31 December 2011: RSD 33,314,465 thousand), and the acquired subsidiary "HD-WIN" in the amount of RSD 512,930 thousand (31 December 2011: RSD 512,930 thousand).

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 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 the Company "HD-WIN" offers.

Impairment of Goodwill Test

In accordance with adopted accounting policy described in Note 2.13., during the annual test for impairment of goodwill acquired in a business combination on acquisition of the Consolidated Subsidiary "Telekom Srpske" as of 31 December 2012, 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 2012, for annual test of goodwill impairment acquired in a business combination on acquisition of the Consolidated Subsidiary "HD-WIN", cash generating unit (CGU) corresponds to the Consolidated Subsidiary "HD-WIN" taken as a whole.

As of 31 December 2012 and 2011, the carrying amount of goodwill acquired in a business combination on acquisition of Consolidated Subsidiary "Telekom Srpske" is allocated on CGUs as follows:

	2012	2011
Fixed telephony and broadband services	6,026,842	5,545,758
Mobile telephony	30,177,591	27,768,707
	36,204,433	**33,314,465**

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 for mentioned Consolidated Subsidiaries has been determined based on fair value calculation, applying the income approach through Discounted Cash Flow method.

17. INTANGIBLE ASSETS (Continued)

Impairment of Goodwill Test (Continued)

The analysis is based on the Consolidated Subsidiary “Telekom Srpske” Budget for 2013 and the management’s expectations of the Consolidated Subsidiaries “Telekom Srpske” and “HD-WIN” performance for the period from 2013 to 2017. Values in use of CGU were estimated as the sum of the net present values of cash flows which are expected to be generated by the use of invested business equity.

The aforementioned Plan for the Consolidated Subsidiary “Telekom Srpske” of operations projects growth of total fixed line services and broadband services revenues by 6.3% in 2014 and by 3.5% in 2017. In addition, the mobile telephony revenues are projected to grow by 3.4% in 2014 and by 6.1% in 2017. Projected growth of total operating revenues of Consolidated Subsidiary “HD-WIN” is between 10.5% in 2014 and 6.8% in 2017.

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 and “HD-WIN” as CGUs, cover the five-year period from 2013 to 2017.
- In determination of value in use, projections of future operations were estimated for the CGU in its current operation conditions. Cash outflows and inflows 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 fluctuation in whole. As of the valuation date, the unlevered Beta for “Telekom Srpske” and “HD-WIN” per groups were 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 and broadband services and 0.6 in mobile telephony for “Telekom Srpske”, and 1.0 for “HD-WIN”.
- The adequate discount rate is estimated as the weighted average cost of capital (WACC). WACC for the Consolidated Subsidiary “Telekom Srpske” amounts to 9.6% in fixed telephony and broadband services and 9.4% in mobile telephony, while for the Consolidated Subsidiary “HD-WIN” amounts to 14.0%. This rate was used to discount projected net cash flows for the period 2013 to 2017, 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 2012 is presented as follows:

TELEKOM SRPSKE - FIXED TELEPHONY AND BROADBAND SERVICES	**In 000 RSD**	**In 000 KM**
Recoverable amount of cash generating unit	74,542,346	1,282,047
Carrying amount of cash generating unit	41,507,798	713,889
Excess over carrying amount	**33,034,548**	**568,158**
CONCLUSION	*There is no impairment*	

17. INTANGIBLE ASSETS (Continued)

Impairment of Goodwill Test (Continued)

TELEKOM SRPSKE - MOBILE TELEPHONY	In 000 RSD	In 000 KM
Recoverable amount of cash generating unit	78,442,883	1,349,132
Carrying amount of cash generating unit	68,708,818	1,181,716
Excess over carrying amount	**9,734,065**	**167,416**
CONCLUSION	*There is no impairment*	

HD-WIN	In 000 RSD
Recoverable amount of cash generating unit	707,033
Carrying amount of cash generating unit	651,005
Excess over carrying amount	**56,028**
CONCLUSION	*There is no impairment*

Based on the conducted impairment tests, there were no indications of impairment of goodwill acquired in a business combination on acquisition of Consolidated Subsidiaries “Telekom Srpske” and “HD-WIN” at 31 December 2012 since each CGU’s recoverable amount exceeded its carrying value.

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 2012, the carrying value of the GSM/UMTS licenses amounts to RSD 5,858,592 thousand (31 December 2011: RSD 6,112,899 thousand), the carrying value of the licenses for wireless fixed access (CDMA and WiMAX) amounts to RSD 32,975 thousand (31 December 2011: RSD 44,490 thousand), the carrying value of other mobile telephony licenses amounts to RSD 3,624,656 thousand (31 December 2011: RSD 5,009,160 thousand), while the carrying value of other licenses amounts to RSD 224,467 thousand (31 December 2011: RSD 385,800 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 the five-year period from the date of enactment of the licenses. At the request of the Consolidated Subsidiary “Mtel”, the Agency for Electronic Communications and Postal Services of Montenegro approved the renewal of the WiMAX license for the next 5 years, commencing from 22 April 2012.

17. INTANGIBLE ASSETS (Continued)

As collateral provided to secure the regular repayment of the loans granted by Nova Ljubljanska banka - NLB d.d., Ljubljana, Slovenia, the License GSM-UMTS no. 01-124 was pledged and registered under no. R-07062000034 in the Register of pledges with the Commercial Court in Podgorica (Note 27(c)/ii/). The net book value of the pledged license amounts to RSD 1,126,909 thousand as of 31 December 2012 (31 December 2011: RSD 1,148,628 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 the fifteen-year period from the date of granting the license, commencing from 12 October 2004. The net book value of this licence amounts to RSD 3,708,442 thousand as of 31 December 2012 (31 December 2011: RSD 3,939,577 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 the fifteen-year period commencing from 1 April 2009. As of 31 December 2012, the net book value of this license amounts to RSD 1,023,241 thousand (31 December 2011: RSD 1,024,697 thousand).

As of 31 December 2012, the Consolidated Subsidiary "Mtel" performed an impairment test of intangible assets based on WiMAX technology and recognized an impairment loss of RSD 811 thousand (Note 14 (c)).

Except for the aforesaid, the Group's management considers that there is no indication that the intangible assets are impaired at the reporting date.

18. 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 2011	**104,649,626**	**123,114,415**	**13,431,089**	**10,402,706**	**23,551,007**	**275,148,843**
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)	-
Additions as of the acquisition date	-	-	245,453	1,548	-	247,001
Grants (Note 30(e))	-	-	-	-	26,010	26,010
Disposals	(154,613)	(3,064,812)	(408,724)	(15,554)	(82,821)	(3,726,524)
Transfer (from)/to	(2,323)	36,628	2,044	(23,420)	(841,289)	(828,360)
Transfer from inventories	-	278,831	-	-	-	278,831
Transfer (from)/to	(2,323)	36,628	2,044	(23,420)	(841,289)	(828,360)
Other movements	(716)	7,101	2,412	-	-	8,797
Exchange differences	(182,323)	(187,365)	(37,651)	(5,657)	(41,169)	(454,165)
Balance as of 31 December 2011	**107,811,687**	**131,935,049**	**14,274,333**	**10,762,775**	**19,277,287**	**284,061,131**
Additions		-	-	-	12,955,583	12,955,583
Transfer from construction in progress	3,370,992	9,288,310	1,226,341	374,610	(14,260,253)	-
Grants (Note 30(e))	100,013	-	-	-	(100,013)	-
Disposals	(55,098)	(8,015,882)	(489,515)	(57,533)	(78,675)	(8,696,703)
Transfer (from)/to	1,034	1,815,960	433,872	(26,884)	(141,324)	2,082,658
Transfer (from)/to inventories	165	11,090	2,773	-	(33,203)	(19,175)
Other movements	(83,581)	44,214	11,054	(262)	24,381	(4,194)
Exchange differences	2,205,626	2,363,054	452,551	63,990	308,955	5,394,176
Balance as of 31 December 2012	**113,350,838**	**137,441,795**	**15,911,409**	**11,116,696**	**17,952,738**	**295,773,476**
Accumulated depreciation and impairment						
1 January 2011	**36,182,070**	**67,586,088**	**7,907,089**	**8,147,841**	**715,708**	**120,538,796**
Transfer from construction in progress	67,907	376,841	37,236	19,939	(501,923)	-
Depreciation (Note 9)	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	(125)	(1,150)	(2,275)	(226)	202	(3,574)
Balance as of 31 December 2011	**41,232,852**	**79,154,414**	**9,217,314**	**9,038,863**	**673,440**	**139,316,883**
Transfer from construction in progress	60,708	568,533	29,269	30,688	(689,198)	-
Depreciation (Note 9)	5,320,803	13,616,054	1,698,405	711,210	429,921	21,776,393
Impairment (Note 14 (c))	-	37,548	-	-	-	37,548
Disposals	(39,051)	(4,981,513)	(430,441)	(37,074)	(8,485)	(5,496,564)
Transfer (from)/to	(598)	751,916	181,191	523	19,748	952,780
Other movements	(4,957)	5,326	1,307	415	104,519	106,610
Exchange differences	571,535	1,034,077	222,323	28,013	1,064	1,857,012
Balance as of 31 December 2012	**47,141,292**	**90,186,355**	**10,919,368**	**9,772,638**	**531,009**	**158,550,662**
Net book value as of:						
- 31 December 2012	**66,209,546**	**47,255,440**	**4,992,041**	**1,344,058**	**17,421,729**	**137,222,814**
- 31 December 2011	**66,578,835**	**52,780,635**	**5,057,019**	**1,723,912**	**18,603,847**	**144,744,248**

18. PROPERTY, PLANT AND EQUIPMENT (Continued)

Cost of fully-depreciated property, equipment and intangible assets amounts to RSD 45,122,333 thousand as of 31 December 2012 (31 December 2011: RSD 44,410,255 thousand).

Construction in progress includes completed investments not yet transferred to property and equipment amounting to RSD 6,200,471 thousand as of 31 December 2012 (31 December 2011: RSD 6,929,469 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 2,733,650 thousand as of 31 December 2012 (31 December 2011: RSD 835,075 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 respect of the loan granted. In December 2007, the aforementioned loan passed from Ericsson Credit A.B., Sweden to BNP Paribas, London branch, and the Parent Company was informed of this (Note 27(c)/iii/). The substitution of pledgee has not yet been registered in the Register of pledges with the Serbian Business Registers Agency. During 2010, the requests had been submitted to the Register for the substitution of the pledge, which were rejected. Subsequently submitted complaints were rejected until the reporting date. The carrying value of pledged equipment amounts RSD 1,552,036 thousand as of 31 December 2012 (31 December 2011: RSD 1,919,433 thousand).

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 1,550,704 thousand as of 31 December 2012, pledge on its telecommunication equipment acquired from the foreign supplier Ericsson A.B., Sweden, was registered. The purchase value (cost) of the pledged equipment amounts to RSD 3,499,481 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 27(c)/ii/). The pledge was prolonged 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 Societe Generale banka Montenegro a.d., Podgorica, Montenegro, to the Consolidated Subsidiary “Mtel” amounting to RSD 230,991 as of 31 December 2012, the pledge on its equipment acquired from the foreign supplier Ericsson A.B., Sweden, was registered with the purchase value of RSD 405,861 thousand (Note 27(c)/ii/)).

The pledge was inscribed on 16 February 2011 in the Pledge Registry of the Commercial Court in Podgorica under the registration number R-11021600017. The pledge was supplemented on 6 July 2011 under the registration number M-11070600199 to the amount of RSD 49,013 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.

18. PROPERTY, PLANT AND EQUIPMENT (Continued)

As collateral for the regular repayment of the long-term loan extended by Hypo Alpe-Adria-Bank a.d., Podgorica, Montenegro to the Consolidated Subsidiary “Mtel” amounting to RSD 51,589 thousand as of 31 December 2012, the pledge on its equipment with the purchase value of RSD 663,182 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 27(c)/ii/). The above pledge was prolonged in the Pledge Registry of the Commercial Court in Podgorica on 13 June 2012 under the registration number C120613008.

Pursuant to the Agreement on the telecommunication equipment pledge dated 15 August 2008, as collateral provided for regular repayment of the non-current loan extended by Ericsson Credit A.B., Sweden to the Consolidated Subsidiary “Mtel” in the amount of RSD 2,458,849 thousand, the pledge on its telecommunication equipment acquired from the foreign supplier Ericsson A.B., Sweden, with the purchase value amounting to RSD 2,892,763 thousand, was registered. The pledge was terminated on 8 November 2012.

Capital expenditure contracted for at the reporting date but not yet incurred, representing capital commitments, amount to RSD 2,543,217 thousand (Note 33(b)).

Lease rentals amounting to RSD 6,077,043 thousand (2011: RSD 5,383,788 thousand), mostly relating to the lease of business and warehouse premises and space for radio base stations, are included in the consolidated income statement within other operating expenses (Note 10).

As of 31 December 2012, the Consolidated Subsidiary “Mtel” performed an impairment test of WiMAX equipment and recognized an impairment loss of RSD 37,548 thousand (Note 14(c)).

Except for the aforesaid, the Group’s management considers that there is no indication that the intangible assets are impaired at the reporting date.

19. ADVANCES FOR PROPERTY AND EQUIPMENT

	2012	2011
Payments in advance for property and equipment:		
- in RSD	115,692	168,941
- in foreign currency	184,669	197,721
	300,361	**366,662**
Less: Allowance for impairment (Note 14)	(16,919)	(24,748)
Balance as of 31 December	**283,442**	**341,914**

20. OTHER LONG-TERM FINANCIAL PLACEMENTS

	2012	2011
Loans to employees:		
- Housing (residential)	1,873,559	1,813,739
- For repurchase of apartments	12,783	14,838
Other long-term loans	-	1,078
	1,886,342	1,829,655
Less: Fair value adjustment	(687,896)	(668,486)
Total loans	**1,198,446**	**1,161,169**
Long-term receivables	864,831	708,186
Term financial deposits	6,522	350,292
Long-term bonds and securities available-for-sale	6,770	6,275
Balance as of 31 December	**2,076,569**	**2,225,922**

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

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

The fair value of loans to employees is based on cash flows discounted using a rate based on the market interest rate at which the Parent Company could obtain non-current loans and that reflects market rate for similar financial instruments in the current reporting period – 6.27% per annum (year ended 31 December 2011: 5.71% per annum). The Consolidated Subsidiary "Telekom Srpske" used a discount rate of 5.5% per annum (2011: 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.

20. OTHER LONG-TERM FINANCIAL PLACEMENTS (Continued)

Other long-term receivables amounting to RSD 864,831 thousand as of 31 December 2012 (31 December 2011: RSD 708,186 thousand) mostly relate to the Parent Company's receivables arising with respect to the Advertising Space Lease Contract for the seven-year period, as well as other contracts concluded during 2011 and 2012 with the Company "Stampa sistem" d.o.o., Belgrade in the total amount of RSD 815,367 thousand. The remaining amount mostly relates to the long-term receivables of the Consolidated Subsidiary "Telekom Srpske" from the Government of the Republic of Srpska totalling RSD 46,648 thousand.

21. INVENTORIES

	2012	2011
Material and fuel	4,289,012	4,455,193
Spare parts	1,996,249	1,958,104
Tools	3,199,456	3,264,380
Waste material	223,398	15,716
	9,708,115	9,693,393
Less: Allowance for impairment		
Material and spare parts	(221,879)	(21,709)
Tools in use	(2,646,818)	(2,646,978)
Waste material	(223,398)	(15,716)
	6,616,020	**7,008,990**
Goods in warehouses	141,396	211,755
Goods in retail	19,767	33,408
	161,163	**245,163**
Balance as of 31 December	**6,777,183**	**7,254,153**

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

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

22. ACCOUNTS RECEIVABLE

	2012	2011
Trade receivables		
Fixed telephony, internet and multimedia services	11,896,722	10,838,183
Mobile telephony	14,153,570	13,855,869
International settlement of fixed telephony traffic	1,970,322	1,474,009
Roaming	430,348	390,737
Interconnection	1,390,265	1,357,528
Other receivables	147,435	121,535
	29,988,662	**28,037,861**
Receivables from related parties		
OTE (Note 32(a))	-	2,876
	-	**2,876**
Other receivables		
Other receivables from sales	252,409	252,354
Interest receivables	61,450	75,329
Receivables from employees	8,772	241,056
Overpaid taxes and contributions	12,307	34,655
Receivables for war damages on property and equipment and inventories	139,202	139,202
Receivables from the state institutions	104,843	96,537
Other receivables	308,507	644,177
	887,490	**1,483,310**
Gross accounts receivable	**30,876,152**	**29,524,047**
Less: Allowance for impairment (Note 14)		
Accounts receivable	(15,009,805)	(13,654,005)
Other receivables from sales	(247,718)	(246,289)
Interest receivables	(6,650)	(6,147)
Receivables from employees	(4,044)	(4,384)
Overpaid taxes and contributions	(475)	(437)
Receivables for war damages on property and equipment and inventories	(139,202)	(139,202)
Receivables from the state institutions	(103,509)	(87,450)
Other receivables	(85,639)	(140,736)
	(15,597,042)	**(14,278,650)**
Balance as of 31 December	**15,279,110**	**15,245,397**

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

22. ACCOUNTS RECEIVABLE (Continued)

Trade receivables are predominantly non-interest bearing.

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

The average collection period during the year ended 31 December 2012 was 46 days (year ended 31 December 2011: 47 days).

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

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

	2012	2011
Up to 30 days	11,535,194	11,795,337
From 30 to 60 days	2,380,619	2,440,616
From 60 to 180 days	2,460,983	2,183,418
From 180 to 360 days	1,966,077	2,141,542
Over 360 days	12,533,279	10,963,134
Total	**30,876,152**	**29,524,047**

As of 31 December 2012, receivables of RSD 15,279,110 thousand (31 December 2011: RSD 15,245,397 thousand) were considered to be fully performing.

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

As of 31 December 2012, receivables from fixed and mobile telephony traffic in the amount of RSD 2,469,852 thousand (31 December 2011: RSD 1,987,433 thousand) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

As of 31 December 2012, receivables in the amount of RSD 15,597,042 thousand (31 December 2011: RSD 14,278,650 thousand) were impaired and provided for in the amount of RSD 15,597,042 thousand (31 December 2011: RSD 14,278,650 thousand). It was assessed that a part of the receivables is expected to be recovered.

22. ACCOUNTS RECEIVABLE (Continued)

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

	2012	2011
RSD – local currency	10,212,290	10,687,554
EUR	2,647,641	2,120,562
BAM (KM)	2,159,748	2,196,401
Other currencies	259,431	240,880
Total	**15,279,110**	**15,245,397**

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.

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

23. CASH AND CASH EQUIVALENTS

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

	2012	2011
Current accounts	2,469,879	3,168,057
Foreign currency accounts with domestic banks	13,399,458	14,771,190
Cash equivalents and cash coupons	9,259	2,629
Balance as of 31 December	**15,878,596**	**17,941,876**

24. VALUE ADDED TAX, PREPAYMENTS AND ACCRUED INCOME

	2012	2011
Deferred value added tax	**860,640**	**740,791**
Receivables for overpaid value added tax	**13,171**	**13,892**
Prepaid expenses:		
- TV rights	2,153,628	733,461
- Banks' commissions for syndicated loan (a)	572,554	73,618
- Non-current loan origination fee	14,193	14,096
- Rental	135,378	92,423
- Insurance premiums	18,070	33,555
- Licenses and frequencies fees	15,129	31,146
- Other	105,896	125,754
	3,014,848	**1,104,053**
Accrued income:		
- International settlement (b)	306,730	417,811
- Roaming (c)	2,098,224	1,619,107
Other accrued income	67,761	81,284
	2,472,715	**2,118,202**
Balance as of 31 December	**6,361,374**	**3,976,938**

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

(b) As of 31 December 2012, accrued income arising from fixed telephony international settlement totalling RSD 306,730 thousand comprises uninvoiced revenue from international settlement for November and December of 2012 in the total estimated amount of RSD 271,728 thousand and unsettled international traffic settlements for the period prior to November 2012 amounting to RSD 35,002 thousand.

(c) As of 31 December 2012, accrued income from mobile telephony traffic totalling RSD 2,098,224 thousand comprises accrued income from roaming services primarily for November and December of 2012 estimated to RSD 447,858 thousand and uninvoiced income arising from International GSM roaming contracts – Network operators' discounts amounting to RSD 1,650,366 thousand.

25. EQUITY

/i/ Share Capital

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

In accordance with the Conclusion of the Government of the Republic of Serbia 05 no. 023-6816 dated 21 September 2010 and the Decision on the transfer of the shares in the 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.

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

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

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

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

25. EQUITY (Continued)

/i/ Share Capital (Continued)

The ultimate parent of the Group at 31 December 2012 and 2011 is the Republic of Serbia.

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

Share capital was revalued each year throughout 31 December 2003, by applying official revaluation coefficients based on retail price index, in accordance with the Republic of Serbia accounting regulations prevailing at that time. Accumulated revaluation effects, credited to reserves, were allocated to the share capital as of 1 January 2004, being IAS/IFRS transition date. The carrying value of share capital determined in such manner was recorded in the Parent Company's books of account in the amount of RSD 82,512,552 thousand until April 2012, when it was increased to the amount of RSD 100 billion through allocation of the part of retained earnings to share capital.

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

/ii/ Other Capital

Other capital amounting to RSD 8,588 thousand as of 31 December 2012 and 2011 was created in prior years by a mandatory allocation of employees' contributions to the Fund for financing solidarity housing.

/iii/ Reserves

Reserves amounting to RSD 21,090,514 thousand as of 31 December 2012 (31 December 2011: RSD 15,099,742 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.

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.

25. EQUITY (Continued)

/iii/ Reserves (Continued)

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 2011	**1,300,525**	**24,509**	**254**	**14,016,786**	**15,342,074**
Transfer from retained earnings to legal reserves	268,187	-	-	-	268,187
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**
Transfer from retained earnings to legal reserves	28,329	-	-	-	28,329
Fair value losses on available-for-sale financial assets, net	-	-	(32)	-	(32)
Currency translation differences	-	-	-	5,962,475	5,962,475
Balance as of 31 December 2012	**1,597,041**	**24,509**	**189**	**19,468,775**	**21,090,514**

/iv/ Basic Earnings per Share

	2012	2011
Profit attributable to equity holders of the Parent Company (A)	10,710,275	21,861,746
Weighted average number of ordinary shares in issue during the period (B)	1,000,000,000	1,080,000
Basic earnings per share (A/B)	**0.01**	**20.24**

26. LONG-TERM PROVISIONS

	2012	2011
Provisions for retirement benefits and jubilee anniversary awards	2,135,853	1,911,841
Provision for litigations	257,603	256,186
Other provisions for likely events	66,893	61,554
Balance as of 31 December	**2,460,349**	**2,229,581**

Movements in the provisions during the year were as follows:

	Retirement benefits	Jubilee anniversary awards	Litigations	Other provisions	Total
Balance as of 1 January 2011	**912,591**	**1,387,918**	**251,601**	**62,058**	**2,614,168**
Charge for the year (Note 9)	1,220	8,266	32,206	-	41,692
Utilized provision	(25,298)	(146,428)	(13,594)	-	(185,320)
Release of provision (Note 13)	(98,646)	(120,013)	(13,102)	-	(231,761)
Exchange differences from currency translation	(30,313)	22,544	(925)	(504)	(9,198)
Balance as of 31 December 2011	**759,554**	**1,152,287**	**256,186**	**61,554**	**2,229,581**
Charge for the year (Note 9)	133,737	226,441	28,306	-	388,484
Utilized provision	(19,734)	(146,341)	(20,040)	-	(186,115)
Release of provision (Note 13)	-	-	(19,384)	-	(19,384)
Exchange differences from currency translation	12,242	17,667	12,535	5,339	47,783
Balance as of 31 December 2012	**885,799**	**1,250,054**	**257,603**	**66,893**	**2,460,349**

Provisions for employees' retirement benefits and jubilee awards have been recorded in the consolidated financial statements on the basis of the Report of an independent actuary as of 31 December 2012 and they are stated in the amount of discounted present value of future payments to the Group's employees, based on the assumptions applicable in economic environment in which the Parent Company and the Consolidated Subsidiaries operate.

26. LONG-TERM PROVISIONS (Continued)

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

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 6.7% per annum, projected salaries’ growth of 4.2% 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.

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 66,893 thousand as of 31 December 2012 (31 December 2011: RSD 61,554 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 carried out in 2002 in the aforementioned amount.

27. BORROWINGS

(a) Structure of Borrowings

	2012	2011
Long-term borrowings		
Loans from:		
- Domestic banks	20,134,962	-
- Foreign banks	14,817,303	2,644,471
	34,952,265	**2,644,471**
Commodity loans	15,927,782	19,620,081
Total long-term borrowings	**50,880,047**	**22,264,552**
Other long-term liabilities (d)	**1,796,583**	**1,103,409**
Total long-term borrowings and liabilities	**52,676,630**	**23,367,961**
Current portion of long-term borrowings		
Loans from domestic banks	13,119,860	100,098
Loans from foreign banks	9,701,872	21,568,003
Loans from other financial institutions	-	34,800
Commodity loans	9,153,283	9,802,413
Total current portion	**31,975,015**	**31,505,314**
Current portion of other long-term liabilities (d)	1,029,732	1,589,859
Other short-term borrowings	-	2,500
Total short-term borrowings	**33,004,747**	**33,097,673**
Balance as of 31 December	**85,681,377**	**56,465,634**

The fair value of long-term borrowings, which is based on cash flows discounted using a rate based on the interest rate of 6.27% per annum (2011: 5.71% per annum), amounts to RSD 51,006,103 thousand as of 31 December 2012 (31 December 2011: RSD 22,358,328 thousand).

The fair value of current portion of short-term financial liabilities equals their carrying amount.

(b) Maturity of Borrowings

	2012	2011
Up to 1 year - current portion of long-term borrowings	31,975,015	31,505,314
From 1 to 2 years	30,025,873	8,749,535
From 2 to 3 years	16,517,106	6,289,928
From 3 to 4 years	3,034,692	4,643,753
From 4 to 5 years	1,039,268	2,043,479
Over 5 years	263,108	537,857
Balance as of 31 December	**82,855,062**	**53,769,866**

27. BORROWINGS (Continued)

(c) Detailed Breakdown of Borrowings per Creditors

		31 December 2012		31 December 2011	
	Currency	In foreign currency	In RSD thousand	In foreign currency	In RSD thousand
/i/ Loans from domestic banks					
Unicredit Bank Srbija a.d., Belgrade	EUR	286,100,000	32,534,806	-	-
Vojvodjanska banka a.d., Novi Sad	EUR	-	-	625,500	65,401
Beobanka a.d. in bankruptcy, Belgrade	EUR	331,582	37,706	331,582	34,697
Sberbank Srbija a.d., Belgrade	EUR	6,000,000	682,310	-	-
		292,431,582	**33,254,822**	**957,082**	**100,098**
/ii/ Loans from foreign banks					
Unicredit Bank, A.G., London branch	EUR	183,900,000	20,912,795	-	-
ERB New Europe Funding, the Netherlands	EUR	15,592,000	1,773,096	8,900,000	931,304
Nova Ljubljanska banka - NLB d.d., Slovenia	EUR	13,636,364	1,550,704	16,666,667	1,744,015
Eurobank EFG Ltd., Cyprus	EUR	-	-	11,000,000	1,151,050
Societe Generale banka Montenegro a.d., Montenegro	EUR	2,031,250	230,991	2,500,000	261,602
Hypo Alpe- Adria- Bank a.d., Montenegro	EUR	453,656	51,589	2,199,663	230,175
Citibank N.A., Great Britain	EUR	-	-	190,120,000	19,894,328
		215,613,270	**24,519,175**	**231,386,330**	**24,212,474**
Loans from other financial institutions					
EBRD	EUR	-	-	332,565	34,800
		-	**-**	**332,565**	**34,800**
/iii/ Foreign commodity loans					
BNP Paribas, London branch	EUR	18,556,248	2,110,185	27,579,945	2,885,990
KfW, Germany	EUR	596,700	67,856	1,336,952	139,900
Nokia Siemens, Finland, Austria and the Netherlands	EUR	55,223,743	6,279,950	71,113,128	7,441,342
Ericsson Credit A.B., Sweden	EUR	34,552,582	3,929,261	36,353,064	3,804,017
Credit Agricole CiB Sverige, Sweden	EUR	20,914,630	2,378,376	27,175,632	2,843,683
Huawei Technologies Co. Ltd., China	EUR	6,561,946	746,213	14,273,916	1,493,635
Huawei International Pte. Ltd., Singapore	EUR	7,965,971	905,877	5,946,199	622,216
Alcatel Lucent S.A., France	EUR	4,318,341	491,074	5,517,363	577,342
Alcatel Lucent International, France	EUR	3,169,300	360,408	1,309,147	136,990
OTP Bank Plc, Hungary	EUR	796,810	90,612	1,062,414	111,172
Sitronics, the Czech Republic	EUR	451,860	51,385	1,013,430	106,046
Intracom S.A., Greece	EUR	5,485,635	623,817	5,680,435	594,406
Skandinaviska Enskilda Bank, Sweden	EUR	4,982,470	566,598	6,089,686	637,230
Commerzbank AG, Hamburg branch	EUR	2,198,946	250,060	3,298,413	345,149
EuroBank EFG Factors S.A., Greece	EUR	-	-	139,480	14,595
The Government of Spain (Amper & Alcatel)	USD	2,256,290	194,630	2,256,290	182,472
Alcatel Lucent Italia S.p.A., Italy	EUR	474,002	53,903	790,003	82,666
Alcatel Lucent S.p.A., Belgium	EUR	485,332	55,191	1,455,993	152,356
Alcatel lucent Romania S.p.A., Romania	EUR	993,500	112,979	-	-
China Development Bank, Shenzhen branch	EUR	11,057,265	1,257,413	15,787,174	1,651,984
Elsag Datamat S.p.A., Italy	EUR	262,134	29,809	366,987	38,402
Arrtritsu A/S, Denmark	EUR	900,004	102,347	-	-
/iv/ Other commodity loans			**4,423,121**		**5,560,901**
Total commodity loans			*25,081,065*		*29,422,494*
Total borrowings			**82,855,062**		**53,769,866**
Less: Current portion of long-term borrowings					
Loans from domestic banks			(13,119,860)		(100,098)
Loans from foreign banks			(9,701,872)		(21,568,003)
Loans from other financial institutions			-		(34,800)
Commodity loans			(9,153,283)		(9,802,413)
			(31,975,015)		**(31,505,314)**
Total long-term borrowings			**50,880,047**		**22,264,552**

27. BORROWINGS (Continued)

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

Interest rates on loans granted by banks and foreign suppliers range from Euribor increased by 0.8% to Euribor increased by 5.95% 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 6% on the commodity and financial loans.

Bank borrowings and commodity loans mature until 2018.

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 or interest rate exposures.

/i/ Financial liabilities towards Beobanka a.d. in bankruptcy, Belgrade (“Beobanka”) in the amount of RSD 37,706 thousand as of 31 December 2012, relate to a loan settled by the former National Bank of Yugoslavia (“NBY”) toward LHB Bank, Frankfurt on behalf of Beobanka, as guarantor and the 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.

/ii/ In order to finance the purchase of the share of the minority shareholder OTE in the Parent Company’s capital, as well as to refinance the liabilities under the “Term and Revolving Facilities Agreement”, on 9 January 2012 the Parent Company entered into the “Term Facilities Agreement” with the financial institutions (original creditors – 19 banks), whereby Unicredit Bank A.G., London branch acts as a facility agent and Unicredit Bank Srbija a.d., Belgrade as a payment agent.

The total loan amounts to EUR 470 million and consists of two arrangements (A and B). The repayment period of both arrangements is 36 months from the date of the first withdrawal of the Arrangement A. On 25 January 2012, the Parent Company withdrew the funds per the Arrangement A in the total amount of EUR 320 million. On 24 May 2012, the Parent Company withdrew the funds per the Arrangement B in the amount of EUR 150 million.

The above mentioned Term Facilities Agreement defines the Parent Company’s obligation to submit audited annual consolidated financial statements and audited annual financial statements, as well as financial statements for certain interim (three-month) periods. In addition, the Parent Company is required to meet the prescribed level of the performance indicators of Leverage and Interest coverage. As of 31 December 2012, the Parent Company fulfilled the required ratios.

27. BORROWINGS (Continued)

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

/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. In May 2012, the Parent Company completely repaid the aforesaid debt.

As of 31 December 2012, total liabilities to ERB New Europe Funding B.V., the Netherlands amount to RSD 1,773,206 thousand. Borrowings amounting to RSD 557,220 thousand relate to the loan granted to the Parent Company in order to finance 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 the grace period. The loan is secured with 10 blank promissory notes issued by the Parent Company (Note 31(a)).

The remaining amount of the liabilities to ERB New Europe Funding B.V., the Netherlands of RSD 1,215,986 thousand as of 31 December 2012 relates to the loan granted to the Consolidated Subsidiary “Mtel” on 13 September 2012, which was fully used for the repayment of the borrowing from Eurobank EFG Ltd, Cyprus. The loan is secured with 10 blank promissory notes supported with notes authorization clause, the corporate guarantee of the Parent Company and the Consolidated Subsidiary “Telekom Srpske”, as the founder, in the amount of 51% and 49% of the value of all bank’s receivables, respectively (Note 31(b)). As collateral provided to secure the guarantee, the Consolidated Subsidiary “Mtel” issued 10 blank promissory notes supported with notes authorization clause.

Long-term borrowing from Nova Ljubljanska banka - NLB d.d., Ljubljana, Slovenia, amounting to RSD 1,550,704 thousand as of 31 December 2012, 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 17).

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 18), and 10 authorized promissory notes supported with notes authorization clause were provided. The pledge was extended on 22 September 2011.

The Consolidated Subsidiary “Mtel” is required to ensure a positive value of the capital during the period of the loan. Otherwise, the bank has the right to demand payment of all liabilities arising from the loan before the agreed period. As of 31 December 2012, the Consolidated Subsidiary “Mtel” fulfilled the conditions specified in the loan agreement.

27. BORROWINGS (Continued)

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

/ii/ As of 31 December 2012, the outstanding liabilities toward Societe Generale banka Montenegro a.d., Montenegro, in the amount of RSD 230,991 thousand relate to the loan granted to 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 supplemented on 6 July 2011 under the registration number M-11070600199 by the amount of RSD 49,013 thousand, whereby the Consolidated Subsidiary fulfilled its contractual obligation to ensure that pledged equipment amount to minimum EUR 4 million by 30 June 2011 (Note 18).

Borrowings from Hypo-Adria-Bank a.d., Podgorica, Montenegro, in the amount of RSD 51,589 thousand as of 31 December 2012, relate to the loan agreement entered into by the Consolidated Subsidiary “Mtel” in 2009. As collateral provided to secure the regular repayment of the aforementioned loan, the pledge on the telecommunication equipment acquired from the foreign supplier Intracom S.A. Telecom Solution, Greece, was inscribed in the Pledge Registry of the Commercial Court in Podgorica under the registration number R-09061800166 (Note 18), and 20 authorized promissory notes supported with note authorization clause were provided.

/iii/ As of 31 December 2012, liabilities to BNP Paribas, London branch, amount to RSD 2,110,185 thousand. The loan was initially granted to the Parent Company by Ericsson Credit A.B., Sweden, and it has been secured with assigned collateral rights on the Parent Company’s equipment (Note 18). The collateral right is registered at the Register of pledges with the Serbian Business Registers Agency, based on the appropriate Agreements and the Agency’s Decisions. In 2006 and 2007, the borrowing was transferred from Ericsson Credit A.B., Sweden to BNP Paribas, London branch. The substitution of a pledgee has not yet been registered in the Register of pledges.

The credit agreements with Ericsson Credit A.B., Sweden and BNP Paribas, London branch, are subject to covenant clauses, whereby the Parent Company is required to meet certain key performance indicators. As of 31 December 2012, the Parent Company fulfilled the required ratios.

The liabilities of the Consolidated Subsidiary “Mtel” in respect the Loan agreement with Ericsson A.B., Sweden, concluded on 29 September 2011, amount to RSD 127,377 thousand. The Consolidated Subsidiary “Mtel” assumed the obligation to reconcile its operating ratios with three financial indicators (the debt coverage ratio, debt to equity ratio and current liquidity ratio). The loan is secured with 12 promissory notes supported with note authorization clause.

As of 31 December 2012, the Consolidated Subsidiary “Mtel” fulfilled two out of the three aforementioned ratios, which may entitle the creditor to consider all its receivables due in full. Considering the fact that the Consolidated Subsidiary “Mtel” regularly settled its liabilities to Ericsson Credit A.B., Sweden in the past there is no reason for reclassification of the above liabilities from long-term borrowings to the current portion of long-term borrowings.

27. BORROWINGS (Continued)

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

/iv/ Other commodity loans total RSD 4,423,121 thousand as of 31 December 2012 (31 December 2011: RSD 5,560,901 thousand) and primarily relate to the financing of equipment and works.

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 suppliers. 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).

/v/ Undrawn commodity loans amount to RSD 2,543,217 thousand as of 31 December 2012 (31 December 2011: RSD 3,510,840 thousand). All undrawn loans have been granted at variable interest rates.

The facilities expiring within one year amount to RSD 441,875 thousand as of 31 December 2012 (31 December 2011: RSD 679,827 thousand), the facilities expiring from one up to five years amount to RSD 1,923,152 thousand (31 December 2011: RSD 2,626,615 thousand) and the facilities expiring over five years amount to RSD 178,190 thousand (31 December 2011: RSD 204,398 thousand).

(d) Other Long-term Liabilities

Other long-term liabilities totalling RSD 2,826,315 thousand as of 31 December 2012 (31 December 2011: RSD 2,693,268 thousand) mostly relate to the liabilities for TV rights for sports content broadcast granted to the Consolidated Subsidiary “HD WIN” for the period from 2014 to 2017, totalling RSD 1,889,780 thousand.

In addition, other long-term liabilities as of 31 December 2012 include the liabilities for UMTS license granted to the Consolidated Subsidiary “Telekom Srpske” by the Communications Regulatory Agency of Bosnia and Herzegovina, in the amount of RSD 933,003 thousand (KM 16.0 million).

The current portion of these long-term liabilities amounts to RSD 1,029,732 thousand as of 31 December 2012.

28. ACCOUNTS PAYABLE

	2012	2011
Trade payables for equipment and services	6,950,481	7,247,290
Trade payables for telecommunication services:		
- Fixed telephony	755,853	517,778
- Mobile telephony	241,656	143,191
- Interconnection	4,550	21,981
Related parties' trade payables (Note 32(a))	-	2,119
Advances received	139,540	167,431
Balance as of 31 December	**8,092,080**	**8,099,790**

As of 31 December 2012, accounts payable amounting to RSD 2,758,079 thousand (31 December 2011: RSD 2,707,245 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 2012 was 48 days (year ended 31 December 2011: 50 days).

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

As of 31 December 2012, out of RSD 6,907,677 thousand and RSD 4,001,698 thousand, representing outstanding balance of accounts payable and commodity loans from domestic suppliers, respectively, of the Parent Company, the amount of RSD 71,440 thousand has not been reconciled with the suppliers/creditors in 2012, mainly due to the impossibility to perform the reconciliation procedure.

29. OTHER CURRENT LIABILITIES

	2012	2011
Gross salaries	519,679	467,202
Liabilities to employees	33,710	47,106
Interest payable	21,995	27,857
Dividends payable	992,359	10,217,758
Other liabilities	375,039	265,216
Balance as of 31 December	**1,942,782**	**11,025,139**

As of 31 December 2012, dividends payable totalling RSD 992,359 thousand completely relate to the liabilities of the Consolidated Subsidiary "Telekom Srpske" toward its minority shareholders.

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

	2012	2011
Accruals		
Accrued expenses:		
International settlement (a)	234,564	279,232
Roaming (b)	2,234,222	1,694,423
Media contents distribution	216,108	105,943
	2,684,894	**2,079,598**
Accrued other expenses:		
Employee profit-sharing	-	1,484,533
Accrued vacations	501,646	429,193
Accrued interest expenses (c)	1,293,565	282,718
Accrued other expenses (d)	7,630,274	6,191,471
	9,425,485	**8,387,915**
Deferred income:		
Mobile phone services	847,300	895,865
Chip cards	11,859	16,994
Fixed telephony subscription	1,249,630	1,295,420
Lease	480,312	402,912
Other deferred income	85,783	27,273
	2,674,884	**2,638,464**
Deferred income (e):		
Donations	325,248	263,840
Grants from local municipalities	1,482,182	1,661,615
Grants from mobile telephony suppliers	721,583	911,338
Grants from other suppliers	154,542	173,984
	2,683,555	**3,010,777**
Deferred liabilities for value added tax	181,886	227,072
Value added tax and other tax liabilities (f)	1,192,994	1,098,578
Balance as of 31 December	**18,843,698**	**17,442,404**

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

(a) As of 31 December 2012, accrued expenses arising from fixed international traffic totalling RSD 234,564 thousand comprise uninvoiced expenses for November and December of 2012 in the estimated amount of RSD 205,646 thousand and unreconciled liabilities arising from international traffic settlements for the period until November 2012 in the amount of RSD 28,918 thousand.

(b) As of 31 December 2012, accrued roaming expenses totalling RSD 2,234,222 thousand relate to uninvoiced roaming services for November and December of 2012, estimated to RSD 630,135 thousand and uninvoiced expenses based on the International GSM roaming contract – Network operators' discounts amounting to RSD 1,604,087 thousand.

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

(c) Accrued interest expenses in the amount of RSD 1,293,565 thousand as of 31 December 2012 include the amount of RSD 1,177,077 thousand, representing interest expense arising from the syndicated loan granted to the Parent Company by Unicredit Bank A.G., London branch (31 December 2011: syndicated loan granted by Citibank N.A., London in the amount of RSD 96,792 thousand).

(d) Accrued other expenses amounting to RSD 7,630,274 thousand as of 31 December 2012 mostly relate to estimated uninvoiced expenses for services and works provided by suppliers during the year ended 31 December 2012.

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

	2012	2011
Balance as of 1 January	**3,010,777**	**3,744,788**
Grants received during the year (Note 18)	100,013	26,010
Released to the consolidated income statement (Note 6)	(443,537)	(437,787)
Other movements and exchange differences from currency translation	16,302	(322,234)
Balance as of 31 December	**2,683,555**	**3,010,777**

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.

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

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

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

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

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

31. OFF-BALANCE SHEET ITEMS

	2012	2011
Issued promissory notes (a)	5,456,331	10,100,998
Guarantees received (b)	3,514,715	1,313,450
Property and equipment in liquidation	360,990	1,141,475
Other off-balance sheet items	2,217,445	2,998,467
Balance as of 31 December	**11,549,481**	**15,554,390**

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

Promissory notes issued in favour of state authorities mostly represent collateral for securing repayment of liabilities to the Ministry of Finance and Treasury of Bosnia and Herzegovina for the UMTS license granted to the Consolidated Subsidiary “Telekom Srpske”.

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

	2012	2011
Issued promissory notes in favour of:		
- Banks	3,927,397	5,764,933
- State authorities	1,203,502	3,429,358
- Suppliers	325,432	906,707
Balance as of 31 December	**5,456,331**	**10,100,998**

(b) Guarantees received relate to guarantees issued by banks to the Group as collateral for timely and regular repayment of borrowings and other long-term liabilities.

Guarantees in the amount of RSD 3,514,715 thousand as of 31 December 2012 mostly relate to the guarantees issued by Unicredit Bank Srbija a.d., Belgrade in the amount of RSD 1,031,141 thousand and Banca Intesa a.d., Belgrade in the amount of RSD 227,437 thousand as collaterals for settlement of the Parent Company’s liabilities to UEFA. These guarantees are valid until 30 June 2015.

Furthermore, in September 2012, the Parent Company and the Consolidated Subsidiary “Telekom Srpske” issued the corporate guarantee in favour of ERB New Europe Funding B.V., the Netherlands in the amount of 51%, i.e., 49% of the value of liabilities arising with respect to the loan which the above mentioned bank granted to the Consolidated Subsidiary “Mtel” in the amount of EUR 11 million.

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

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 2012 and 2011, arising from the transactions with shareholders (Note 25) are summarized below:

	2012	2011
RECEIVABLES AND ACCRUED INCOME		
OTE		
Gross accounts receivable (Note 22)	-	2,876
Accrued income from international settlement	-	14,299
Balance as of 31 December	**-**	**17,175**

	2012	2011
LIABILITIES AND ACCRUED EXPENSES		
OTE		
Accounts payable (Note 28)	-	2,119
Dividends payable	-	1,778,895
Accrued expenses from international settlement	-	1,560
Balance as of 31 December	**-**	**1,782,574**

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

The receivables from related parties arise mainly from sale transactions and are due three months after the date of sales, i.e. rendering of services, at the latest. The receivables are mostly 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 2012 and 2011, respectively, are summarized below:

	2012	2011
OTE		
Revenues:		
International settlement	8,391	207,399
	8,391	**207,399**
Expenses:		
International settlement	(1,426)	(26,361)
	(1,426)	**(26,361)**
Net income	**6,965**	**181,038**

Income and expenses presented for the year ended 31 December 2012, arising from transactions with OTE, relate to the month of January 2012, when OTE ceased to be the shareholder of the Parent Company (Note 25/i/).

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

	2012	2011
Gross salaries	497,487	439,428
Compensations for business trips	30,268	28,971
Residential housing loans	114,888	144,796
Employee profit-sharing	32,639	90,554
Loans for repurchase of vehicles	-	27,989
Other benefits	4,609	3,207
Total	**679,891**	**734,945**

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 20). No provision has been required for the loans made to key management personnel.

33. COMMITMENTS

Commitments of the Group comprise the following:

	2012	2011
Operating lease commitments (a)	14,434,912	11,880,407
Construction of the mobile and fixed-line telecommunication network (b)	2,543,217	3,510,840
Balance as of 31 December	**16,978,129**	**15,391,247**

(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:

	2012	2011
Up to 1 year	2,524,085	2,105,574
From 1 to 5 years	7,771,265	5,923,149
Over 5 years	4,139,562	3,851,684
	14,434,912	**11,880,407**

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

(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 suppliers and creditors. Commitments are in fact contracted, unrealized deliveries at the reporting date. The majority of these obligations include maturity periods ranging from one to five years from the date of delivery or rendering services defined by an Agreement (Notes 18 and 27(c)/v/).

34. CONTINGENT LIABILITIES

(a) Litigations

As of 31 December 2012, the total estimated value of potential damage claims arising from legal proceedings filed against the Group and still in course amounts to RSD 5,670,223 thousand (31 December 2011: RSD 4,375,548 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 1,526,124 thousand (31 December 2011: RSD 786,282 thousand), while the remaining damage claims relate to the following Consolidated Subsidiaries: “Telekom Srpske” in the amount of RSD 4,032,497 thousand (31 December 2011: RSD 3,484,227 thousand), “Mtel” in the amount of RSD 21,067 thousand (31 December 2011: RSD 19,938 thousand), “Fibernet” in the amount of RSD 81,019 thousand (31 December 2011: RSD 74,552 thousand), “Telus” in the amount of RSD 6,787 thousand (31 December 2011: RSD 10,549 thousand), and “HD-WIN” in the amount of RSD 2,729 thousand, respectively.

As of 31 December 2012, the most significant legal proceedings against the Consolidated Subsidiary “Telekom Srpske” were filed by “Aneks” d.o.o., Banja Luka, “Crumb group” d.o.o., Bjeljina and Brcko Distrikt.

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

The damage claim arises from the plaintiff’s allegations that it is the legal successor of the Parent 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.

The final outcome of the legal proceedings still in course is uncertain. As disclosed in Note 26 to the consolidated interim financial statements, as of 31 December 2012, the Group recognized the amount of RSD 257,603 thousand (31 December 2011: RSD 256,186 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.

34. CONTINGENT LIABILITIES (Continued)

(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.

On 3 July 2012, the Tax Administration of the Government of Montenegro submitted to the Consolidated Subsidiary "Mtel" the Minutes on the performed inspection with respect to the correctness of the calculation and payment of taxes and other duties for the period from 2008 to 2011. In the Minutes the incorrectness of the calculation of value added tax on the discount sale of telephones and penalty fees was stated, which as a consequence had an understated liability for value added tax in the total amount of EUR 1,725,966, i.e., RSD 196,274 thousand as of 31 December 2012.

The Consolidated Subsidiary "Mtel" has completely contested the findings from the Minutes and filed complaints against the Minutes within the legally-binding deadline. After the presented complaints, on 27 August 2012 the Tax Administration submitted to the Consolidated Subsidiary "Mtel" the Decision by which the initially determined liability for value added tax was decreased to the amount of EUR 1,113,806, i.e., RSD 126,660 thousand as of 31 December 2012. The Consolidated Subsidiary "Mtel" filed the complaint against the Decision within the legally-binding deadline, which it completely contested. Until the date of preparation of these consolidated financial statements, the Tax Administration has not submitted the final decision to the Consolidated Subsidiary "Mtel".

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

35. OPERATING SEGMENT INFORMATION

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

At 31 December 2012, 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 of the Group has concluded that these segments should be reported, as they are monitored by the management as potential growth activities and are expected to materially contribute to the 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 reviewed by competent management for the purposes of adequate resource allocation and assessment of the segments' performance.

35. OPERATING SEGMENT INFORMATION (Continued)

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

The reportable segments' results for the year ended 31 December 2012 are as follows:

	Mobile telephony	Internet	Multimedia services	Fixed telephony and other services	Total
Sales	56,278,358	10,146,339	1,882,151	49,429,553	117,736,401
Other operating income	1,956,650	91,047	22,764	2,415,232	4,485,693
Inter-segment settlement	4,308,197	70	-	10,557,207	14,865,474
Operating income	**62,543,205**	**10,237,456**	**1,904,915**	**62,401,992**	**137,087,568**
Wages, salaries and other personnel expenses	(4,987,428)	(1,621,394)	(779,390)	(11,901,148)	(19,289,360)
Charges of other network operators	(7,422,428)	-	-	(6,312,648)	(13,735,076)
Cost of material and maintenance	(8,925,210)	(906,551)	(241,593)	(5,528,390)	(15,601,744)
Depreciation and amortization	(10,474,932)	(482,717)	(1,095,783)	(13,712,261)	(25,765,693)
Rental costs	(2,686,340)	(369,728)	(191,005)	(2,829,970)	(6,077,043)
Other operating expenses	(10,113,234)	(873,075)	(1,810,224)	(7,300,656)	(20,097,189)
Inter-segment settlement	(6,825,419)	(3,725,032)	-	(4,315,023)	(14,865,474)
Operating expenses	**(51,434,991)**	**(7,978,497)**	**(4,117,995)**	**(51,900,096)**	**(115,431,579)**
Operating profit/(loss)	**11,108,214**	**2,258,959**	**(2,213,080)**	**10,501,896**	**21,655,989**
Interest income	526,603	55,979	7,148	763,663	1,353,393
Interest expense	(2,139,679)	(301,553)	(93,091)	(2,054,536)	(4,588,859)
Foreign exchange losses, net	(2,764,189)	(440,887)	(77,543)	(3,182,460)	(6,465,079)
Other financial income, net	29,592	18	10	85	29,705
	(4,347,673)	**(686,443)**	**(163,476)**	**(4,473,248)**	**(9,670,840)**
Profit/(loss) before tax	**6,760,541**	**1,572,516**	**(2,376,556)**	**6,028,648**	**11,985,149**
Income tax, net	137,075	22,437	4,174	136,765	300,451
Profit/(loss) for the year	**6,897,616**	**1,594,953**	**(2,372,382)**	**6,165,413**	**12,285,600**

35. 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	52,536,925	8,610,441	1,068,524	50,914,142	113,130,032
Other operating income	2,746,685	157,154	37,389	2,011,204	4,952,432
Inter-segment settlement	4,508,670	63	-	8,578,143	13,086,876
Operating income	**59,792,280**	**8,767,658**	**1,105,913**	**61,503,489**	**131,169,340**
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	(6,824,006)	-	-	(6,229,936)	(13,053,942)
Cost of material and maintenance	(7,773,159)	(740,244)	(170,622)	(5,654,754)	(14,338,779)
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)	(2,659,327)	(5,383,788)
Other operating expenses	(7,363,765)	(755,760)	(1,068,499)	(5,818,377)	(15,006,401)
Inter-segment settlement	(5,542,344)	(3,027,624)	-	(4,516,908)	(13,086,876)
Operating expenses	**(44,194,571)**	**(7,079,767)**	**(3,106,192)**	**(52,827,228)**	**(107,207,758)**
Operating profit/(loss)	**15,597,709**	**1,687,891**	**(2,000,279)**	**8,676,261**	**23,961,582**
Interest income	603,192	62,677	6,439	777,163	1,449,471
Interest expense	(1,237,950)	(45,367)	(52,082)	(717,292)	(2,052,691)
Foreign exchange gains, net	518,447	17,086	9,927	488,209	1,033,669
Other financial income, net	12,425	-	-	170,482	182,907
	(103,886)	**34,396**	**(35,716)**	**718,562**	**613,356**
Profit/(loss) before tax	**15,493,823**	**1,722,287**	**(2,035,995)**	**9,394,823**	**24,574,938**
Income tax, net	(613,530)	(89,965)	(11,348)	(631,089)	(1,345,932)
Profit/(loss) for the year	**14,880,293**	**1,632,322**	**(2,047,343)**	**8,763,734**	**23,229,006**

Inter-segment revenues and expenses are eliminated on consolidation.

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

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

35. OPERATING SEGMENT INFORMATION (Continued)

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

The reportable segments' assets and liabilities at 31 December 2012 and capital expenditure for the year then ended are as follows:

	Mobile telephony	Internet	Multimedia services	Fixed telephony and other services	Total
Assets	77,999,955	5,581,259	2,952,889	128,704,300	**215,238,403**
Liabilities	55,065,597	6,218,985	4,623,004	51,112,700	**117,020,286**
Capital expenditures (Note 17 and 18)	5,250,173	283,711	2,550,325	7,279,037	**15,363,246**

Segments' assets do not include Goodwill (RSD 36,717,363 thousand), receivables for overpaid income tax (RSD 869,592 thousand and deferred tax assets (RSD 2,699,796 thousand), while segments' liabilities do not include deferred tax liabilities (RSD 1,951,439 thousand), as these assets and liabilities relate to the Group taken as a whole.

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

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

	Mobile telephony	Internet	Multimedia services	Fixed telephony and other services	Total
Assets	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 17 and 18)	5,718,515	340,014	884,259	7,680,553	**14,623,341**

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) and income tax payable (RSD 136,811 thousand), as these assets and liabilities relate to the Group taken as a whole.

35. OPERATING SEGMENT INFORMATION (Continued)

(b) Information about Geographical Areas

The country of origin of the Group, 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 (67.3%).

Revenues of the Group generated in the Republic of Srpska amount to 20.8%, while revenues generated in Montenegro amount to 3.3% of the total consolidated revenues. The remaining revenues (8.6%) 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, i.e., other long-term financial placements (there are no employment benefit assets and right arising under insurance contracts) that are located in the Republic of Serbia amounts to RSD 103,209,853 thousand as of 31 December 2012, and represents 52.2% of total non-current assets (31 December 2011: 111,216,606 thousand or 53.6%).

The total of these non-current assets located in other countries amounts to RSD 98,282,456 thousand or 48.8% (31 December 2011: RSD 96,354,671 thousand ili 46.4%). Out of this amount, 92.5% (RSD 91,307,960 thousand) and 6.5% (RSD 6,423,583 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 550,913 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 2012.

36. EVENTS AFTER THE REPORTING PERIOD

(a) Dividends Declared to the Parent Company

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

(b) Dividends Declared to the Parent Company

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

36. EVENTS AFTER THE REPORTING PERIOD (Continued)

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

On 25 January 2013, the Parent Company repaid a portion of the syndicated loan in the amount of EUR 64 million, in accordance with the provisions of the Term Facilities Agreement entered into with financial institutions (Note 27(c)/ii/).

37. EXCHANGE RATES

The official exchange rates of the National Bank of Serbia for the major currencies used in the translation of consolidated balance sheet position items denominated in foreign currencies as of 31 December 2012 and 2011 into the functional currency (RSD) were as follows:

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

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