TELECOMMUNICATIONS COMPANY
TELEKOM SRBIJA a.d., BELGRADE

Consolidated Financial Statements
for 2013 in accordance with
Accounting Regulations of the Republic of Serbia
and
Independent Auditor's Report

TO THE SHAREHOLDERS

OF THE TELECOMMUNICATIONS COMPANY TELEKOM SRBIJA A.D. BEOGRAD

Independent Auditor's Report

We have audited the accompanying consolidated financial statements of the Telecommunications Company Telekom Srbija a.d. Beograd and its subsidiaries ("the Group"), which comprise the consolidated balance sheet as at 31 December 2013, consolidated income statement, statement of changes in equity and statement of cash flows for the year then ended, and notes, comprising a summary of basic accounting policies and other disclosures.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and true and fair view of the consolidated financial statements in accordance with the Law on Accounting of the Republic of Serbia, and for setting up such internal controls as management determines are relevant for the preparation of the consolidated financial statements, which are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the submitted consolidated financial statements based on our audit. We conducted our audit in accordance with the Law on Auditing of the Republic of Serbia and International Auditing Standards. These standards require that we comply with ethical requirements and plan and perform the audit in a manner enabling us to obtain reasonable assurance that 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. Selection of the procedures depends on our judgement, including the assessment of risk of material misstatements in the consolidated financial statements, whether due to fraud or error. In making those risk assessments we take into account the internal controls relevant for the preparation and true and fair view 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 applied internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant 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 opinion.

Opinion

In our opinion, the consolidated financial statements present a true and fair view of the consolidated financial position of the Group as at 31 December 2013, consolidated operating result and consolidated cash flows for the year then ended, composed in accordance with the Law on Accounting of the Republic of Serbia.

Other Matter

The consolidated financial statements of the Group for the year that ended on 31 December 2012 were audited by another auditor who expressed an unmodified opinion on the consolidated financial statements on 25 April 2013.

Belgrade, 09 May 2014

KPMG d.o.o. Beograd

(L.S.)

Ivana Manigodić /signed/
Certified Auditor

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

Type of activity Codes

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

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

CONSOLIDATED BALANCE SHEET as of 31 December 2013

in 000 RSD

Account group, account	ITEM	ADP	Note number	Amount	
				Current year	Previous year
1	2	3	4	5	6
	ASSETS				
	A. NON-CURRENT ASSETS (002+003+004+005+009)	001		197128364	203568878
00	I. UNPAID SUBSCRIBED CAPITAL	002			
012	II. GOODWILL	003	18	37011516	36717363
01 less 012	III.INTANGIBLE ASSETS	004	18	24839678	27267252
	IV. PROPERTY PLANT & EQUIPMENT and BIOLOGICAL ASSETS (006+007+008)	005		131898344	137506256
020, 022, 023, 026, 027(part), 028(part), 029	1. Property, plant & equipment	006	19, 20	131898344	137506256
024, 027(part), 028(part)	2. Investment property	007			
021,025, 027(part), 028(part)	3. Biological assets	008			
	V. LONG-TERM FINANCIAL INVESTMENTS (010+011)	009		3378826	2078007
030 to 032, 039 (part)	1.Equity investments	010		1575	1438
033 to 038, 039 (part) less 037	2.Other long-term financial investments	011	21	3377251	2076569
	B. CURRENT ASSETS (013+014+015)	012		39729024	49256480
10 to 13, 15	I. INVENTORIES	013	22	8462961	7181827
14	II. NON-CURRENT ASSETS HELD FOR SALE & ASSETS ATTRIBUTABLE DISCONTINUED OPERATIONS	014			30761
	III. SHORT-TERM RECEIVABLES, INVESTMENTS & CASH (016+017+018+019+020)	015		31266063	42043892
20, 21 22, less 223	1.Receivables	016	23	15324041	15279110
223	2. Income tax recoverable	017		40840	869592
23 minus 237	3. Short-term financial placements	018		1847368	3655220
24	4. Cash and cash equivalents	019	24	8333961	15878596
27 & 28 less 288	5. VAT and accruals	020	25	5719853	6361374
288	**V. DEFERRED TAX ASSETS**	021	17(c)	2574611	2699796
	G. BUSINESS ASSETS (001+012 +021)	022		239431999	255525154
29	**D. LOSS EXCEEDING CAPITAL**	023			
	Dj. TOTAL ASSETS (022+023)	024		239431999	255525154

in 000 RSD

Account group, account	ITEM	ADP	Note number	Amount	
				Current year	Previous year
1	2	3	4	5	6
88	**E. OFF-BALANCE SHEET ASSETS**	025	32	13983016	11549481
	EQUITY AND LIABILITIES				
	A.EQUITY (102+103+104+105+106-107+108-109-110)	101	26	143093095	136553429
30	I. INITIAL CAPITAL	102		100008588	100008588
31	II. UNPAID SUBSCRIBED CAPITAL	103			
32	III. RESERVES	104		21699883	21090514
330 & 331	IV. REVALUATION RESERVES	105		19436500	19958648
332	V. UNREALIZED GAINS ON SECURITIES	106			
333	VI. UNREALIZED LOSSES ON SECURITIES	107			
34	VII. RETAINED EARNINGS	108		18450634	11998189
35	VIII. LOSS	109			
037 & 237	IX. TREASURY SHARES	110		16502510	16502510
	B. LONG-TERM PROVISIONS & LIABILITIES (112+113+116)	111		94552500	117020286
40	I. LONG-TERM PROVISIONS	112	27	2373949	2460349
41	II. LONG-TERM LIABLITIES (114+115)	113		28177343	52676630
414,415	1. Long-term borrowings	114	28	27362189	50880047
41 less 414 & 415	2. Other long-term liabilities	115	29	815154	1796583
	III. SHORT-TERM LIABILITIES (117+118+119+120+121 +122)	116		64001208	61883307
42 less 427	1. Short-term financial liabilities	117	28	31313004	31975015
427	2. Liabilities attributable to assets held for sale and discontinued operations assets	118			
43 & 44	3. Trade payables	119	29	13091662	9121812
45 & 46	4. Other short-term liabilities and accruals	120	30	3493070	1942782
47, 48 less 481 & 49 less 498	5. Liabilities for VAT and other public revenues	121	31	15784471	18843698
481	6.Income tax payable	122		319001	
498	**V. DEFERRED TAX LIABILITIES**	123	17(c)	1786404	1951439
	G. TOTAL LIABILITIES (101+111 +123)	124		239431999	255525154
89	**D. OFF-BALANCE SHEET LIABILITIES**	125	32	13983016	11549481

In Belgrade, on 24 April 2014

Person authorized to compose Financial Statement

Milenko Dželetović /signed/

Legal representative

Predrag Ćulibrk /signed/

L.S.

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

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

Type of activity　　　　Codes

Name: Telecommunications Company "Telekom Srbija" a.d.

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

CONSOLIDATED INCOME STATEMENT

in period from 1 January to 31 December 2013

in 000 RSD

Account group, account	ITEM	ADP	Note number	Amount	
				Current year	Previous year
1	2	3	4	5	6
	A. OPERATING INCOME AND EXPENSES				
	I.OPERATING INCOME (202+203+204-205+206)	201		116681997	119422935
60 & 61	1.Sales	202	7	114843493	117736401
62	2. Internal consumption	203		91200	45978
630	3. Inventories-Value increase	204			
631	4. Inventories-Value decrease	205			
64 & 65	5. Other operating income	206	8	1747304	1640556
	II. OPERATING EXPENSES (208 to 212)	207		94956271	93570172
50	1. Cost of merchandise sold	208		28636	394644
51	2. Cost of materials	209	9	10125436	8715552
52	3. Cost of salaries, fringe benefits and other personal expenses	210	10	19871508	19289360
54	4. Depreciation and provisions	211	11	25378409	26154177
53 & 55	5. Other operating expenses	212	12	39552282	39016439
	III. OPERATING INCOME (201-207)	213		21725726	25852763
	IV. OPERATING LOSS (207-201)	214			
66	**V. FINANCE INCOME**	215	13	2438442	3369354
56	**VI. FINANCE COSTS**	216	14	4467081	13040194
67and 68	**VII. OTHER INCOME**	217	15	2795699	2799159
57and 58	**VIII. OTHER EXPENSES**	218	16	4380553	6853794
	IX. OPERATING PROFIT BEFORE TAX (213-214+ 215-216+217-218)	219		18112233	12127288
	X. OPERATING LOSS BEFORE TAX (214-213-215+216-217+218)	220			
69-59	**XI. NET PROFIT ATTRIBUTABLE TO DISCONTINUED OPERATIONS**	221			
59-69	**XII. NET LOSS ATTRIBUTABLE TO DISCONTINUED OPERATIONS**	222		4664	142139
	B. PROFIT BEFORE TAX (219-220+221-222)	223		18107569	11985149
	V. LOSS BEFORE TAX (220-219+222-221)	224			
	G. INCOME TAX				
721	1. Income tax expense for the period	225	17	2460385	1129447

in 000 RSD

Account group, account	ITEM	ADP	Remark number	Amount	
				Current year	Previous year
1	2	3	4	5	6
722	2. Deferred tax expense for the period	226			
722	3. Deferred tax income for the period	227	17	52488	1429898
723	**D. Benefits paid to employer**	228			
	DJ. NET PROFIT (223- 224-225-226+ 227- 228)	229		15699672	12285600
	E. NET LOSS (224- 223+ 225+ 226-227 + 228)	230			
	Ž. NET PROFIT ATTRIBUTABLE TO MINORITY INTEREST	231		1424156	1575325
	Z. NET PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	232		14275516	10710275
	I. EARNINGS PER SHARE				
	1. Basic earnings per share	233	26		
	2. Diluted earnings per share	234	26		

In Belgrade, on 24 April 2014

Person authorized to compose Financial Statement

Milenko Dželetović /signed/

Legal representative

Predrag Ćulibrk /signed/

L.S.

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To be filled by the Serbian Business Registers Agency		

Type of activity Codes

Name: Telecommunications Company "Telekom Srbija" a.d.

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

CONSOLIDATED CASH FLOW STATEMENT

in period from 1 January to 31 December 2013

in 000 RSD

ITEM	ADP	Amount	
		Current year	Previous year
1	2	3	4
A. CASH FLOWS FROM OPERATING ACTIVITIES			
I. Cash generated from operations(1 to 3)	301	134978253	136766663
1. Sales and advances received	302	133696483	135420745
2. Interests from operating activities	303		
3. Other inflow from operating activities	304	1281770	1345918
II. Cash outflows from operating activities (1 to 5)	305	88960623	93828098
1. Payments and prepayments to suppliers	306	51544619	56375313
2. Salaries, fringe benefits and other personal expenses	307	20925699	21092768
3. Interest paid	308	3735071	3550584
4. Income tax paid	309	2328885	2131660
5. Payments for other public revenues	310	10426349	10677773
III. Net cash inflow from operating activities (I-II)	311	46017630	42938565
IV. Net cash outflow from operating activities (II -I)	312		
B. CASH FLOWS FROM INVESTING ACTIVITIES			
I. proceeds from financing activities (1 to 5)	313	1606992	903331
1. Sale of shares / stakes (net inflow)	314		
2. Proceeds from sale of intangible assets, property, plant, equipment and biological assets	315	53532	91983
3. Other financial investments (net inflow)	316	774271	
4. Interest received	317	779189	811348
5. Dividends received	318		
II. Cash outflows from investing activities (1 to 3)	319	19338978	15940426
1. Purchase of shares / stakes (net outflow)	320		
2. Purchase of intangible assets, property, plant and equipment & biological assets	321	19338978	15363246
3. Other financial investments (net outflow)	322		577180
III. Net proceeds from investing activities (I - II)	323		
IV. Net outflow from investing activities (II -I)	324	17731986	15037095
V. CASH FLOWS FROM FINANCING ACTIVITIES			
I. **Proceeds from financing activities (1 to 3)**	325		26602710
1. Capital stock increase	326		
2. Proceeds from long-term and short-term borrowings (net)	327		26602710
3.Other long-term and short-term liabilities	328		

in 000 RSD

ITEM	ADP	Amount	
		Current year	Previous year
1	2	3	4
II. Cash outflows from financing activities (1 to 4)	329	35541717	53804592
1. Purchase of treasury shares and stakes	330		39961788
2. Long-term, short-term and other liabilities (net outflow)	331	27749439	
3. Financial lease	332		
4.Dividends paid	333	7792278	13842804
III. Net proceeds from financing activities (I - II)	334		
IV. Net outflow from financing activities (II -I)	335	35541717	27201882
G. TOTAL PROCEEDS (301+313+325)	336	136585245	164272704
D. TOTAL OUTFLOW (305+319+329)	337	143841318	163573116
DJ. PROCEEDS NET (336-337)	338		699588
E. OUTFLOW NET (337-336)	339	7256073	
Z. CASH AT THE BEGINNING OF ACCOUNTING PERIOD	340	15878596	17941876
Z. FOREIGN EXCHANGE GAINS ON TRANSLATION OF CACH AND CASH EQUIVALENTS	341		
I. FOREIGN EXCHANGE LOSSES ON TRANSLATION OF CASH AND CASH EQUIVALENTS	342	288562	2762868
J. CASH AT THE END OF ACCOUNTING PERIOD (338339+340+341-342)	343	8333961	15878596

In Belgrade, on 24 April 2014

Person authorized to compose
Financial Statement

Legal representative

Milenko Dželetović /signed/

L.S.

Predrag Ćulibrk /signed/

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

Type of activity Codes

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

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

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

in 000 RSD

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

in 000 RSD

No.	DESCRIPTION	ADP	Reserves (account 321, 322)	ADP	Revaluation reserves (accounts 330 and 331)	ADP	Unrealized gains on securities (account 332)	ADP	Unrealized losses on securities (account 333)
	1		6		7		8		9
1	Balance as at 1 January of previous year 2012	453	15099742	466	19052318	479		492	
2	Adjustments of material errors and changes in accounting policies occurred in previous year - increase	454		467		480		493	
3	Adjustments of material errors and changes in accounting policies occurred in previous year - decrease	455		468		481		494	
4	**Restated opening balance as at 1 January of previous year 2012 (no. 1+2-3)**	456	15099742	469	19052318	482		495	
5	Total increase in previous year	457	5990804	470	3141712	483		496	
6	Total decrease in previous year	458	32	471	2235382	484		497	
7	**Balance as at 31 December of previous year 2012 (no. 4+5-6)**	459	21090514	472	19958648	485		498	
8	Adjustments of material errors and changes in accounting policies occurred in current year - increase	460		473		486		499	
9	Adjustments of material errors and changes in accounting policies occurred in current year - decrease	461		474		487		500	
10	**Restated opening balance as at 1 January of current year 2013 (no. 7+8-9)**	462	21090514	475	19958648	488		501	
11	Total increase in current year	463	609398	476	1559634	489		502	
12	Total decrease in current year	464	29	477	2081782	490		503	
13	**Balance as at 31 December of current year 2013 (no. 10+11-12)**	465	21699883	478	19436500	491		504	

in 000 RSD

No.	DESCRIPTION	ADP	Retained earnings (group 34)	ADP	Loss up to equity (group 35)	ADP	Treasury shares and stakes (account 037, 237)	ADP	Total (col.2+3+4+5+6+ 7+8-9+10-11-12)
	1		**10**		**11**		**12**		**13**
1	Balance as at 1 January of previous year 2012	505	44549405	518		531		544	161222605
2	Adjustments of material errors and changes in accounting policies occurred in previous year - increase	506		519		532		545	
3	Adjustments of material errors and changes in accounting policies occurred in previous year - decrease	507		520		533		546	
4	**Restated opening balance as at 1 January of previous year 2012 (no. 1+2-3)**	508	44549405	521		534		547	161222605
5	Total increase in previous year	509	10710275	522		535	16502510	548	20827729
6	Total decrease in previous year	510	43261491	523		536		549	45496905
7	**Balance as at 31 December of previous year 2012 (no. 4+5-6)**	511	11998189	524		537	16502510	550	136553429
8	Adjustments of material errors and changes in accounting policies occurred in current year - increase	512		525		538		551	
9	Adjustments of material errors and changes in accounting policies occurred in current year - decrease	513		526		539		552	
10	**Restated opening balance as at 1 January of current year 2013 (no. 7+8-9)**	514	11998189	527		540	16502510	553	136553429
11	Total increase in current year	515	14275516	528		541		554	16444548
12	Total decrease in current year	516	7823071	529		542		555	9904882
13	**Balance as at 31 December of current year 2013 (no. 10+11-12)**	517	18450634	530		543	16502510	556	143093095

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

In Belgrade, on 24 April 2014

Person authorized to compose Financial Statement

Milenko Dželetović /signed/

Legal representative

Predrag Ćulibrk /signed/

L.S.

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Basic identification number	Activity code	Tax identification number
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To be filled by the Serbian Business Registers Agency		

Type of activity Codes

Name: Telecommunications Company “Telekom Srbija” a.d.
Head office (town; street and number): Belgrade, Takovska Street

CONSOLIDATED STATISTICAL ANNEX

I GENERAL CORPORATE / ENTREPRENEUR INFORMATION

DESCRIPTION	ADP	Current year	Previous year
1	2	3	4
1.Number of months of operations (1 to 12)	601	12	12
2. Size indication (1 to 4)	602	4	4
3. Ownership structure indication (1 to 5)	603	4	4
4. Number of foreign entities holding a share in capital	604		
5. Average number of employees based on the number at the end of each month (whole number)	605	13229	13550

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

in 000 RSD

Account group, account	DESCRIPTION	ADP	Cost	Accumulated depreciation/ amortization	Net book value (column 4-5)
1	2	3	4	5	6
1	**1. Intangible assets**				
	1.1. Balance at the beginning of the year	606	92827266	28842651	63984615
	1.2. Additions during the year	607	3132477	xxxxxxxxxxxx	3132477
	1.3. Disposals	608	2121384	xxxxxxxxxxxx	5265898
	1.4. Revaluation	609		xxxxxxxxxxxx	
	1.5. Balance at the year-end (606+607-608+609)	610	93838359	31987165	61851194
2	**2. Immovables, plants, equipment and biological resources**				
	2.1. Opening balance	611	296146742	158640486	137506256
	2.2. Increase (purchase) during the year	612	17426694	xxxxxxxxxxxx	17426694
	2.3. Decrease during the year	613	13114834	xxxxxxxxxxxx	23034606
	2.4. Revaluation	614		xxxxxxxxxxxx	
	2.5. Balance at the year-end (611+612-613+614)	615	300458602	168560258	131898344

III INVENTORY STRUCTURE

in 000 RSD

Account group, account	DESCRIPTION	ADP	Current year	Previous year
1	2	3	4	5
10	1. Material	616	8017133	6616020
11	2. Work in progress	617		
12	3. Finished products	618		
13	4. Merchandise	619	29054	161163
14	5. Non-current assets held for sale	620		30761
15	6. Payments in advance	621	416774	404644
	7. TOTAL (616+617+618+619+620+621=013+014)	**622**	8462961	7212588

IV CAPITAL STRUCTURE

in 000 RSD

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

V SHARE CAPITAL STRUCTURE

number of shares as a whole number

in 000 RSD

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

VI RECEIVABLES AND LIABILITIES

in 000 RSD

Account group, account	DESCRIPTION	ADP	Current year	Previous year
1	2	3	4	5
20	1. Trade receivables (balance at the year-end 639 <= 016)	639	14983980	14978857
43	2. Accounts payable (balance at the year-end 640 <= 119)	640	12957234	9084255
part 228	3. Receivables from insurance companies for damage compensations (debit turnover without opening balance)	641	8212	4717
27	4. VAT - previous tax (annual amount as per tax returns)	642	13903192	11174562
43	5. Accounts payable (credit turnover without opening balance)	643	123809691	112080778
450	6. Liabilities for net salaries and fringe benefits (credit turnover without opening balance)	644	11048716	10537475
451	7. Liabilities for payroll taxes born by the employee (credit turnover without opening balance)	645	1362164	1450411
452	8. Liabilities for payroll contributions born by the employee (credit turnover without opening balance)	646	3677630	3182093
461, 462 & 723	9. Liabilities for dividends, profit- sharing and personal income of the employer (credit turnover without opening balance)	647	9653612	4477990
465	10. Liabilities to individuals for services rendered based on agreements (credit turnover without opening balance)	648	582878	526341
47	11. Liabilities for VAT (annual amount as per tax returns)	649	20635780	20155202
	12. Control total (from 639 to 649)	**650**	212623089	187652681

VII OTHER EXPENSES in 000 RSD

Account group, account	DESCRIPTION	ADP	Current year	Previous year
1	2	3	4	5
513	1. Fuel and energy	651	1709297	1724601
520	2. Gross salaries and fringe benefits	652	15712031	15155242
521	3. Payroll taxes and contributions born by the employer	653	2087750	1990715
522, 523, 524 & 525	4. Gross benefits of individuals for services rendered based on agreements	654	855821	810419
526	5. Gross remuneration to the Managing Board and Supervisory Board's members	655	39191	26440
529	6. Other personal expenses	656	1176715	1306544
53	7. Production services	657	35896962	34607770
533, part 540 & part 525	8. Rental expenses	658	5876757	6077043
part 533, part 540 & part 525	9. Land - rental expenses	659	160374	133112
536, 537	10. Research and development costs	660	2194	22853
540	11. Depreciation/amortization charge	661	25095797	25765693
552	12. Insurance premium costs	662	687397	645716
553	13. Bank charges and payment operations costs	663	391732	554552
554	14. Membership fees	664	90477	87181
555	15. Taxes	665	1350770	1732220
556	16. Contributions	666		
562	17. Interest expenses	667	3272505	4588859
part 560, part 561 & 562	18. Interest expenses and a portion of financial expenses	668	3272505	4588859
part 560, part 561 & 562	19. Interest expenses on borrowings from banks and other financial institutions	669	2346447	3668827
part 579	20.Costs of humanitarian, cultural, health, educational, scientific and religious purposes, environmental protection and sports purposes	670	183978	211614
	21. Control total (from 651 to 670)	**671**	100208700	103698260

VIII OTHER INCOME in 000 RSD

Account group, account	DESCRIPTION	ADP	Current year	Previous year
1	2	3	4	5
60	1. Income from sale of merchandise	672	175049	66542
640	2. Premium, subvention, subsidies, regress, compensations and recovery of tax duties	673		11503
641	3. Conditional donations	674	558665	465073
part 650	4. Land rental income	675	25	304
651	5. Membership fees	676		
part 660, part 661, 662	6. Interest income	677	1269909	1353393
part 660, part 661 & part 662	7. Interest income on accounts and deposits held with banks and other financial institutions	678	686275	734054
part 660, part 661 and part 669	8. Dividend Income	679		
	9. Control total (from 672 to 679)	**680**	2689923	2630869

IX OTHER DATA in 000 RSD

DESCRIPTION	ADP	Current year	Previous year
1	2	3	4
1. Excise duties (as per annual calculation of excise duties)	681		
2. Customs and other import duties (annual total as per calculation)	682	1245929	947835
3. Capital subventions and other government grants for construction and acquisition of property, plant, equipment and intangible assets	683		
4. State grants for premiums, regress and coverage of current operating expenses	684		
5. Other government grants	685		
6. Foreign donations and other non-refundable grants received either in cash or in kind from foreign legal entities and/or individuals	686		
7. Entrepreneurs' personal income from net profit (to be completed only by entrepreneurs)	687		
8. Control total (from 681 to 687)	**688**	1245929	947835

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

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

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

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

In Belgrade, on 24 April 2014

Person authorized to compose Financial Statement

Milenko Dželetović /signed/

Legal representative

Predrag Ćulibrk /signed/

L.S.

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

TELECOMMUNICATIONS COMPANY
TELEKOM SRBIJA a.d., BELGRADE

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

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

	Note	2013	2012
OPERATING INCOME			
Sales	7	114,843,493	117,736,401
Own-work and goods capitalized		91,200	45,978
Other operating income	8	1,747,304	1,640,556
		116,681,997	**119,422,935**
OPERATING EXPENSES			
Cost of goods sold		(28,636)	(394,644)
Cost of material	9	(10,125,436)	(8,715,552)
Wages, salaries and other personnel expenses	10	(19,871,508)	(19,289,360)
Depreciation, amortization and provisions	11	(25,378,409)	(26,154,177)
Other operating expenses	12	(39,552,282)	(39,016,439)
		(94,956,271)	**(93,570,172)**
OPERATING PROFIT		**21,725,726**	**25,852,763**
Financial income	13	2,438,442	3,369,354
Financial expenses	14	(4,467,081)	(13,040,194)
Other income	15	2,795,699	2,799,159
Other expenses	16	(4,380,553)	(6,853,794)
PROFIT FROM OPERATIONS BEFORE TAX		**18,112,233**	**12,127,288**
NET LOSS FROM DISCONTINUED OPERATIONS		(4,664)	(142,139)
PROFIT BEFORE TAX		**18,107,569**	**11,985,149**
INCOME TAXES	17		
Current tax expense		(2,460,385)	(1,129,447)
Deferred tax income		52,488	1,429,898
NET PROFIT		**15,699,672**	**12,285,600**
NET PROFIT ATTRIBUTABLE TO:			
Owners of the Group		14,275,516	10,710,275
Non-controlling interests		1,424,156	1,575,325
		15,699,672	**12,285,600**
EARNINGS PER SHARE in RSD	26		
Basic earnings per share		**17.84**	**13.39**
Decreased earnings per share		**17.84**	**13.39**

The notes on pages 9 to 71
are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET
As of 31 December 2013
In RSD thousand

	Note	31 December 2013	31 December 2012
ASSETS			
Non-current assets			
Intangible assets and goodwill	18	61,830,246	63,944,169
Advances for intangible assets		20,948	40,446
Property, plant and equipment	19	131,630,850	137,222,814
Advances for property, plant and equipment	20	267,494	283,442
Equity investments		1,575	1,438
Other long-term financial placements	21	3,377,251	2,076,569
		197,128,364	**203,568,878**
Current assets			
Inventories	22	8,046,187	6,777,183
Non-current assets held for sale		-	30,761
Advances to suppliers		416,774	404,644
Accounts receivable	23	15,324,041	15,279,110
Receivables for overpaid income tax		40,840	869,592
Short-term financial placements		1,847,368	3,655,220
Cash and cash equivalents	24	8,333,961	15,878,596
Value added tax, prepayments and accrued income	25	5,719,853	6,361,374
		39,729,024	**49,256,480**
Deferred tax assets	17(c)	**2,574,611**	**2,699,796**
TOTAL ASSETS		**239,431,999**	**255,525,154**
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company	26		
Equity capital		100,000,000	100,000,000
Other capital		8,588	8,588
Reserves		1,872,935	1,621,739
Foreign currency translation reserve		19,826,948	19,468,775
Treasury shares		(16,502,510)	(16,502,510)
Retained earnings		18,450,634	11,998,189
		123,656,595	**116,594,781**
Non-controlling interests		**19,436,500**	**19,958,648**
		143,093,095	**136,553,429**
Long-term provisions and liabilities			
Long-term provisions	27	2,373,949	2,460,349
Long-term borrowings	28	27,362,189	50,880,047
Accounts payable	29	815,154	1,796,583
		30,551,292	**55,136,979**
Current liabilities			
Short-term borrowings	28	31,313,004	31,975,015
Accounts payable	29	13,091,662	9,121,812
Other current liabilities	30	3,493,070	1,942,782
Value added tax and other tax liabilities, accruals and deferred income	31	15,784,471	18,843,698
Income tax payable		319,001	-
		64,001,208	**61,883,307**
Deferred tax liabilities	17(c)	**1,786,404**	**1,951,439**
TOTAL EQUITY AND LIABILITIES		**239,431,999**	**255,525,154**
OFF-BALANCE SHEET ITEMS	32	**13,983,016**	**11,549,481**

The notes on pages 9 to 71
are an integral part of these consolidated financial statements.

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

	Equity holders of the Parent								
	Share capital	**Other capital**	**Reserves**	**Foreign currency translation reserves**	**Treasury shares**	**Retained earnings**	**Total**	**Non-controlling interests**	**TOTAL EQUITY**
Balance as at 1 January 2012	**82,512,552**	**8,588**	**1,593,442**	**13,506,300**	**-**	**44,549,405**	**142,170,287**	**19,052,318**	**161,222,605**
Net profit for 2012	-	-	-		-	10,710,275	10,710,275	1,575,325	12,285,600
Losses on available-for-sale securities, net	-	-	(32)	-	-	-	(32)	(17)	(49)
Foreign currency translation differences (Note 26/vi/)	-	-	-	5,962,475	-	-	5,962,475	1,566,387	7,528,862
Dividends	-	-	-	-	-	(2,286,436)	(2,286,436)	(2,235,365)	(4,521,801)
Treasury shares (Note 26/i/,/iii/)	-	-	-	-	(16,502,510)	(23,459,278)	(39,961,788)	-	(39,961,788)
Conversion (Note 26/i/)	17,487,448	-	-	-	-	(17,487,448)	-	-	-
Profit allocation to reserves	-	-	28,329	-	-	(28,329)	-	-	-
Balance as at 31 December 2012	**100,000,000**	**8,588**	**1,621,739**	**19,468,775**	**(16,502,510)**	**11,998,189**	**116,594,781**	**19,958,648**	**136,553,429**
Net profit for 2013	-	-	-		-	14,275,516	14,275,516	1,424,156	15,699,672
Losses on available-for-sale securities, net	-	-	(29)	-	-	-	(29)	(16)	(45)
Foreign currency translation differences (Note 26/iv/)	-	-	-	358,173	-	-	358,173	135,478	493,651
Dividends (Note 26/vi/)	-	-	-	-	-	(7,571,846)	(7,571,846)	(2,081,766)	(9,653,612)
Profit allocation to reserves	-	-	251,225	-	-	(251,225)	-	-	-
Balance as at 31 December 2013	**100,000,000**	**8,588**	**1,872,935**	**19,826,948**	**(16,502,510)**	**18,450,634**	**123,656,595**	**19,436,500**	**143,093,095**

The notes on pages 9 to 71
are an integral part of these consolidated financial statements.

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

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Proceeds from sale and advances received	133,696,483	135,420,745
Other proceeds from operating activities	1,281,770	1,345,918
Payments to suppliers and advance payments	(51,544,619)	(56,375,313)
Payments for wages, salaries and other personnel expenses	(20,925,699)	(21,092,768)
Interest paid	(3,735,071)	(3,550,584)
Income tax paid	(2,328,885)	(2,131,660)
Other public charges paid	(10,426,349)	(10,677,773)
Net cash flows from operating activities	**46,017,630**	**42,938,565**
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of intangible assets and property and equipment	53,532	91,983
Other financial placements (net inflows)	774,271	-
Interest received from investing activities	779,189	811,348
Purchase of intangible assets and property and equipment	(19,338,978)	(15,363,246)
Other financial placements (net outflows)	-	(577,180)
Net cash flows used in investing activities	**(17,731,986)**	**(15,037,095)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Long-term and short-term borrowings (net inflows)	-	26,602,710
Long-term and short-term borrowings and other liabilities (net outflows)	(27,749,439)	-
Purchase of treasury shares	-	(39,961,788)
Dividends paid	(7,792,278)	(13,842,804)
Net cash flows used in financing activities	**(35,541,717)**	**(27,201,882)**
Net cash (outflows)/inflows	(7,256,073)	699,588
Cash at beginning of accounting period	15,878,596	17,941,876
Foreign exchange losses on translation of cash, net	(288,562)	(2,762,868)
Cash at end of year (Note 24)	**8,333,961**	**15,878,596**

The notes on pages 9 to 71
are an integral part of these consolidated financial statements.

CONSOLIDATED STATISTICAL ANNEX
For 2013
In RSD thousand

I GENERAL CORPORATE INFORMATION

	2013	2012
Number of months of operations (1 to 12)	12	12
Size indication (1 to 4)	4	4
Ownership structure indication (1 to 5)	4	4
Number of foreign (legal or private) entities holding a share in capital	-	-
Average number of employees, based on the balance at the end of each month (whole number)	13,229	13,550

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

	Gross	Value adjustment	Net
1. Intangible assets			
Balance at beginning of year	92,827,266	(28,842,651)	63,984,615
Additions (procurements) during the year	3,132,477	-	3,132,477
Disposals during the year	(2,121,384)	-	(5,265,898)
Revaluation	-	-	-
Balance at end of year	**93,838,359**	**(31,987,165)**	**61,851,194**
2. Property, plant, equipment and biological assets			
Balance at beginning of year	296,146,742	(158,640,486)	137,506,256
Additions (procurements) during the year	17,426,694	-	17,426,694
Disposals during the year	(13,114,834)	-	(23,034,606)
Revaluation	-	-	-
Balance at end of year	**300,458,602**	**(168,560,258)**	**131,898,344**

III INVENTORY STRUCTURE

	2013	2012
Material	8,017,133	6,616,020
Work in progress	-	-
Finished goods	-	-
Merchandise	29,054	161,163
Non-current assets held for sale	-	30,761
Payments in advance	416,774	404,644
Total	**8,462,961**	**7,212,588**

CONSOLIDATED STATISTICAL ANNEX (Continued)
For 2013
In RSD thousand

IV EQUITY CAPITAL STRUCTURE

	2013	2012
Share capital	100,000,000	100,000,000
Out of which: foreign capital	-	-
Stakes of a limited liability company	-	-
Out of which: foreign capital	-	-
Stakes of partnership and limited partnership	-	-
Out of which: foreign capital	-	-
State-owned capital	-	-
Socially-owned capital	-	-
Stakes in cooperatives	-	-
Other equity capital	8,588	8,588
Total	**100,008,588**	**100,008,588**

V SHARE CAPITAL STRUCTURE

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

VI RECEIVABLES AND LIABILITIES

	2013	2012
Trade receivables (balance at end of year)	14,983,980	14,978,857
Accounts payable (balance at end of year)	12,957,234	9,084,255
Receivables from insurance companies for damage compensations during the year (debit turnover without opening balance)	8,212	4,717
Value added tax – previous tax (annual amount as per tax returns)	13,903,192	11,174,562
Accounts payable (credit turnover without opening balance)	123,809,691	112,080,778
Liabilities for net salaries and fringe benefits (credit turnover without opening balance)	11,048,716	10,537,475
Liabilities for payroll taxes born by the employee (credit turnover without opening balance)	1,362,164	1,450,411
Liabilities for payroll contributions born by the employee (credit turnover without opening balance)	3,677,630	3,182,093
Liabilities for dividends, profit-sharing and personal income of the employer (credit turnover without opening balance)	9,653,612	4,477,990
Liabilities to individuals for services rendered based on agreements (credit turnover without opening balance)	582,878	526,341
Liabilities for VAT (annual amount as per tax returns)	20,635,780	20,155,202
Control total	**212,623,089**	**187,652,681**

CONSOLIDATED STATISTICAL ANNEX (Continued)
For 2013
In RSD thousand

VII OTHER COSTS AND EXPENSES

	2013	2012
Fuel and energy costs	1,709,297	1,724,601
Costs of salaries and fringe benefits (gross)	15,712,031	15,155,242
Costs of payroll taxes and contributions born by the employer	2,087,750	1,990,715
Costs of (gross) benefits of individuals for services rendered based on agreements	855,821	810,419
Costs of remuneration to the Managing Board's and Supervisory Board's members (gross)	39,191	26,440
Other personal expenses	1,176,715	1,306,544
Costs of production services	35,896,962	34,607,770
Rental expenses	5,876,757	6,077,043
Land-rental expenses	160,374	133,112
Research and development costs	2,194	22,853
Depreciation/amortization charges	25,095,797	25,765,693
Insurance premium costs	687,397	645,716
Payment operations costs	391,732	554,552
Membership fees	90,477	87,181
Taxes	1,350,770	1,732,220
Contributions	-	-
Interest expenses	3,272,505	4,588,859
Interest expenses and a portion of financial expenses	3,272,505	4,588,859
Interest expenses on borrowings from banks and other financial institutions	2,346,447	3,668,827
Costs of humanitarian, cultural, health, educational, scientific and religious purposes, for environmental protection and sports purposes	183,978	211,614
Control total	**100,208,700**	**103,698,260**

VIII OTHER INCOME

	2013	2012
Income from sale of goods	175,049	66,542
Income from premiums, subventions, subsidies, regress, compensations and recovery of tax duties	-	11,503
Income from conditional donations	558,665	465,073
Land-rental income	25	304
Income from membership fees	-	-
Interest income	1,269,909	1,353,393
Interest income on accounts and deposits held with banks and other financial institutions	686,275	734,054
Income from dividends and profit-sharing	-	-
Control total	**2,689,923**	**2,630,869**

CONSOLIDATED STATISTICAL ANNEX (Continued)
For 2013
In RSD thousand

IX OTHER INFORMATION

	2013	2012
Excise duties (as per annual calculation of excise duties)	-	-
Customs and other import duty (annual total as per calculation)	1,245,929	947,835
Capital subventions and other government grants for construction and acquisition of fixed 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 individuals	-	-
Entrepreneurs' personal income from net profit (to be completed only by entrepreneurs)	-	-
Control total	**1,245,929**	**947,835**

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

	2013	2012
Opening balance of deferred net effect of foreign currency clause	-	-
Deferred net effect of foreign currency clause	-	-
Proportional part of reversed deferred net effect of foreign currency clause	-	-
Remaining amount of deferred net effect of foreign currency clause	-	-
Opening balance of deferred net effect of exchange differences	-	-
Deferred net effect of exchange differences	-	-
Proportional part of reversed deferred net effect of exchange differences	-	-
Remaining amount of deferred net effect of exchange differences	-	-

CONSOLIDATED STATISTICAL ANNEX (Continued)
For 2013
In RSD thousand

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

	2013	2012
Opening balance of deferred net effect of foreign currency clause	-	-
Deferred net effect of foreign currency clause	-	-
Proportional part of reversed deferred net effect of foreign currency clause	-	-
Remaining amount of deferred net effect of foreign currency clause	-	-
Opening balance of deferred net effect of exchange differences	-	-
Deferred net effect of exchange differences	-	-
Proportional part of reversed deferred net effect of exchange differences	-	-
Remaining amount of deferred net effect of exchange differences	-	-

The notes on pages 9 to 71
are an integral part of these consolidated financial statements.

1. INCORPORATION AND ACTIVITY

The Telecommunications Company “Telekom Srbija” a.d., Belgrade (the “Parent Company” or “Telekom Srbija”) was incorporated by the Public Enterprise for PTT communications “Srbija”, Belgrade (“JP PTT” or JP PTT saobracaja “Srbija”) on 23 May 1997, whereupon it transferred and assigned to the Parent Company all of its telecommunication assets, excluding real estate and certain other assets and liabilities, and was registered on 29 May 1997. These consolidated financial statements comprise the Parent Company and its subsidiaries (collectively the “Group” or individually the “Subsidiaries”).

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

According to the Company Law (“RS Official Gazette”, no. 36 dated 27 May 2011 and no. 99 dated 27 December 2011) in 2012, the Parent Company’s General Meeting passed the Articles of Association, which defines the bodies of the Parent Company: the General Meeting, the Supervisory Board and Executive Board.

The Group’s principal business activity is the provision of telecommunication services, of which the primary ones include the provision of national and international telecommunication services, fixed voice services, transiting of traffic, data transmission, leased lines, broadband services, additional mobile communication and fixed line services, Internet, multimedia and broadcast services.

The Group also supplies leases, construction, management and security services in the area of telecommunication infrastructure, provides directory services, operator-assisted services and electronic directory services relating to fixed telephony services.

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

Pursuant to the Law on Electronic Communications (“RS Official Gazette”, no. 44 dated 30 June 2010), the Republic Agency for Electronic Communications (“RATEL” or “Agency”) defined nine markets that are subject to pre-regulation.

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

In 2011, the Parent Company was declared as an operator with significant market power in all markets, except for the retail market of media content distribution.

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

As at 31 December 2013, the Group had 13,235 employees (31 December 2012: 13,201 employees). Out of this number, the Parent Company had 9,088 employees (31 December 2012: 9,042 employees), while the subsidiaries had 4,147 employees (31 December 2012: 4,159 employees.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis for Consolidation

Subsidiaries are legal entities controlled by the Group. The Parent Company has power over an investee, if there is exposure or right to variable returns from its share in capital and an ability to affect those returns due to its power over the investee.

Subsidiaries are fully consolidated from the date on which control is transferred to the Parent Company and are de-consolidated from the date that control ceases.

The Parent Company holds the following ownership interest in 2013 and 2012:

Subsidiary	% of interest
“Telus” a.d., Belgrade, Serbia	100%
“Mtel” d.o.o., Podgorica, Montenegro	83%
“Telekom Srpske” a.d., Banja Luka, the Republic of Srpska	65%
“FiberNet” d.o.o., Podgorica, Montenegro	100%
“TS:NET” B.V., Amsterdam, the Netherlands	100%
“HD-WIN” d.o.o., Belgrade, Serbia	51%

Since the Parent Company and subsidiary “Telekom Srpske” are owners of 51% and 49% of the capital of the subsidiary “Mtel”, respectively, the effective rate for the consolidation of the subsidiary “Mtel” is 83%.

The financial statements of the Group used in the preparation of these consolidated financial statements have the same reporting date. The consolidated financial statements of the Group are prepared using uniform accounting policies for reporting similar transactions and events.

All amounts of transactions, balances and any unrealized income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

The acquisition method was used to account for the acquisition of subsidiaries “Telekom Srpske” and “HD-WIN” by the Parent Company in 2007 and 2011, respectively.

The cost of acquiring a subsidiary was measured at the fair value of the assets given, securities issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. The assets acquired by purchasing a subsidiary, which may be individually identified, as well as actual 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 Group’s share in the acquired identifiable net assets of the mentioned subsidiaries was recorded as goodwill. The goodwill is tested annually for impairment. Any gain from purchase is recognized in the consolidated income statement. Transaction costs are expenses thus incurred. The acquisition costs do not include amounts resulting from previous mutual transactions. Such amounts are recognized in the consolidated income statement.

Non-controlling interests

Non-controlling interests are measured at their proportionate share of the acquiree’s identifiable net assets as at the acquisition date. Changes in the Group’s interest in a subsidiary that do not result in loss of control are accounted for as equity transactions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1. Basis for Consolidation (Continued)

Loss of control

When the Group loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary, and any non-controlling interests and other components of equity. Any resulting gain or loss is recognized in the consolidated income statement. Any interest retained in the former subsidiary is measured at fair value when control is lost.

2.2. Summary of significant accounting policies

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

The accompanying consolidated financial statements were authorized for issue by the Parent Company's Supervisory Board on 24 April 2014.

In the preparation of the accompanying consolidated financial statements, the Group has applied the principal accounting policies described below in Note 5.4.

In keeping with the Law on Accounting, the legal entities and entrepreneurs in the Republic of Serbia prepare and present the consolidated financial statements in accordance to the legal, professional and internal regulations, whereby the professional regulations include the applicable Framework for Preparation and Presentation of the Financial Statements ("Framework"), IAS, IFRS and interpretations that are integral part of the standards, i.e. the applicable wording of IAS and IFRS does not include the basis for conclusions, case studies, guidelines, comments, contrary opinions, elaborations and other additional material.

Amendments to the current IAS and translation of the new IFRS, as well as interpretations that are part of the standards issued by the International Accounting Standards Board and IFRS Interpretations Committee until 1 January 2009, were officially adopted following the Finance Minister's Decision no. 401-00-1380/2010-16 and published in the "RS Official Gazette" no. 77/2010. After this date, the amended or issued IFRS and standard interpretations have not been translated and published, therefore they were not applied in composing the accompanying consolidated financial statements.

The accompanying consolidated financial statements have been prepared in the format prescribed by the Rulebook on the Contents and Form of the Financial Statements of Enterprises, Cooperatives, Other Legal Entities and Entrepreneurs ("RS Official Gazette", no. 114/2006, 5/2007, 119/2008, 2/2010, 101/2012 and 118/2012), which stipulates application of a set of financial statements whose form and contents are not in compliance with those stipulated by the revised IAS 1 – Presentation of Financial Statements, the application of which is mandatory for the calculation periods starting as of 1 January 2009.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Basis of Preparation

The consolidated financial statements have been prepared under the going concern basis, which assumes that the Group will continue to operate in the foreseeable future. As at 31 December 2013, the Group's current liabilities exceeded its current assets by RSD 24,272,184 thousand. As disclosed in Notes 6.2 and 36(a), the Group restructured a long-term loan resulting in decrease of the gap between current liabilities and current assets to RSD 4,783,027 thousand. The Group is making efforts to improve its market position and services through a variety of bundled services and network modernization. The management assesses that the Group will be able to achieve sufficient operating cash flows, similar to the current and prior years, in order to fulfil its contractual liabilities in 2014.

3. FUNCTIONAL AND PRESENTATION CURRENCY

The dinar (RSD) is the functional and presentation currency of the Group. The amounts in the Group's consolidated financial statements are stated in thousands of dinars (RSD), unless otherwise indicated.

4. KEY ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the consolidated financial statements in accordance with the accounting regulations of 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 estimates and related assumptions are based on information available as of the reporting date. Actual results could differ from such estimates. These estimates and underlying assumptions are reviewed on an ongoing basis, and changes in estimates are recognized prospectively.

The estimates and assumptions that have a significant risk of resulting in material adjustments to the carrying amounts of assets and liabilities within the next reporting period are addressed below.

Description of the estimate	Note	Type of information disclosed
Impairment of non-current assets and goodwill	5.4.15 (a), 18,19	Key assumptions used to determine recoverable amounts
Useful lives of intangible assets and non-current assets	5.4.11	Useful lives and the amortization/depreciation method
Value adjustment of loans and receivables	5.4.13.1, 21, 23	Methodology used to determine recoverable amounts
Income tax	5.4.19, 17	Assumptions used for deferred tax assets, transfer pricing
Employee benefits	5.4.18, 27	Discount rates, salary increases, average life expectancy
Provisions	5.4.17, 27	Underlying assumptions of provisions for litigations
Revenue	5.4.1, 7	Allocation of revenue to each separable component of a packaged offer based on its relative fair value
Allowance for slow moving inventories	5.4.12, 22	Methodology used to determine net realizable value of inventories

4. KEY ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

Where application of relevant standards or their interpretation is not possible, the Group's management estimates and implements the accounting policies that will result in relevant and reliable information so that the consolidated financial statements:

1. Represent faithfully the Group's financial position, financial performance and cash flows,
2. Reflect the economic substance of transactions,
3. Are neutral,
4. Are prudent,
5. Are complete in all material respects.

Change in estimates

In 2013, the Group has changed its accounting treatment of ADSL modems in a way they are recognized as equipment instead of being presented as inventories. The reasons for the different treatment are the useful life of ADSL modems which is estimated to be longer than a year and that the Group retains control over the items. The change of this accounting treatment reflects industry experience and it is recognized prospectively.

5. ACCOUNTING POLICIES

5.1. BASIS OF MEASUREMENT

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

5.2. CHANGES IN ACCOUNTING POLICIES AND NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

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

Except for the change below, the Group has consistently applied the accounting policies set out in Note 5.4 to all periods presented in these consolidated financial statements.

IFRS 12 "Disclosure of Interests in Other Entities"

As a result of IFRS 12, the Group has expanded its disclosures about its interests in subsidiaries (Note 38).

The application of the following standards, interpretations of standards (IFRIC) and amendments to the existing standards, mandatory for the first time for the financial year beginning on 1 January 2013, did not result in any substantial changes to the accounting policies of the Group nor did it have an impact on the Group's consolidated financial statements:

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

The adopted amendments to IAS 1 have no impact on the presented assets, liabilities and result of the Group.

5. ACCOUNTING POLICIES (Continued)

5.2. CHANGES IN ACCOUNTING POLICIES AND NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED (Continued)

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

Revised IAS 19 "Employee Benefits"

The adopted amendments to IAS 19 have no impact on the presented assets, liabilities and result of the Group.

IFRS 10 "Consolidated Financial Statements"

The adopted amendments to *MSFI 10* have no impact on the Group structure.

IFRS 11 "Joint Arrangements"

The Group has no interests in joint arrangements.

IFRS 13 "Fair Value Measurement"

IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements, when such measurements are required or permitted by other IFRSs. In particular, the standard unifies the definition of fair value as the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date.

It also replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7 "*Financial Instruments: Disclosures*".

In accordance with the transitional provisions of IFRS 13, the Group has applied the new measurement guidance prospectively. Notwithstanding the above, the change had no significant impact on the measurements and disclosures of the Group's assets and liabilities.

Improving standards - 2009-2011 Cycle include amendments to the following standards:

1. IFRS 1 – Repeated use of IFRS 1;
2. IFRS 1 – Borrowing costs;
3. IAS 1 – Clarification of required for comparative information;
4. IAS 16 – Qualification of service equipment;
5. IAS 32 – Tax effect of distributions to holders of equity instruments; and
6. IAS 34 – Interim Financial reporting and segment information for total assets and liabilities.

The adopted amendments to the above standards have no impact on the presented assets, liabilities and result of the Group.

(b) New Standards, Amendments and Interpretations to Existing Standards not yet effective

A number of new standards, amendments to standards and interpretations have been issued but are not yet effective annual periods beginning on or after 1 January 2014, and have not been applied to the accompanying consolidated financial statements. Those which may be relevant for the Group are set out below. The Group does not plan to adopt these standards early.

5. ACCOUNTING POLICIES (Continued)

5.2. CHANGES IN ACCOUNTING POLICIES AND NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED (Continued)

(b) New Standards, Amendments and Interpretations to existing Standards not yet effective (*Continued*)

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

IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and characteristics of their contractual cash flows. IFRS 9 (2010) introduces additional changes relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting.

IFRS 9 (2010) and (2009) are effective for annual periods beginning on or after 1 January 2015, with early adoption permitted. The Group is assessing the impact of their implementation on the Group's assets and liabilities and intends to implement them when they become effective.

Amendments to IAS 36 "Impairment of Assets" (Recoverable Amount Disclosures for Non-Financial Assets)

The Amendments clarify that recoverable amount should be disclosed only for individual assets (including goodwill) or cash-generated units for which an impairment loss was recognized or reversed during the period.

The Amendments are effective for annual periods beginning on or after 1 January 2014, with early adoption permitted. The Group is assessing the impact of their implementation on the level of disclosure in the consolidated financial statements and intends to adopt them when they become effective.

5.3. COMPARATIVE FIGURES

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

Certain comparative amounts in the consolidated statement of cash flows have been reclassified to conform to the current period's presentation.

5.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies and estimates adopted in the preparation of these consolidated financial statements are consistent with those followed in the preparation of the consolidated financial statements for the year ended 31 December 2012, except for the change in accounting policies and change in treatment of ADSL modems, as noted above.

5.4.1. Sales Revenue

Sales Revenue is presented at the fair value of the consideration received or receivable, net of discounts and value added tax. Revenue in respect of services provided is recognized and recorded when the contracted services have been provided.

5. ACCOUNTING POLICIES (Continued)

5.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.4.1. Sales Revenue (Continued)

(a) Telephony traffic

Charges for incoming and outgoing telephone calls are recognized in revenue when the service is rendered.

Revenue from the sale of telephone cards is recognized when they are used or expired. As at the reporting date, unused traffic relating to sold cards is recorded as deferred income.

(b) Telecommunications subscription

The telecommunications subscription represents a fee charged for telephone line usage. The telecommunication subscription fees are recognized in revenue on a straight-line basis over the service period. The Group records deferred revenue for all subscriptions invoiced in advance.

(c) Connection and installation fees

Revenue from the connection of new subscribers to fixed telephony represents revenue earned on invoiced fees for the connection of new subscribers and installation costs. Considering that connection and installation fees can be separated into identifiable components, revenues are recognized in the period in which the user is connected to the network.

(d) Other telecommunications services

This income primarily includes services such as lease of telephony capacities - telephone lines, data transfer, call listings, voice mail and other services. Such revenue is recognized and recorded when the service is rendered. Lease of telephony capacities is recognized on a straight-line basis over the life of the operating lease agreement.

Revenue from sale of equipment is recognized when the significant risk and rewards of ownership are transferred to the buyer.

5.4.1.2. Mobile communications services

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

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

5.4.1.3. Multi-Element Agreements (MEA)

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

5. ACCOUNTING POLICIES (Continued)

5.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.4.1. Sales Revenue (Continued)

5.4.1.4. Combined Service Packages

The Group also provides to its customers the combined service packages, with contractual obligation, consisting of the fixed telephony, ADSL, postpaid mobile packages and optional IPTV services.

5.4.1.5. Subscriber acquisition costs, advertising and related costs

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

5.4.2. Revenue and Expenses from International Traffic Settlements

5.4.2.1. Income and Expenses from International Fixed Line Traffic Settlements

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

In addition, the Group's members provide transiting services of incoming traffic from foreign operators which terminate in other national operators' networks.

5.4.2.2. Income and Expenses from Roaming

Income and expenses arising from incoming and outgoing roaming with foreign mobile operators, which have entered into the International Roaming Agreement with the Group's members, are recorded when the service occurs in the amounts invoiced both to and from the mobile network operators.

A portion of such income earned or expenses incurred is recorded on the basis of an estimate made in accordance with the reconciled evidences for the generated traffic. Roaming discounts (based on realized, previously agreed amount of roaming) reduce roaming expenses and vice versa, when granted.

5.4.3. 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.

Besides revenues from terminating incoming traffic in the fixed/mobile network 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 transiting 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.

5. ACCOUNTING POLICIES (Continued)

5.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.4.3. Interconnection Income and Expenses (Continued)

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

5.4.4. Loyalty Programs

Loyalty programs consist of granting future benefits to customers (such as minutes of calls or discounts on handsets) based on service usage of purchase of a handset in the past period.

5.4.5. Maintenance and Repairs

The costs of maintenance and repair of property, plant and equipment are expensed as incurred (Note 12).

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

5.4.6. Borrowing Costs

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

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

5.4.7. Finance income/expenses

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

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

Interest income or expenses are recognized using the effective interest method.

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

Monetary assets and liabilities denominated in foreign currencies are translated, as at the reporting day, into their RSD equivalents, by applying the official exchange rates of the National Bank of Serbia prevailing on such date (Note 37).

Non-monetary items in a foreign currency that are measured based on historical cost are not translated to the exchange rate applicable as at the reporting date.

Foreign currency differences are recognized in consolidated income statement as income (Note 13) or expense (Note 14).

5. ACCOUNTING POLICIES (Continued)

5.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into RSD at the exchange rates at the reporting date. The income and expenses of foreign operations are translated into RSD at the average monthly exchange rates within the reporting period.

Foreign currency differences, based on currency translation, are recognized in other comprehensive income and accumulated in the translation reserve, except to the extent that the translation difference is allocated to non-controlling interests.

When a foreign operation is disposed of in its entirety or partially such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to consolidated income statement as a part of the gain or loss on disposal. If the Group disposes of part of its interest in a subsidiary but retains control, then the relevant proportion of the cumulative amount is reattributed to non-controlling interests.

5.4.9. Property, Plant and Equipment

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

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

Property, plant and equipment are tangible items if these are expected to be used during more than one year.

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

5.4.10. Intangible Assets and Goodwill

Intangible assets of the Group consist of goodwill, customer relationships, brand name, software, telecommunications licenses and other licenses. Intangible assets are stated at cost less accumulated amortization (excluding goodwill and brand name) and accumulated impairment losses, if any.

5. ACCOUNTING POLICIES (Continued)

5.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.4.10. Intangible Assets and Goodwill (Continued)

Goodwill represents the excess of the cost of an acquisition over the fair value of the Parent Company's share of the net identifiable assets of the acquired subsidiaries "Telekom Srpske" and "HD-WIN" at the acquisition date. The recognized goodwill is tested annually for impairment and measured at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

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. An indefinite useful life of brand name is assumed.

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

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

5.4.11. Depreciation and Amortization

Depreciation and amortization are recognized on a straight-line basis over the estimated useful lives of each item of property, plant and equipment and intangible assets.

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

The depreciation and amortization rates are based on the estimated useful life.

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

5. ACCOUNTING POLICIES (Continued)

5.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.4.11. Depreciation and Amortisation (Continued)

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

Access network, connection cables, ducts, towers	1.50% – 10%
Switching and transmitting devices	2.50% – 50%
Other equipment	6.67% – 50%
Leasehold improvements	5.55% – 50%

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

Customer relationship	4.35%-6.67%
UMTS/GSM license	6.67%-10%
CDMA/ WiMAX license	10%-20%
Software licenses	20% – 50%
Software licenses of mobile telephony	10%
Software	20% – 33.33%
Other intangible assets	5%

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

5.4.12. Inventories

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

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

5.4.13. Financial Instruments

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.

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

5. ACCOUNTING POLICIES (Continued)

5.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.4.13. Financial instruments (Continued)

5.4.13.1. Non-derivative 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.

The Group's non-derivative financial assets include cash and cash equivalents, loans and receivables and available-for-sale financial assets.

The Group derecognizes a financial asset when a contractual right to the cash flows from the asset expire, or it transfers the right to receive the cash flows from the asset and when the Group has transferred all the risks and rewards of ownership of the financial asset.

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

The Group has not classified any of its financial assets upon initial recognition as at fair value through profit or loss.

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

(a) Other Non-Current Financial Assets

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

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

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 original effective interest rate.

(b) Accounts Receivable

Accounts receivable are stated at their fair values, less granted discounts and allowance for impairment and are subsequently measured at amortized cost using the effective interest method. An allowance for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to original terms of the receivables.

5. ACCOUNTING POLICIES (Continued)

5.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.4.13. Financial Instruments (Continued)

5.4.13.1. Non-derivative Financial Assets (Continued)

(b) Accounts Receivable (Continued)

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

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

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of loss is recognized in consolidated income statement as other expenses (Note 16). When a receivable is uncollectible, it is written off against the allowance account for accounts receivable. Subsequent recoveries of amounts previously written off and reversal of the previously recognized impairment loss are credited to other income (Note 15).

(c) Cash and Cash Equivalents

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

(d) Available-for-Sale Financial Assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and are not classified as loans and receivables. Available-for-sale financial assets are investments in equity securities for which there are an intention to hold the investments for an indefinite period of time, which can be sold for the purpose of liquidity or due to changes in interest rates, exchange rates or market prices. In the absence of an active market and if they are with fixed maturity terms, the available-for-sale financial assets are measured at amortised cost by using the effective interest rate method.

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.

Subsequent to initial recognition, available-for-sale financial assets are measured at fair value and changes therein, other than impairment losses, are recognized in other comprehensive income and accumulated in the fair value reserve. When these assets are derecognized, the gain or loss accumulated in equity is reclassified to consolidated income statement.

5. ACCOUNTING POLICIES (Continued)

5.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.4.13. Financial Instruments (Continued)

5.4.13.1. Non-derivative Financial Assets (Continued)

Measurement at amortized cost

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

Measurement at fair value

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

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

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

5.4.13.2. Non-derivative Financial Liabilities

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

Management determines the classification of its financial liabilities at initial recognition. The Group's financial liabilities include loans received from banks and suppliers 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 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 using the effective interest rate. Loans from suppliers are commodity loans granted to the Group primarily for the purchase of the equipment.

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 date. All other liabilities are classified as non-current.

5. ACCOUNTING POLICIES (Continued)

5.4. SUMMARY OF ACCOUNTING POLICIES (Continued)

5.4.13. Financial Instruments (Continued)

5.4.13.2. Non-derivative Financial Liabilities

(b) Operating Liabilities

Trade payables and other current operating liabilities are subsequently measured at amortized cost, corresponding to their nominal value due to the short-term nature of these liabilities.

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

5.4.14. Equity Instruments

Equity of the Group consists of share capital, other capital, reserves, foreign currency translation reserves, treasury shares and retained earnings.

5.4.15. Impairment

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

(a) Non-financial Assets

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

If the recoverable amount of an asset is estimated to be lower than its carrying value, the carrying value 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 value and the recoverable amount of tangible and intangible assets, are recognized in income statement as required by IAS 36 "Impairment of Assets".

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

Given the nature of its assets and operations, the most of the Group's individual assets do not generate cash flow independently from other assets. If it is not possible to estimate the recoverable amount of the individual asset, the Group identified the cash-generating unit ("CGU") to which the asset belongs. The recoverable amount of an asset is generally determined by reference to its value in use, corresponding to the future economic benefits expected to be derived from the use of the asset and its subsequent disposal, if any. It is assessed by the discounted cash flow method, based on management's best estimate of the set of economic conditions that will exist over the remaining useful life of the asset and the assets expected conditions of use.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for

5. ACCOUNTING POLICIES (Continued)

5.4. SUMMARY OF ACCOUNTING POLICIES (Continued)

5.4.15. Impairment (Continued)

(a) Non-financial Assets (Continued)

any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(b) Non-derivative Financial Assets

The Group considers evidence of impairment for financial assets measured at amortized cost at both an individual asset and a collective level. Collective assessment is carried out by grouping together assets with similar risk characteristics. An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized to income statement, as impairment adjustments. When the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, then the previously recognized impairment loss is reversed through consolidated income statement.

Impairment losses on available-for-sale financial assets are recognized to consolidated income statement by reclassifying the losses accumulated in the reserves against available-for-sale assets. The amount reclassified is the difference between the acquisition cost (net of any principal repayment and amortization) and the current fair value, less any impairment loss previously recognized in consolidated income statement.

5.4.16. Grants

Grants (e.g., telephony equipment, local area networks and related equipment) are recognized initially as deferred income at fair value. Alternatively, both asset and grant are accounted at a nominal amount. Grants are recognized in consolidated income statement as other operating income on a systematic basis over the useful life of the asset to which it relates.

5.4.17. Provisions and Contingencies

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

Provisions for legal proceedings represent best estimates of the Group's competent legal services regarding the expenditures required to settle such obligations (Note 27).

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

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

5. ACCOUNTING POLICIES (Continued)

5.4. SUMMARY OF ACCOUNTING POLICIES (Continued)

5.4.18. Employee Benefits

(a) Employee Taxes and Contributions for Social Security

In accordance with the regulations prevailing in different local markets, the Group has an obligation to pay tax and contributions to various state social security funds. These obligations involve the payment of contributions on behalf of the employee and employer in an amount calculated by applying the 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 pension funds upon their retirement.

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

(b) Retirement Benefits and Jubilee Anniversary Awards

Pursuant to collective agreements and local laws, subsidiaries are obligated to pay retirement benefits in the amount equal to three monthly salaries or in the amount that is not subject to tax.

In different local markets subsidiaries provide between one half and three average monthly salaries or fixed amounts as a jubilee employment anniversary award.

Jubilee employment anniversary awards correspond to the total employee's years of service in the company and are paid out for 10, 20, 30, 35 years of employment.

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

(c) Termination Benefits (Voluntary Redundancy)

During 2011 the Business Policy for stimulating the voluntary resignation of employees was adopted.

In 2012, this policy was applied only for employees who suffer from a serious illness that permanently impairs their ability to work.

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.

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

5. ACCOUNTING POLICIES (Continued)

5.4. SUMMARY OF ACCOUNTING POLICIES (Continued)

5.4.18. Employee Benefits (Continued)

(d) Short-Term Benefits

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

(e) Employee Contribution to Operating Results

Pursuant to the decision of the Group's competent statutory bodies or other relevant management's decision, a liability and an expense for employee contribution to the operating result is recognized. The expected cost of employee contribution to the operating result is recognized only when the Group has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made.

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

5.4.19. Taxes and Contributions

(a) Income Taxes

Current Income Tax

Current income tax is calculated and paid in accordance with the Corporate Income Tax Law and by-laws in the Republic of Serbia, 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.

Pursuant to the Law on Amendments and Supplements to the Corporate Income Tax Law, the increased income tax rate of 15% has been applied in the Republic of Serbia from January 2013 (instead of the previous 10%).

In the Republic of Srpska income tax is payable at the prescribed rate of 10%, 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 income tax return, and can subsequently be reduced by any applicable tax credits. The tax base includes the taxable profit, determined by adjusting the taxpayer's result in the manner prescribed by these laws.

In accordance with the Serbian Corporate Income Tax Law, tax credit is recognized in the amount equal to 20% of the investments, but it cannot exceed 33% (50% according to the previously applicable Corporate Income Tax Law) of the calculated tax liability in the year in which the investment was made.

From 1 January 2014, by the Law on Amendments and Supplements to the Income Tax Law of the Republic of Serbia, tax credit is cancelled. Tax credit will be recorded by the end of 2013 but not in following years.

5. ACCOUNTING POLICIES (Continued)

5.4. SUMMARY OF ACCOUNTING POLICIES (Continued)

5.4.19. Taxes and Contributions (Continued)

(a) Income Taxes (Continued)

Current Income Tax (Continued)

Also the tax credit realized until 31 December 2013 and the data presented in the tax balance and tax return for 2013 can be used until the date and the manner defined by the Law of the Republic of Serbia.

The local tax laws, where the Group operates, do not allow a carry back of tax losses, while any current year loss may be used to reduce taxable profit in future periods, but not for longer than five ensuing years.

In accordance with Serbian Income Tax Law companies are required to submit a transfer pricing study together with related tax reports until 30 June of the year following the financial year-end.

Deferred Taxes

Deferred taxes are recognized for the temporary differences arising between the tax bases of assets and liabilities and their carrying values. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

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

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

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

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

Taxes and contributions that are not related to the Group’s operating result include property taxes, and various other taxes and contributions paid pursuant to republic and local tax regulations. These taxes and contributions are included within other operating expenses (Note 12).

5.4.20. Operating Leases

Leases where the lessor retains all the risks and rewards incidental to ownership of a leased asset, i.e. they are not transferred to the lessee, are classified as operating leases.

Revenues based on operating leases are recognized in consolidated income statement on a straight-line basis over the life of the lease contract.

5. ACCOUNTING POLICIES (Continued)

5.4. SUMMARY OF ACCOUNTING POLICIES (Continued)

5.4.20. Operating Leases (Continued)

Operating lease expenses relate to the rental of business premises, premises for radio base stations, warehouses and other rental expenses. These expenses are recorded in consolidated income statement when incurred.

5.4.21. Earnings per Share

The Group calculates and discloses basic and diluted earnings per share. Basic earnings per share is calculated by dividing consolidated net profit attributable to owners of the Group's ordinary shares by the weighted average number of ordinary shares outstanding during the period (Note 26/v/).

5.4.22. Dividends on Ordinary Shares

Dividends on ordinary shares are recognized as a liability and deducted from equity in the period in which they are approved by the shareholders. Dividends approved for the period after the reporting date are disclosed in a note as an event after the reporting period.

5.4.23. Related Party Disclosures

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

Relations between the Group and its related parties are regulated at contractual basis. Transactions with related parties are separately disclosed (Note 33).

6. 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 minimize potential adverse effects on the Group's financial position and performance.

Risk management has been defined by the Group's accounting and financial policies adopted by the competent management bodies. There have been no changes in the risk management policies during the year 2013 and these are reviewed regularly to reflect changes in market conditions and the activities of the Group.

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

6.1. Market Risk

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

(a) Currency Risk

The Group is exposed to foreign currency risk, primarily with respect to EUR. Foreign exchange rates are disclosed in Note 37.

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

Exposure to currency risk as at31 December 2013 is presented below:

	EUR	USD	SDR	BAM	RSD	Total
Cash and cash equivalents	1,689,653	112,860	-	5,369,680	1,161,768	8,333,961
Other non-current financial assets	1,076,209	-	-	1,509,309	791,733	3,377,251
Trade receivables	2,422,694	12	189,959	2,196,747	10,175,258	14,984,670
Other receivables	175,944	503	698	942,040	1,040,169	2,159,354
Total	**5,364,500**	**113,375**	**190,657**	**10,017,776**	**13,168,928**	**28,855,236**
Loans and borrowings	(58,113,781)	(561,412)	-	-	-	(58,675,193)
Accounts payable	(3,529,518)	(33,126)	(164,881)	(2,973,772)	(7,068,899)	(13,770,196)
Other payables	(30,189)	(3,429)	(1,193)	(799,289)	(2,658,970)	(3,493,070)
Total	**(61,673,488)**	**(597,967)**	**(166,074)**	**(3,773,061)**	**(9,727,869)**	**(75,938,459)**
Net exposure	**(56,308,988)**	**(484,592)**	**24,583**	**6,244,715**	**3,441,059**	**(47,083,223)**

6. FINANCIAL RISK MANAGEMENT (Continued)

6.1. Market Risk (Continued)

(a) Currency Risk (Continued)

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

	EUR	USD	SDR	BAM	RSD	Total
Cash and cash equivalents	9,106,400	88,611	-	4,195,395	2,488,190	15,878,596
Other non-current financial assets	1,092,186	-	-	67,596	916,787	2,076,569
Trade receivables	2,475,417	13	178,698	2,105,935	10,219,282	14,979,345
Other receivables	784,972	507	719	2,403,450	752,172	3,941,820
Total	**13,458,975**	**89,131**	**179,417**	**8,772,376**	**14,376,431**	**36,876,330**
Loans and borrowings	(82,660,432)	(194,630)	-	-	-	(82,855,062)
Accounts payable	(2,910,590)	(21,003)	(181,019)	(1,759,424)	(5,906,819)	(10,778,855)
Other payables	(123,759)	(3,536)	(1,227)	(1,004,813)	(809,447)	(1,942,782)
Total	**(85,694,781)**	**(219,169)**	**(182,246)**	**(2,764,237)**	**(6,716,266)**	**(95,576,699)**
Net exposure	**(72,235,806)**	**(130,038)**	**(2,829)**	**6,008,139**	**7,660,165**	**(58,700,369)**

Sensitivity analysis

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

	2013	2012
EUR	(2,815,449)	(3,611,790)
USD	(24,230)	(6,502)
BAM	1,229	(141)
SDR	312,236	300,407
Total	**(2,526,214)**	**(3,318,026)**

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

(b) Interest Rate Risk

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

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

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

6. FINANCIAL RISK MANAGEMENT (Continued)

6.1. Market Risk (Continued)

(b) Interest Rate Risk (Continued)

Gross interest rate of EUR loans are equal to Euribor increased by a margin from up to 0.8% to 6% per annum, while for contracts stated in RSD an adjustment of interest rates is performed only if the consumer price index (CPI) is increased by 5% or more during the grace period.

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

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

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

	31 December 2013	31 December 2012
Financial assets		
Fixed interest rate instruments	2,980,737	3,576,161
Total	**2,980,737**	**3,576,161**
Financial liabilities		
Floating interest rate instruments	(58,675,193)	(82,855,062)
Total	**(58,675,193)**	**(82,855,062)**

At 31 December 2013, if interest rates on borrowings (both from banks and suppliers) and other interest-bearing liabilities at that date had been 1 percentage point higher/lower on an annual basis with all other variables held constant, consolidated profit after tax and equity for the 2013 would have been RSD 586,752 thousand (2012: RSD 828,551 thousand) lower/higher, mainly as a result of higher/lower interest expense.

(c) Price Risk

The Group is not exposed to equity securities price risk because it does not have significant assets classified at the consolidated balance sheet either as available-for-sale or at fair value through profit or loss.

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

Furthermore, the local regulatory bodies have imposed to the Group, among others, price control obligation for certain markets on which the company has been declared as the operator with the significant market power (Note 1).

6. FINANCIAL RISK MANAGEMENT (Continued)

6.2. Liquidity Risk

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

In spite of the fact that the Group restructured long-term loan as disclosed in Note 36(a), the Group's current liabilities exceed its current assets in the amount of RSD 4,783,027 thousand. However, management believes that the Group will be able to fulfil its contractual liabilities from operating inflow that will be realized during first quarter 2014.

In order to manage liquidity risk, the adopted financial policy defines the maximal amount of advance payments to constructors and suppliers of equipment and services, grace period and repayment period which depends on the agreed procurement value. The level of expected cash inflows on trade and other receivables together with expected cash outflows on trade and other payables are also monitored.

The following table details the maturity for the Group's non-derivative financial liabilities at 31 December 2013 and 2012:

	Carrying amount	Up to 3 months	From 3 to 12 months	From 1 to 2 years	From 2 to 5 years	Over 5 years	Total
At 31 December 2013							
Loans and borrowings	58,675,193	10,642,651	22,911,873	19,766,189	8,116,677	316,191	61,753,581
Accounts payable	13,770,196	11,818,644	1,136,398	752,419	60,956	1,779	13,770,196
Other payables	3,493,070	3,486,438	6,632	-	-	-	3,493,070
Total	**75,938,459**	**25,947,733**	**24,054,903**	**20,518,608**	**8,177,633**	**317,970**	**79,016,847**
At 31 December 2012							
Loans and borrowings	82,855,062	11,314,082	24,421,556	32,165,731	21,195,519	267,136	89,364,024
Accounts payable	10,778,855	8,115,864	866,408	1,105,524	689,255	1,804	10,778,855
Other payables	1,942,782	1,942,782	-	-	-	-	1,942,782
Total	**95,576,699**	**21,372,728**	**25,287,964**	**33,271,255**	**21,884,774**	**268,940**	**102,085,661**

The financial liabilities that are secured as at 31 December 2013 are disclosed in Note 28(c).

6.3. Credit Risk

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

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

6. FINANCIAL RISK MANAGEMENT (Continued)

6.3. Credit Risk (Continued)

Trade receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Credit risk is managed by taking certain measures and activities on individual basis of the Group, such as clients' risk assessment, monitoring clients' business and financial standing and managing accounts receivable and bad debts. In case of default in payments, the Group disables further rendering of services to 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, initializing lawsuit, out-of-court settlements and other.

Receivables from roaming and international settlement are not directly influenced by the local market conditions. These receivables are based on firm bilateral agreements, which presume simultaneous and mutual rendering of services. Information on credit risk exposure with respect to trade receivables and the aging of trade receivables are disclosed in Note 23.

Other non-current financial assets

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

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

Part of other non-current financial assets is secured through the pledge over 100% of the debtor's equity (Note 21).

Cash and cash equivalents

As of 31 December 2013, the Group held cash and cash equivalents of RSD 8,333,961 thousand (31 December 2012: RSD 15,878,596 thousand). The Group's maximum exposure to credit risk at the reporting date is best represented by the value of cash and cash equivalents.

6.4. Capital Risk Management

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

The Group's objectives when managing capital are to safeguard the ability to continue as a going concern in order to maintain an optimal capital structure to reduce the cost of capital and to provide returns for shareholders. In order to maintain or adjust the capital structure, the 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 using a gearing ratio. This ratio is calculated as net debt divided by total capital.

6. FINANCIAL RISK MANAGEMENT (Continued)

6.4. Capital Risk Management (Continued)

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

	2013	2012
Long-term and short-term borrowings – total (Note 27)	58,675,193	82,855,062
Less: Cash and cash equivalents (Note 24)	(8,333,961)	(15,878,596)
Net debt*	**50,341,232**	**66,976,466**
Total equity	143,093,095	136,553,429
**Total capital ** **	**193,434,327**	**203,529,895**
Gearing ratio	**26.0%**	**32.9%**

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

6.5. Fair Value of Financial Assets and Liabilities

The Group does not hold financial assets or financial liabilities subsequently measured at fair value in the consolidated statement of financial position. The fair values of cash and cash equivalents, short-term deposits, trade receivables, other receivables, trade payables and other current liabilities approximate their current amounts largely due to the short-term maturities of these instruments.

The fair value of financial assets measured at amortized cost (loans to employees and non-current assets) is estimated by discounting cash flows using the market interest rate.

The only financial instruments measured at fair value are available-for-sale financial assets which are not significant to these consolidated financial statements. When measuring these financial assets, the Group uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities,
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices),
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

6. FINANCIAL RISK MANAGEMENT (Continued)

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

Available-for-sale financial assets are categorized into different levels as summarized below:

	31/12/2013	31/12/2012
Available-for-sale financial assets:		
Level 1	407	452
Level 2	-	-
Level 3	23	23
Total	**430**	**475**

7. SALES REVENUES

	2013	2012
Public fixed telecommunications network services:		
Fixed telephony, Internet and Multimedia	50,823,709	52,213,190
Interconnection	8,308,289	8,545,672
	59,131,998	**60,758,862**
Mobile telephony services:		
Prepaid	19,270,477	22,330,092
Postpaid	23,809,333	22,158,077
Interconnection	10,190,077	10,117,273
Roaming	1,591,792	1,667,177
	54,861,679	**56,272,619**
Revenues from physical and technical security and hygiene maintenance	**674,767**	**638,378**
Other	**175,049**	**66,542**
Total	**114,843,493**	**117,736,401**

Revenues from public fixed telecommunication services include revenues from fixed telephony, Internet retail and wholesale, multimedia and combined service packages.

8. OTHER OPERATING REVENUES

	2013	2012
Granted intangible assets and fixed assets (Note 31(d))	501,066	443,537
Granted inventories	45,692	16,156
Lease	115,539	130,265
TV rights sublicenses	983,661	958,424
Other revenues	101,346	92,174
Total	**1,747,304**	**1,640,556**

9. COSTS OF MATERIALS

	2013.	2012.
Materials	7,009,004	5,400,903
Costs of fuel and energy	1,709,297	1,724,601
Costs of SIM cards	128,173	119,284
Costs of spare parts	178,055	145,275
Inventories for mobile Internet access	122,618	60,024
Costs of tools and inventories	23,794	39,271
Other costs	954,495	1,226,194
Total	**10,125,436**	**8,715,552**

10. COSTS OF SALARIES, ALLOWANCES AND OTHER PERSONNEL EXPENSES

	2013	2012
Gross salaries	15,387,529	14,680,323
Contributions on behalf of the employer	2,028,464	1,919,857
	17,415,993	**16,600,180**
Employee contribution to operating result	382,904	503,596
Voluntary leave severance	884	42,181
Other personnel expenses	2,071,727	2,143,403
Total	**19,871,508**	**19,289,360**

11. COSTS OF AMORTIZATION AND PROVISIONS

	2013	2012
Amortization costs:		
- intangible assets (Note 18)	3,881,847	3,989,300
- property and equipment (Note 19)	21,213,950	21,776,393
	25,095,797	**25,765,693**
Costs of provisions for:		
- employee benefits (Note 27)	252,593	360,178
- litigations (Note 27)	30,019	28,306
	282,612	**388,484**
Total	**25,378,409**	**26,154,177**

12. OTHER OPERATING EXPENSES

	2013	2012
Operator costs:		
Fixed telephony interconnection	5,062,208	5,391,336
Mobile telephony interconnection	6,953,595	6,552,904
Lease of lines and data transmission	755,739	921,312
Roaming	1,039,977	869,524
	13,811,519	**13,735,076**
Fees for telecommunication licenses, approvals and frequencies:		
Mobile telephony license (a)	353,988	240,262
Fixed telephony license (b)	77,006	64,438
Radio frequencies and other fees	597,098	689,155
	1,028,092	**993,855**
Lease costs	5,876,757	6,077,043
Maintenance costs	5,345,028	5,170,353
Broadcast content fees	3,035,720	2,258,457
Marketing, advertisement and sponsorship costs	2,204,473	2,404,959
Transport costs	1,336,822	1,321,195
Mediator commission	1,477,199	1,275,299
Public utility services	344,580	368,636
Data processing fees	97,470	94,989
Other production services	1,339,302	907,908
Indirect taxes	1,350,770	1,732,220
Cleaning and physical and technical security	54,298	44,367
Insurance premiums	687,397	645,716
Taxes	393,378	444,327
Costs of payment operations	391,732	554,552
Audit fee and other professional services	185,441	153,919
Education and professional training	92,744	151,338
Entertainment	67,281	81,180
Other intangible costs	432,279	601,050
Total	**39,552,282**	**39,016,439**

(a) The mobile telephony license fee amounting to RSD 353,988 thousand (2012: RSD 240,262 thousand) relates to the license for public mobile telecommunications network in accordance with GSM/GSM1800 and UMTS/IMT-2000 standards on the local markets where the members of the Group operate.

The GSM/UMTS license fee is calculated in the range of 0.5% up to 1.5% of the sales revenues generated in the business year for which the fee is paid.

(b) The fixed telephony license fee amounting to RSD 77,006 thousand (2012: RSD 64,438 thousand) relates to the license for construction, possessing and exploitation of the public fixed telecommunications network and the provision of services on the local markets where the members of the Group operate.

The fixed telephony license fee is calculated in the range of 0.08% up to 1.5% of the sales revenues generated in the business year for which the fee is paid.

13. FINANCIAL INCOME

	2013	2012
Interest revenues	1,296,909	1,353,393
Foreign exchange gains	656,022	1,675,634
Currency clause revenues	32,880	310,618
Other financial revenues	452,631	29,709
Total	**2,438,442**	**3,369,354**

14. FINANCIAL EXPENSES

	2013	2012
Interest expenses	3,272,505	4,588,859
Foreign currency losses	904,924	6,438,457
Currency clause expenses	134,969	2,012,874
Other financial expenses	154,683	4
Total	**4,467,081**	**13,040,194**

15. OTHER REVENUES

	2013	2012
Reversal of impairment losses (Note 16)	1,499,991	1,425,138
Early termination penalties	527,132	499,870
Revenues from collected court costs	179,019	137,135
Gains on sale of material and waste material	35,657	44,604
Damage compensations	48,471	47,166
Release of other provisions	66,516	-
Other revenues	438,913	645,246
Total	**2,795,699**	**2,799,159**

16. OTHER EXPENSES

	2013	2012
Provision for paid advances and receivables	3,184,350	3,327,207
Losses on disposal and sale of intangible assets and PPE	875,522	2,847,446
Impairment of WiMAX assets	-	38,359
Donations	183,978	211,614
Other expenses	136,703	429,168
Total	**4,380,553**	**6,853,794**

16. OTHER EXPENSES (Continued)

Movements in the allowance for the following assets during the year are shown in the table below:

	Advances for intangible assets	Advances for PPE (Note 20)	Paid advances	Accounts receivable (Note 23)	Short-term investments	Total
Balance as at 1 January 2012	**2,375**	**24,748**	**104,883**	**14,278,650**	**641**	**14,411,297**
Charge for the year	-	11,196	67,482	3,248,529	-	3,327,207
Reversal of impairment losses (Note 15)	(574)	(18,728)	(60,363)	(1,345,473)	-	(1,425,138)
Write-offs	-	(422)	(26,781)	(656,575)	-	(683,778)
Transfer (from)/to	-	-	(30,315)	(178,833)	-	(209,148)
Other	-	-	(238)	(30,907)	-	(31,145)
Translation differences	-	125	48	281,651	-	281,824
Balance as at 31 December 2012	**1,801**	**16,919**	**54,716**	**15,597,042**	**641**	**15,671,119**
Charge for the year	-	1,737	31,715	3,145,582	5,316	3,184,350
Reversal of impairment losses (Note 15)	-	(9,707)	(48,429)	(1,441,193)	(662)	(1,499,991)
Write-offs	-	-	-	(742,820)	-	(742,820)
Other	-	-	(43)	(3,122)	2,055	(1,110)
Translation differences	-	13	-	31,879	-	31,892
Balance as at 31 December 2013	**1,801**	**8,962**	**37,959**	**16,587,368**	**7,350**	**16,643,440**

17. INCOME TAXES

(a) Components of Income Taxes

	2013	2012
Current tax expense	2,460,385	1,129,447
Deferred tax income, net	(52,488)	(1,429,898)
Total tax expense/(income), net	**2,407,897**	**(300,451)**

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

	2013	2012
Profit before Tax	**18,107,569**	**11,985,149**
Tax using the Group's statutory tax rate	**2,716,135**	**1,198,515**
Effect of tax rate in foreign jurisdictions	(254,575)	3,669
Non-deductible expenses	950,735	454,184
Effect of temporary differences	81,912	(376,592)
Tax-exempt income	15,448	84,497
Effect of change in income tax rate	-	(856,541)
Foreign tax credit	-	(71)
Tax credit used in current period	(1,101,758)	(808,112)
Total tax expense/(income), net	**2,407,897**	**(300,451)**
Effective tax rate	***13.30%***	-

(c) Deferred Tax Assets/Liabilities

Deferred tax assets relate to the temporary differences between the carrying value of property, plant, equipment and intangible assets and their tax base, along with employee benefits that refer to severance payment and anniversary awards, and accrued expenses.

Movements in deferred tax assets during the year are shown in the table below:

	2013	2012
Balance as of 1 January	**2,699,796**	**1,472,821**
Property, plant, equipment and intangible assets	(119,357)	1,175,820
Long-term employee benefits	3,148	41,888
Accrued expenses	(9,395)	(1,630)
Translation differences	419	10,897
Balance as of 31 December	**2,574,611**	**2,699,796**

17. INCOME TAXES (Continued)

(c) Deferred Tax Assets/Liabilities (Continued)

In the consolidated statement balance sheet deferred tax assets arise from:

	2013	2012
Property, plant, equipment and intangible assets	2,457,990	2,597,294
Long-term employee benefits	105,686	95,849
Accrued expenses	10,935	6,653
Balance as of 31 December	**2,574,611**	**2,699,796**

Movements in deferred tax liabilities are shown in the table below:

	2013	2012
Balance as at 1 January	**1,951,439**	**1,995,958**
Effects of temporary differences	(178,092)	(213,820)
Translation differences	13,057	169,301
Balance as at 31 December	**1,786,404**	**1,951,439**

Unrecognized Deferred Tax Assets

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

This is due to uncertainty regarding the utilization of credits carried forward. Over the past years, tax credits from the current period arising from investments in equipment have significantly exceeded the available amounts for utilization, so that the Group has not been able to use tax credits carried forward.

The unutilized tax credits arising from investments in equipment are shown in the table below:

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

The management believes that the Group will be profitable and able to utilize deferred tax assets.

18. INTANGIBLE ASSETS AND GOODWILL

	Goodwill	Customer relations	Licenses	Software	Other intangible assets	Intangible assets under development	Total
Cost as at							
1 January 2012	**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/(to)	-	-	189,942	778,457	7,938	(976,337)	-
Disposals and write-offs	-	-	(37,010)	(289,226)	(2,152)	-	(328,388)
Transfer to PPE	-	-	(1,372,885)	(570,404)	(3,656)	(135,713)	(2,082,658)
Translation differences	2,889,968	1,506,069	998,197	184,549	75,009	(4)	5,653,788
Balance as at 31 December 2012	**36,717,363**	**18,867,467**	**20,645,990**	**13,877,719**	**1,964,615**	**2,296,489**	**94,369,643**
Additions	-	-	-	-	-	2,565,224	2,565,224
Transfer from/(to)	-	-	348,537	146,074	6,627	(501,238)	-
Disposals and write-offs	-	-	(233,979)	(350,744)	(322,834)	-	(907,557)
Transfer from PPE	-	-	56,345	309,149	-	-	365,494
Transfer to deferred expenses	-	-	-	-	-	(1,559,824)	(1,559,824)
Translation differences	294,153	153,294	92,276	19,911	7,661	(42)	567,253
Balance as at 31 December 2013	**37,011,516**	**19,020,761**	**20,909,169**	**14,002,109**	**1,656,069**	**2,800,609**	**95,400,233**
Accumulated amortization and impairment							
1 January 2012	**-**	**4,401,704**	**9,315,397**	**11,706,472**	**865,816**	**92,205**	**26,381,594**
Transfer from/(to)	-	-	6,804	265,422	41	(272,267)	-
Amortization (Note 11)	-	1,061,591	1,799,276	885,570	23,490	219,373	3,989,300
Impairment	-	-	748	63	-	-	811
Annual long-term lease	-	-	-	-	127,342	-	127,342
Disposals and write-offs	-	-	(33,309)	(180,207)	(2,145)	-	(215,661)
Transfer to PPE	-	-	(534,279)	(398,730)	(6)	(19,765)	(952,780)
Other movements	-	-	-	-	-	220,960	220,960
Translation differences	-	383,259	350,663	110,819	29,167	-	873,908
Balance as at 31 December 2012	**-**	**5,846,554**	**10,905,300**	**12,389,409**	**1,043,705**	**240,506**	**30,425,474**
Transfer from/(to)	-	-	141,315	5,719	87	(147,121)	-
Amortization (Note 11)	-	1,057,021	1,830,981	804,392	23,389	166,064	3,881,847
Disposals and write-offs	-	-	(188,078)	(350,744)	(322,834)	-	(861,656)
Annual long-term lease	-	-	-	-	23,881	-	23,881
Other movements	-	-	-	-	-	(31,288)	(31,288)
Translation differences	-	62,128	51,016	14,355	4,230	-	131,729
Balance as at 31 December 2013	**-**	**6,965,703**	**12,740,534**	**12,863,131**	**772,458**	**228,161**	**33,569,987**
Net book value as of:							
- 31 December 2013	**37,011,516**	**12,055,058**	**8,168,635**	**1,138,978**	**883,611**	**2,572,448**	**61,830,246**
- 31 December 2012	**36,717,363**	**13,020,913**	**9,740,690**	**1,488,310**	**920,910**	**2,055,983**	**63,944,169**

18. INTANGIBLE ASSETS AND GOODWILL (Continued)

Goodwill amounting to RSD 37,011,516 thousand as at 31 December 2013 (31 December 2012: RSD 36,717,363 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 36,498,586 thousand (31 December 2012: RSD 36,204,433 thousand), and the acquired subsidiary "HD-WIN" in the amount of RSD 512,930 thousand (31 December 2012: RSD 512,930 thousand).

Pursuant to the Share Purchase Agreement, the Parent Company acquired 65.005851% of the 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", so that "Telekom Srpske" has been consolidated in the Group's financial statements since that date. The goodwill is attributable to a strong position and profitability of "Telekom Srpske", and to significant synergies emerging as a consequence of an increasing market share and higher efficiency resulting from the utilization of common capacities.

On 2 August 2011, the Parent Company paid in the contribution for the purchase of "HD-WIN" and thus acquired 51% of the company's net assets. The goodwill is attributable to significant synergies of the IPTV platform and plans for the development of WEB TV and other applications, as well as to access to sport contents that the "HD-WIN" company offers.

Goodwill Impairment Test

For the purpose of testing the impairment of goodwill arising from the acquisition of both consolidated subsidiaries, a single CGU was identified for both acquisitions.

The CGU's recoverable amount for related subsidiaries was based on its value-in-use, determined by discounting the cash flows and applying both the income and the market approach.

The CGU's value-in-use was based on the key assumptions of the independent valuation analysis. Independent valuer used relevant internal and external sources from related industries. The discount rate was a pre-tax measure estimated based on weighted average cost of capital. The cash flow projections included specific estimates for five years and a terminal growth rate thereafter. The terminal growth rate was determined based on the estimate that cash flows will remain constant, assuming a constant long-term inflation.

"Telekom Srpske"

The key assumptions used in the estimation of the recoverable amount are set out in the table below:

	2013	2012
Discount rate	12.10%	9.50%
Terminal value growth rate	2.20%	2.00%
Budgeted EBITDA growth rate (average of next five years)	4.73%	4.80%

Free cash flows were estimated taking into account past experience and were primarily influenced by revenue growth.

18. INTANGIBLE ASSETS AND GOODWILL (Continued)

Revenue growth was estimated taking into account the past average growth rate and the estimate for the next five years. It is assumed that most growth will be seen in revenues generated from combined service packages and mobile Internet.

The recoverable amount of CGU exceeds its carrying value by RSD 6,802,930 thousand. The management believes that there may be a change in the value of two assumptions that may cause the carrying value to exceed the recoverable amount. The values by which the said assumptions should be changed so that the recoverable amount matches the carrying value are shown in the table below:

In percentages	2013	2012
Discount rate	0.64	2.96
Budgeted EBITDA rate	(4.80)	(19.87)

"HD-WIN"

The key assumptions used in estimating the recoverable amount are shown in the table below:

	2013	2012
Discount rate	15.10%	14.00%
Terminal value growth rate	2.20%	2.10%
Budgeted revenues growth rate (average of the next five years)	10.43%	9.07%

Free cash flows were estimated taking into account past experience and were primarily influenced by revenue growth. Revenue growth was estimated taking into account the past average growth rate and the estimate for the next five years. It is assumed that most growth will be seen in revenues from expanding the distribution of the Arena Sport channels. Also, taking into account the nature of the broadcasting industry, a large part of operating expenses shall remain unchanged compared with the revenues.

The recoverable amount of CGU exceeds it carrying value by RSD 676,128 thousand. The management believes that there may be a change in two assumptions that may cause the carrying value to exceed the recoverable amount. The values by which the said assumptions should be changed so that the recoverable amount matches the carrying value are shown in the table below:

In percentages	2013	2012
Discount rate	15.40	0.81
Budgeted revenue growth rate	(4.45)	(3.93)

The conducted impairment tests showed no indication of impairment of goodwill arising from the acquisition of the subsidiaries "Telekom Srpske" and "HD-WIN" as at 31 December 2013, since the recoverable amount of each CGU exceeded its carrying value.

18. INTANGIBLE ASSETS AND GOODWILL (Continued)

Intangible assets

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 licenses for mobile telephony, licenses for wireless fixed access (CDMA and WiMAX) and other licenses.

As at 31 December 2013, the net book value of the GSM and UMTS licenses amounts to RSD 5,115,227 thousand (31 December 2012: RSD 5,858,592 thousand), the net book value of the licenses for wireless fixed access (CDMA and WiMAX) amounts to RSD 27,902 thousand (31 December 2012: RSD 32,975 thousand), the net book value of other mobile telephony licenses amounts to RSD 2,746,023 thousand (31 December 2012: RSD 3,624,656 thousand), while the net book value of other licenses amounts to RSD 279,483 thousand (31 December 2012: RSD 224,467 thousand).

Licenses for GSM and UMTS are provided by local regulatory bodies and are valid up to 2022 and 2024, respectively. WiMAX and CDMA licenses are granted by local regulatory bodies and are valid up to 2017 and 2019, respectively.

As at 31 December 2013 other intangible assets include brand name “Arena Sport” in the amount of RSD 410,247 thousand, which is a recognized trademark in the provision of sport content to customers through TV distributors arising from on acquisition of the subsidiary “HD-WIN”. Indefinite useful life of brand name is assumed.

The management believes that there is no indication that the intangible assets are impaired at the reporting date.

Collaterals

As collateral provided to secure the regular repayment of the loans granted by Nova Ljubljanska Banka - NLB d.d., Ljubljana, Slovenia, which amounts to RSD 1,215,901 thousand on 31 December 2013, the License GSM-UMTS no. 01-124 on Montenegrin market was pledged (Note 28(c)/ii/). The net book value of the pledged license amounts to RSD 1,013,717 thousand as at 31 December 2013 (31 December 2012: RSD 1,126,909 thousand).

19. PROPERTY, PLANT AND EQUIPMENT

	Access network, connecting cables, cable ducts, antenna poles	Switches and transmitting devices	Other equipment	Leasehold improvements	Construction in progress	Total
Cost as at						
1 January 2012	**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)/ to	3,370,992	9,288,310	1,226,341	374,610	(14,260,253)	-
Grants	100,013	-	-	-	(100,013)	-
Disposals and write-offs	(55,098)	(8,015,882)	(489,515)	(57,533)	(78,675)	(8,696,703)
Transfer from intangibles	1,034	1,815,960	433,872	(26,884)	(141,324)	2,082,658
Transfer to inventories	165	11,090	2,773	-	(33,203)	(19,175)
Other movements	(83,581)	44,214	11,054	(262)	24,381	(4,194)
Translation differences	2,205,626	2,363,054	452,551	63,990	308,955	5,394,176
Balance as at						
31 December 2012	**113,350,838**	**137,441,795**	**15,911,409**	**11,116,696**	**17,952,738**	**295,773,476**
Additions	-	-	-	-	16,773,754	16,773,754
Transfer (from)/to	2,745,868	7,015,869	1,374,951	417,892	(11,554,580)	-
Grants	97,257	-	-	-	(97,257)	-
Disposals and write-offs	(166,725)	(4,561,302)	(501,441)	(7,364,714)	(125,634)	(12,719,816)
Transfer to intangibles	437,948	4,824,283	(3,008,155)	4,606	(2,624,177)	(365,495)
Transfer to inventories	-	969	-	-	(6,587)	(5,618)
Other movements	7,456	19,167	(18,987)	-	1,235	8,871
Translation differences	234,356	331,214	8,015	6,821	63,661	644,067
Balance as at						
31 December 2013	**116,706,998**	**145,071,995**	**13,765,792**	**4,181,301**	**20,383,153**	**300,109,239**
Accumulated depreciation and impairment						
1 January 2012	**41,232,852**	**79,154,414**	**9,217,314**	**9,038,863**	**673,440**	**139,316,883**
Transfer (from)/to	60,708	568,533	29,269	30,688	(689,198)	-
Depreciation (Note 11)	5,320,803	13,616,054	1,698,405	711,210	429,921	21,776,393
Impairment	-	37,548	-	-	-	37,548
Disposals and write-offs	(39,051)	(4,981,513)	(430,441)	(37,074)	(8,485)	(5,496,564)
Transfer from intangibles	(598)	751,916	181,191	523	19,748	952,780
Other movements	(4,957)	5,326	1,307	415	104,519	106,610
Translation differences	571,535	1,034,077	222,323	28,013	1,064	1,857,012
Balance as at						
31 December 2012	**47,141,292**	**90,186,355**	**10,919,368**	**9,772,638**	**531,009**	**158,550,662**
Transfer (from)/to	42,719	2,245,194	(1,398,733)	26,921	(916,101)	-
Depreciation (Note 11)	5,417,507	12,866,822	1,337,758	546,722	1,045,141	21,213,950
Disposals and write-offs	(134,704)	(3,755,037)	(491,075)	(7,356,053)	(2,918)	(11,739,787)
Other movements	6,348	2,351	(3,118)	-	126,375	131,956
Translation differences	96,823	209,762	10,014	4,252	757	321,608
Balance as at						
31 December 2013	**52,569,985**	**101,755,447**	**10,374,214**	**2,994,480**	**784,263**	**168,478,389**
Net book value as at:						
- 31 December 2013	**64,137,013**	**43,316,548**	**3,391,578**	**1,186,821**	**19,598,890**	**131,630,850**
- 31 December 2012	**66,209,546**	**47,255,440**	**4,992,041**	**1,344,058**	**17,421,729**	**137,222,814**

19. PROPERTY, PLANT AND EQUIPMENT (Continued)

Cost of fully-depreciated property, equipment and intangible assets amounts to RSD 63,240,670 thousand as at 31 December 2013 (31 December 2012: RSD 45,122,333 thousand).

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

Any changes of assumptions used to determine the useful lives of property, plant, equipment and intangible assets could be material to the Group's financial position and performance due to significant weight of tangibles/intangibles in the total assets. If the Group was to shorten the average useful life by 10%, this would result in additional depreciation/amortization expense of approximately RSD 2,619,848 thousand for 2013.

As collateral for the regular repayment of the non-current loan granted by Nova Ljubljanska banka – NLB d.d., Ljubljana, Slovenia amounting to RSD 1,215,901 thousand as at 31 December 2013, the Group pledged its telecommunications equipment. The carrying amount of the pledged equipment amounts to RSD 3,527,909 thousand.

As collateral for the regular repayment of the non-current loan granted by Societe Generale banka Montenegro a.d., Podgorica, Montenegro amounting to RSD 210,626 thousand as at 31 December 2013, the Group pledged its telecommunications equipment supplied by the foreign supplier, Ericsson A.B, Sweden, in the carrying amount of RSD 409,158 thousand (Note 28(c)/ii/)).

The contracted obligations for investment in equipment and intangible assets not recognized as at the reporting date in the Company's financial statements amount to RSD 1,708,267 thousand and constitute undertaken commitments (Note 34(b)).

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

As at 31 December 2013 and 2012, the impairment test of the CGUs was performed. The following key assumptions were used to determine the value in use of CGUs:

- Value of the market, penetration rate, market share and the level of the competition, decisions of the regulator in terms of pricing, and
- The level of investment spending.

The amounts assigned to each of these parameters reflect past experience adjusted for expected changes over the timeframe of the business plan, but may also be affected by unforeseeable changes in the political, economic and legal frameworks.

Revenue growth was projected taking into account the average growth levels based on past experience and the estimated sales volume and price growth for the next four years.

It was assumed that sales price would increase in line with forecast inflation over the next four years. Operating expenses will be increasing at the similar pace as the revenue growth, therefore the Group expects stable EBITDA growth primarily due to penetration of internet and multimedia market.

19. PROPERTY, PLANT AND EQUIPMENT (Continued)

Discounting rates the Group used to determine values in use are based on weighted average cost of capital and reflect current market assessment of the time value of money at the risks specific to the respective CGU activities.

Regarding the results of performed test, no impairment loss was recognized in 2013. However, the Group recognized the impairment loss on WiMAX equipment in the amount of RSD 37,548 thousand in 2012.

20. ADVANCES FOR PROPERTY, PLANT AND EQUIPMENT

	2013	201.
Payments in advance for property, plant and equipment:		
- in RSD	145,618	115,692
- in foreign currency	130,838	184,669
	276,456	**300,361**
Less: Allowance for impairment (Note 16)	(8,962)	(16,919)
Balance as at 31 December	**267,494**	**283,442**

21. OTHER NON-CURRENT FINANCIAL ASSETS

	2013	2012
Nominal value of loans to employees:		
- Housing (residential)	1,696,027	1,873,559
- For repurchase of apartments	10,485	12,783
	1,706,512	1,886,342
Less: Discounting effect	(566,298)	(687,896)
Total loans to employees	**1,140,214**	**1,198,446**
Other non-current investments	1,169,868	1,450,089
Less: Discounting effect	(442,988)	(585,258)
	726,880	**864,831**
Deposits	1,503,378	6,522
Other non-current financial assets	6,779	6,770
Balance as at 31 December	**3,377,251**	**2,076,569**

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

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

21. OTHER NON-CURRENT FINANCIAL ASSETS (Continued)

/ii/ In cooperation with selected banks, the employees were granted the following loans: one-off loans for a down payment for the loan with a 5-year grace period, a 7-year or 10-year repayment period after the expiry of the grace period, foreign exchange clause and with an interest rate of 0.1% per annum and, loans for down payment of interest with the grace period of 20 (10) years, the 5-year repayment period after the expiry of the grace period, without a foreign exchange clause and an with interest rate of 0.1% per annum.

The fair value of loans to employees is based on discounted cash flow using discounted by a rate based on the market interest rate at which the Group could obtain non-current borrowings and that reflects the market rate for similar financial instruments in the current reporting period, ranging from 5.5% to 6.34% per annum (31 December 2012: 5.5% - 6.27% per annum).

The maximum exposure to credit risk at the reporting date is the nominal value of loans to employees. The exposure is however limited due to the fact that collection of loans from employees is secured through the administrative deduction on their salaries.

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

22. INVENTORIES

	2013.	2012.
Material and fuel	5,283,883	4,067,133
Spare parts	2,619,525	1,996,249
Tools	113,725	552,638
	8,017,133	**6,616,020**
Goods in warehouses	24,497	141,396
Goods in retail	4,557	19,767
	29,054	**161,163**
Balance as at 31 December	**8,046,187**	**6,777,183**

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

23. RECEIVABLES

	2013	2012
Customers:		
Fixed line, Internet and Multimedia	12,471,539	11,896,722
Mobile communications	14,751,113	14,153,570
International settlement of fixed telephony traffic	1,751,535	1,970,322
Roaming	412,910	430,348
Interconnection	1,286,939	1,390,265
Other receivables	191,957	147,435
	30,865,993	**29,988,662**
Other receivables:		
Interest receivables	29,337	61,450
Receivables from employees	128,770	8,772
Receivables against tax refund	28,546	12,307
Receivables against war-damaged assets	139,202	139,202
Receivables from state bodies and organizations	103,681	104,843
Other receivables	615,880	560,916
	1,045,416	**887,490**
Gross receivables	**31,911,409**	**30,876,152**
Less: Allowance for impairment (Note 16)		
Accounts receivable	(15,882,014)	(15,009,805)
Interest receivables	(6,636)	(6,650)
Receivables from employees	(2,642)	(4,044)
Receivables against tax refund	(2,291)	(475)
Receivables against war-damaged assets	(139,202)	(139,202)
Receivables from state bodies and organizations	(102,551)	(103,509)
Other receivables	(452,032)	(333,357)
	(16,587,368)	**(15,597,042)**
Balance as at 31 December	**15,324,041**	**15,279,110**

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

The average collection period during the year ended 31 December 2013 was 48 days (2012: 46 days).

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

	2013.	2012.
Up to 60 days	15,324,041	15,279,110
From 60 to 180 days	1,454,845	1,674,561
From 180 to 360 days	932,858	1,847,101
Over 360 days	14,199,665	12,075,380
Total	**31,911,409**	**30,876,152**

23. RECEIVABLES (Continued)

As at 31 December 2013, receivables of RSD 15,324,041 thousand (31 December 2012: RSD 15,279,110 thousand) were considered to be fully performing.

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

As at 31 December 2013, accounts receivable in the amount of RSD 16,587,368 thousand (31 December 2012: RSD 15,597,042 thousand) were impaired and provided in the full amount.

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

	2013	2012
RSD	10,342,982	10,212,290
EUR	2,457,129	2,647,641
BAM (KM)	2,250,155	2,159,748
Other currencies	273,775	259,431
Total	**15,324,041**	**15,279,110**

The Group's management believes there is no allowance required for credit risk exposure in excess of the allowance for receivable impairment.

Therefore, the maximum exposure to credit risk at the reporting date is the net book value of each class of receivable mentioned above. The book value of accounts receivable is equal to their book value net of related allowance for impairment.

24. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise:

	2013	2012
Current accounts	1,109,050	2,469,879
Foreign currency accounts with domestic banks	7,214,680	13,399,458
Other	10,231	9,259
Balance as at 31 December	**8,333,961**	**15,878,596**

25. VALUE ADDED TAX AND PREPAYMENTS

	2013	2012
VAT receivables	**946,976**	**873,811**
Prepaid expenses:		
- Deferred bank charges for syndicated loan (a)	296,427	572,554
- Rental	125,814	135,378
- Insurance premiums	25,556	18,070
- Other	124,694	124,204
	572,491	**850,206**
Other prepayments:		
- Rights for UEFA competition	1,815,647	2,153,628
- Other	317,571	11,014
	2,133,218	**2,164,642**
Accrued income:		
- International settlement	250,878	306,730
- Roaming (b)	1,752,184	2,098,224
- Other accrued income	64,106	67,761
	2,067,168	**2,472,715**
Balance as at 31 December	**5,719,853**	**6,361,374**

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

(b) As at 31 December 2013, accrued roaming income totalling RSD 1,752,184 thousand comprises roaming services mainly for December 2013 estimated at RSD 222,883 thousand and calculated accrued income against Discount IOT Agreements amounting to RSD 1,529,301 thousand.

26. EQUITY

/i/ Share capital

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

On 30 December 2011, the Share Purchase Agreement between the Group and OTE was concluded related to the sale of all shares owned by OTE regarding its intention to withdraw from the Group, about which the appropriate Agreement was achieved between the Group and OTE. At the 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 for entrance into this Agreement. On 25 January 2012, the Group paid in total EUR 380 million to the minority shareholder OTE for its share in the Group'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 Group, while the Group became the owner of 20% of its own shares.

At its 43rd regular session held on 20 April 2012, the 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 Shareholders Assembly brought the Decision on the third issue of shares in the total volume of 1,000,000,000 shares without the nominal value in order to replace the existing 1,080,000 shares.

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

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

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

/ii/ Other capital

Other capital amounting to RSD 8,588 thousand as at 31 December 2013 and 2012 was created in prior years by a mandatory allocation of employees' contributions to the Fund for financing solidarity housing.

/iii/ Treasury shares

Treasury shares comprise the cost of the Parent Company's shares held by the Group.

26. EQUITY (continued)

/iv/ Nature and purpose of reserves

Reserves amounting to RSD 21,699,883 thousand as at 31 December 2013 (31 December 2012: RSD 21,090,514 thousand) consist of legal reserves, statutory reserves, fair value reserve and currency translation reserve.

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

Legal reserves

The legal reserves of the Group were created in prior years as a result of the obligation to allocate at least 5% of the profit after tax to reserves in accordance with the Company Law.

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.

Fair Value Reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets until the assets are derecognised or impaired.

Currency Translation Reserve

The currency translation reserve comprises all foreign currency differences arising from the translation of periodical financial statements of foreign entities to the reporting currency i.e. dinars (RSD).

Movements in reserves during the reporting period were as follows:

	Legal reserves	Statutory reserves	Fair value reserve	Translation reserve	Total reserves
Balance as at 1 January 2012	**1,568,712**	**24,509**	**221**	**13,506,300**	**15,099,742**
Transfer from retained earnings to reserves	28,329	-	-	-	28,329
Losses against securities available for sale	-	-	(32)	-	(32)
Currency translation differences	-	-	-	5,962,475	5,962,475
Balance as at 31 December 2012	**1,597,041**	**24,509**	**189**	**19,468,775**	**21,090,514**
Transfer from retained earnings to reserves e	-	251,225	-	-	251,225
Losses against securities available for sale	-	-	(29)	-	(29)
Currency translation differences	-	-	-	358,173	358,173
Balance as at 31 December 2013	**1,597,041**	**275,734**	**160**	**19,826,948**	**21,699,883**

26. EQUITY (continued)

/v/ Basic and Diluted Earnings per Share in RSD

	2013	2012
Profit attributable to equity holders(A)	14,275,516	10,710,725
Weighted average number of ordinary shares in issue during the period (B)	800,000,000	800,000,000
Basic and diluted earnings per share	**17.84**	**13.39**

/vi/ Dividends

The total amount of declared dividends during 2013 was 9,653,612 thousand (2012: RSD 4,521,801 thousand), out of which RSD 6,805,512 thousand (2012: RSD 3,555,984 thousand) was paid during the year.

27. LONG-TERM PROVISIONS

	2013	2012
Provisions for employee retirements benefits	875,971	885,799
Provision for jubilee anniversary rewards	1,245,995	1,250,054
Provisions for litigations	251,983	257,603
Provisions for other likely events	-	66,893
Balance as at 31 December	**2,373,949**	**2,460,349**

Provisions for employees' retirement benefits and jubilee awards have been recorded on the basis of the Report of independent actuaries as at 31 December 2013 and 2012 and they are stated in the amount of the present value of expected future payments.

When determining the present value of the expected outflows, the discount rate used for both years ranged from 6.1% to 9% as it corresponds to the long-term rates of return on the high-performance debt securities. 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 provisions for the employees' long-term benefits were recorded based on the Collective Agreement of the Company and under the assumption of the average salary growth at the rate of 5% per annum (2012: 6%), which corresponds to the long-term projected inflation rate and employee fluctuation rate of 3% per annum (2012: from 2% to 7%).

27. LONG-TERM PROVISIONS (continued)

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

	Retirement benefits	Jubilee rewards	Total
Balance as at 1 January 2012	**759,554**	**1,152,287**	**1,911,841**
Utilized provision	(19,734)	(146,341)	(166,075)
Charge for the year (Note 11)	133,737	226,441	360,178
Exchange differences from currency translation	12,242	17,667	29,909
Balance as at 31 December 2012	**885,799**	**1,250,054**	**2,135,853**
Utilized provision	(33,096)	(209,963)	(243,059)
Charge for the year (Note 11)	48,549	204,044	252,593
Release of provision	(26,639)	-	(26,639)
Exchange differences from currency translation	1,358	1,860	3,218
Balance as at 31 December 2013	**875,971**	**1,245,995**	**2,121,966**

If the applied discount rate differed by 1 percentage point from the currently used rate, the provisions for retirement benefits and jubilee anniversary rewards for 2013 would be lower by RSD 160,836 thousand or higher by RSD 182,342 thousand.

The long-term provisions for litigations in the amount of RSD 251,983 thousand as at 31 December 2013 (31 December 2012: RSD 257,603 thousand) refer to the provisions for litigations in which the Group appears as a respondent, and they are established based on the best possible assessment of potential losses that may arise out of said litigations (Note 35 (a)).

Movements in the provisions for litigations and other provisions during the year are shown in the table below:

	Litigation	Other provisions	Total
Balance as at 1 January 2012	**256,186**	**61,554**	**317,740**
Utilized provision	(20,040)	-	(20,040)
Charge for the year (Note 11)	28,306	-	28,306
Release of provision	(19,384)	-	(19,384)
Exchange differences from currency translation	12,535	5,339	17,874
Balance as at 31 December 2012	**257,603**	**66,893**	**324,496**
Utilized provision	(18,790)	-	(18,790)
Charge for the year (Note 11)	30,019	-	30,019
Release of provision (Note 15)	(17,696)	(66,516)	(84,212)
Exchange differences from currency translation	847	(377)	470
Balance as at 31 December 2013	**251,983**	**-**	**251,983**

28. LOANS AND BORROWINGS

(a) Structure of loans and borrowings

	2013	2012
Long-term borrowings		
Financial loans from:		
- domestic banks	7,041,318	20,134,962
- foreign banks	6,011,947	14,817,303
	13,053,265	**34,952,265**
Commodity loans	14,308,924	15,927,782
Total long-term financial and commodity loans	**27,362,189**	**50,880,047**
Current portion of long-term borrowings		
Loans from domestic banks	13,295,225	13,119,860
Loans from foreign banks	8,961,035	9,701,872
Commodity loans	9,056,744	9,153,283
Total current portion of long-term financial and commodity loans	**31,313,004**	**31,975,015**
Balance as at 31 December	**58,675,193**	**82,855,062**

The fair value of loans and borrowings, which is based on discounted cash flows using a market interest rate in the current reporting period, amounts to RSD 53,603,968 thousand as at 31 December 2013.

(b) Maturity of borrowings

	2013	2012
Up to 1 year – current portion of long-term borrowings	31,313,004	31,975,015
From 1 to 2 years	19,133,844	30,025,872
From 2 to 3 years	4,631,498	16,705,400
From 3 to 4 years	2,031,043	2,846,398
From 4 to 5 years	1,234,043	1,107,500
Over 5 years	331,761	194,877
Balance as at 31 December	**58,675,193**	**82,855,062**

28. LOANS AND BORROWINGS (Continued)

(c) Detailed Breakdown of Borrowings per Creditors

		31/12/2013		31/12/2012	
	Currency	In foreign currency	In RSD '000	In foreign currency	In RSD '000
/i/ Loans from domestic banks					
Unicredit Bank Srbija a.d., Belgrade (syndicated loan)	EUR	171,660,000	19,679,463	286,100,000	32,534,806
Beobanka a.d. in bankruptcy, Belgrade	EUR	331,582	38,013	331,582	37,706
Sberbank Srbija a.d., Belgrade	EUR	5,400,000	619,067	6,000,000	682,310
		177,391,582	**20,336,543**	**292,431,582**	**33,254,822**
/ii/ Loans from foreign banks					
Unicredit Bank, A.G., London Branch (syndicated loan)	EUR	110,340,000	12,649,609	183,900,000	20,912,795
ERB New Europe Funding, the Netherlands	EUR	8,254,000	946,256	15,592,000	1,773,096
Nova Ljubljanska banka - NLB d.d., Slovenia	EUR	10,606,061	1,215,901	13,636,364	1,550,704
Societe Generale banka Montenegro a.d., Montenegro	EUR	1,406,250	161,216	2,031,250	230,991
Hypo Alpe-Adria-Bank a.d., Montenegro	EUR	-	-	453,656	51,589
		130,606,311	**14,972,982**	**215,613,270**	**24,519,175**
/iii/ Foreign commodity loans					
BNP Paribas Fortis SA/NV, Belgium (previously BNP Paribas, London Branch)	EUR	9,532,552	1,092,832	18,556,248	2,110,185
KfW, Germany	EUR	198,900	22,802	596,700	67,856
Nokia Siemens, Finland, Austria and the Netherlands	EUR	33,961,225	3,893,387	55,223,743	6,279,950
Ericsson Credit A.B., Sweden	EUR	38,614,785	4,426,880	34,552,582	3,929,261
Credit Agricole CiB Sverige, Sweden	EUR	14,653,628	1,679,923	20,914,630	2,378,376
Huawei Technologies Co. Ltd., China	EUR	2,146,610	246,092	6,561,946	746,213
Huawei International Pte. Ltd., Singapore	EUR	12,490,371	1,431,922	7,965,971	905,877
Alcatel Lucent S.A., France	EUR	3,119,318	357,605	4,318,341	491,074
Alcatel Lucent International, France	EUR	5,583,858	640,145	3,169,300	360,408
OTP Bank Plc, Hungary	EUR	531,207	60,899	796,810	90,612
NVISION a.s., the Czech Republic (previously Sitronics, Czech Republic)	EUR	68,000	7,796	451,860	51,385
Intracom S.A., Greece	EUR	5,403,249	619,440	5,485,635	623,817
Skandinaviska Enskilda Bank Stockholm, Sweden	EUR	3,875,255	444,267	4,982,470	566,598
Commerzbank AG, Hamburg Branch	EUR	1,099,481	126,047	2,198,946	250,060
The Government of Spain (Amper and Alcatel)	USD	2,256,300	187,670	2,256,290	194,630
Alcatel Lucent Italia S.p.A., Italy	EUR	158,001	18,114	474,002	53,903
Alcatel Lucent S.p.A., Belgium	EUR	-	-	485,332	55,191
Alcatel Lucent S.A., Romania	EUR	772,722	88,586	993,500	112,979
China Development Bank, Shenzhen Branch	EUR	7,530,119	863,269	11,057,265	1,257,413
Anritsu A/S, Denmark	EUR	674,999	77,383	900,004	102,347
Selex ES S.p.A., Italy	EUR	157,280	18,031	262,134	29,809
Raiffeisen bank international, Austria (previously Nokia Siemens, Finland and Austria)	EUR	17,615,966	2,019,531	-	-
Cisco Systems International, Ireland	USD	4,495,971	373,742	-	-
/iv/ Other commodity loans			**4,669,305**		**4,423,121**
Total commodity loans			***23,365,668***		***25,081,065***
Total loans			**58,675,193**		**82,855,062**
Less: Current portion of long term borrowings					
/i/ Loans from domestic banks			(13,295,225)		(13,119,860)
/ii/ Loans from foreign banks			(8,961,035)		(9,701,872)
/iii/ Commodity loans			(9,056,744)		(9,153,283)
			(31,313,004)		**(31,975,015)**
Total long-term financial and commodity loans			**27,362,189**		**50,880,047**

28. LOANS AND BORROWINGS (Continued)

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

Interest rates on loans granted by banks and suppliers range from mostly 6M Euribor increased by 0.8% up to 6% per annum.

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 38,013 thousand as at 31 December 2013, relate to a loan settled by the former National Bank of Yugoslavia (“NBY”) toward LHB Bank, Frankfurt on behalf of Beobanka, as guarantor and the Group, as ultimate debtor. Since the NBY deposits held with LHB Bank 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 Group cannot settle its liabilities even though it requested the settlement permission from the creditor.

/ii/ In order to finance the purchase of the share of the minority shareholder OTE in the Group’s capital, as well as to refinance the liabilities under the “Term and Revolving Facilities Agreement”, on 9 January 2012 the Group 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 Group withdrew the funds per the Arrangement A in the total amount of EUR 320 million. On 24 May 2012, the Group withdrew the funds per the Arrangement B in the amount of EUR 150 million. During 2013, the Group repaid the portion of liabilities under the Arrangement A in the amount of EUR 128 million, and the portion of liabilities per Arrangement B in the amount of EUR 60 million.

The Term Facilities Agreement defines obligation to submit audited annual consolidated financial statements and audited annual separate financial statements of the Parent Company, as well as quarterly financial statements. In addition, the Parent Company is required to meet the prescribed level of the performance indicators of Leverage and Interest coverage. As at 31 December 2013, the Parent Company fulfilled the required ratios.

As at 31 December 2013, liabilities to ERB New Europe Funding B.V., the Netherlands in the amount to RSD 946,256 thousand relate to the loan granted to the Group in order to finance telecommunication network investments and repayment of the borrowing from Eurobank EFG Ltd, Cyprus.

Non-current borrowing from Nova Ljubljanska banka - NLB banka d.d., Ljubljana, Slovenia, amounting to RSD 1,215,901 thousand as at 31 December 2013, relate to the loan agreement entered into by the Group for the purpose of financing the purchase of the GSM/UMTS License, purchase of telecommunication equipment and financing the start up costs in Montenegro.

28. LOANS AND BORROWINGS (Continued)

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

As collateral provided to secure the regular repayment of the aforementioned loan, the Group subscribed the pledge over the License GSM/UMTS (Note 18). In addition, as collateral for the repayment of the loan, the pledge on the telecommunication equipment acquired from the foreign supplier Ericsson A.B., Sweden was inscribed (Note 19). The Consolidated Subsidiary "Mtel" is required to ensure a positive equity 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 at 31 December 2013, the Consolidated Subsidiary "Mtel" fulfilled the conditions specified in the loan agreement.

As collateral for the loan granted by Societe Generale banka Montenegro a.d., Podgorica, Montenegro, the Group pledged the telecommunication equipment as disclosed in Note 19.

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

/iv/ Other commodity loans total RSD 4,669,305 thousand as at 31 December 2013 (31 December 2012: RSD 4,423,121 thousand) and primarily relate to the financing of equipment and works.

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

Certain commodity loans are subject to covenant clauses, whereby the Parent Company is required to meet certain key performance indicators of Leverage and Interest cover while 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).

/v/ Undrawn commodity loans amount to RSD 1,708,162 thousand as at 31 December 2013 (31 December 2012: RSD 2,543,217 thousand). Most of undrawn loans have been granted at floating interest rates. Maturity of unutilized credit lines is disclosed in Note 34(b).

29. ACCOUNTS PAYABLE

	2013	2012
Trade payables for equipment and services	12,004,433	7,980,213
Trade payables for telecommunication services:		
- fixed telephony	715,276	755,853
- mobile telephony	224,104	241,656
- interconnection	11,229	4,550
Advances received	136,620	139,540
Balance as at 31 December	**13,091,662**	**9,121,812**
Non-current accounts payable	815,154	1,796,583
Total	**13,906,816**	**10,918,395**

As at 31 December 2013, accounts payable amounting to RSD 5,143,541 thousand (31 December 2012: RSD 2,758,079 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 2013 was 53 days (2012: 48 days).

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

30. OTHER CURRENT LIABILITIES

	2013	2012
Gross salaries	577,607	519,679
Dividends payable	2,548,052	992,359
Liabilities to employees	41,504	33,710
Other liabilities	325,907	397,034
Balance as at 31 December	**3,493,070**	**1,942,782**

As at 31 December 2013, dividends payable totalling RSD 2,548,052 thousand (31 December 2012: RSD 992,359 thousand) relate to outstanding dividend payable to the owners of the Group in the amount of RSD 1,761,087 thousand and to non-controlling interests in the amount of RSD 786,965 thousand. Dividend payable as at 31 December 2012 fully relates to non-controlling interests.

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

	2013	2012
Liabilities for value added tax and other tax liabilities	**1,071,402**	**1,192,994**
Accruals		
Accrued expenses:		
International settlement	176,361	234,564
Roaming (a)	2,467,100	2,234,222
Media contents distribution	49,395	216,108
	2,692,856	**2,684,894**
Accrued other expenses:		
Accrued vacations	519,805	501,646
Accrued interest expenses (b)	769,140	1,293,565
Accrued other expenses (c)	5,770,160	7,630,274
	7,059,105	**9,425,485**
Deferred income:		
Mobile communications services	641,464	847,300
Chip cards	21,168	11,859
Fixed telephony subscription	1,119,777	1,249,630
Pre-collected lease income	610,373	480,312
Other deferred income	83,473	85,783
	2,476,255	**2,674,884**
Deferred income (d):		
Donations	375,970	325,248
Grants received	1,904,363	2,358,307
	2,280,333	**2,683,555**
Deferred liabilities for VAT	**204,520**	**181,886**
Balance as at 31 December	**15,784,471**	**18,843,698**

(a) As at 31 December 2013, accrued roaming expenses totalling RSD 2,467,100 thousand mostly relate to accrued roaming services for November and December 2013, estimated to RSD 177,518 thousand and accrued expenses based on the Discount IOT Agreements amounting to RSD 2,289,582 thousand.

(b) Accrued interest expenses in the amount of RSD 769,140 thousand as at 31 December 2013 include the amount of RSD 676,202 thousand, representing interest expense arising from the syndicated loan granted by Unicredit Bank A.G., London branch (31 December 2012: RSD 1,177,077 thousand).

(c) Accrued other expenses amounting to RSD 5,770,160 thousand as at 31 December 2013 mostly relate to estimated accrued expenses for services and works provided by suppliers during the year.

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

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

	2013	2012
Balance as at 1 January	**2,683,555**	**3,010,777**
Assets received free of charge (Note 19)	97,257	100,013
Released to income (Note 8)	(501,066)	(443,537)
Exchange differences from currency translation	587	16,302
Balance as at 31 December	**2,280,333**	**2,683,555**

As at 31 December 2013, the grants received mainly relate to state grants.

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

32. OFF-BALANCE SHEET ITEMS

	2013	2012
Issued promissory notes	4,525,256	5,456,331
Guarantees received	4,881,494	3,514,715
Property and equipment in liquidation	1,472,817	360,990
Other	3,103,449	2,217,445
Balance as at 31 December	**13,983,016**	**11,549,481**

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

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

	2013	2012
Issued promissory notes in favour of:		
- banks	2,847,548	3,927,397
- state authorities	1,209,880	1,203,502
- suppliers	467,828	325,432
Balance as at 31 December	**4,525,256**	**5,456,331**

33. RELATED PARTY DISCLOSURES

The Group enters into a number of transactions with related parties in ordinary course of business. The stated balances of receivables and liabilities, as well as reported amounts of income and expenses arising from transactions with the related parties are the result of ordinary business activities.

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

(a) Transactions with OTE, i.e. **revenues and expenses** for year ended 31 December 2012, are summarized below:

	2012
OTE	
International settlement	
- Revenues	8,391
- Expenses	(1,426)
Net revenues	**6,965**

Income and expenses above presented, arising from transactions with OTE, relate to the month of January 2012. Subsequent to the purchase of OTE's shares by the Group, OTE ceased to be the shareholder of the Group (Note 26 /i/).

(b) **Salaries and other short-term 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 2013 and 2012, respectively, were as follows:

	2013	2012
Gross salaries	583,667	497,487
Compensations for business trips	11,666	30,268
Contributions to operating results	12,811	32,639
Other benefits	1,107	4,609
Total	**609,251**	**565,003**

The housing loans to key management personnel in the amount of RSD 110,017 thousand as at 31 December 2013 (31 December 2012: RSD 114,888 thousand) are repayable monthly and have been granted under the same conditions as for other employees (Note 21).

(c) **Transactions with other government entities**

Considering that the major shareholder of the Group is the Government of the Republic of Serbia, significant transactions with other government entities in the Republic of Serbia were incurred with JP PTT in respect of rental of business premises and warehouses, as disclosed in Note 34(a).

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

34. COMMITMENTS

Commitments of the Group comprise the following:

	2013	2012
Operating lease commitments (a)	15,593,450	14,434,912
Construction of the mobile and fixed-line telecommunication network (b)	1,708,162	2,543,217
Balance as at 31 December	**17,301,612**	**16,978,129**

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

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

	2013.	2012.
Up to 1 year	2,344,991	2,524,085
From 1 to 5 years	8,139,693	7,771,265
Over 5 years	5,108,766	4,139,562
Total	**15,593,450**	**14,434,912**

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

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

Maturities of undrawn credit lines are as follows:

	2013	2012
Up to 1 year	415,471	441,875
From 1 to 5 years	1,190,690	1,923,152
Over 5 years	102,001	178,190
Total	**1,708,162**	**2,543,217**

35. CONTINGENT LIABILITIES

(a) Litigations

As at 31 December 2013, the Group featured as respondent in certain number of legal proceedings. The total estimated value of potential damage claims amounts to RSD 6,502,580 thousand (31 December 2012: RSD 5,670,223 thousand), excluding penalty interest that may arise thereto.

The estimated contingent liabilities mostly arose from lawsuits filed against the Group by the companies “Aneks”, Banja Luka and “Crumb Group” Bijeljina.

The final outcome of the legal proceedings still in course is uncertain. As disclosed in Note 27 the consolidated financial statements, as at 31 December 2013, the Group reserved the amount of RSD 251,983 thousand (31 December 2012: RSD 257,603 thousand) for potential losses that might arise as a result of the aforementioned legal claims. The Group’s management considers that no material liabilities will arise as a result of the remaining legal proceedings still in course, other than those provided for.

(b) Tax Risks

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

According to Amendments and Supplements to the Value Added Tax Law in Montenegro, general VAT rate increased from 17% to 19%, starting from 1 July 2013.

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

36. EVENTS AFTER THE REPORTING PERIOD

(a) As at 30 December 2013, the Group signed the Amended Agreement in relation to the Term Facilities Agreement (Note 28(c)). By realization of the Amendment, the Group achieved more favourable borrowing conditions primarily reflected in the drop in the interest rate for the outstanding liabilities in the amount of EUR 282 million as well as in the extension of the final maturity of the loan up to November 2016. The effective date of the Amendment Agreement is 17 January 2014. The restructuring of the loan improved the Group’s liquidity position.

(b) On 31 January 2014, 65% of the net assets of subsidiary TT Inženjering d.o.o. Banja Luka was transferred to the Group based on the Decision of the Commercial Court in Banja Luka, Republic of Srpska.

37. EXCHANGE RATES

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

In RSD

	31 December 2013	31 December 2012
EUR	114.6421	113.7183
USD	83.1282	86.1763
BAM (KM)	58.6156	58.1432
SDR	128.0919	132.5762

38. NON-CONTROLLING INTERESTS

The following table summarizes the information relating to the Group's subsidiary that has material non-controlling interest, before any intra-group eliminations:

Balance as at 31 December 2013	"Telekom Srpske"	Other individually immaterial subsidiaries	Total
NCI Percentage	**35%**		
Non-current assets	54,772,485	6,060,782	
Current assets	11,271,538	3,441,341	
Non-current liabilities	3,570,133	3,504,371	
Current liabilities	7,439,899	3,747,342	
Net assets	**55,033,991**	**2,250,410**	
Carrying amount of NCI	**19,261,897**	**174,603**	**19,436,500**
Revenues	27,341,485	6,462,155	
Profit	4,498,448	(230,065)	
OCI	375,201	24,150	
Total comprehensive income	**4,873,649**	**(205,915)**	
Profit allocated to NCI	1,574,457	(150,301)	1,424,156
OCI allocate to NCI	131,320	4,142	135,462
Cash inflow from operating activities	3,849,282	268,981	
Cash outflow from investing activities	(833,107)	(78,187)	
Cash outflow from financing activities	(438,707)	(172,622)	
Net increase in cash and cash equivalents	**2,577,468**	**18,172**	

38. NON-CONTROLLING INTERESTS (Continued)

The information relating to the Group's subsidiary that has material non-controlling interest, before any intra-group eliminations, as at 31 December 2012 are as follows:

Balance as at 31 December 2012	"Telekom Srpske"	Other individually immaterial subsidiaries	Total
NCI Percentage	**35%**		
Non-current assets	55,361,248	6,329,534	
Current assets	10,640,954	3,888,083	
Non-current liabilities	4,257,586	4,387,807	
Current liabilities	5,636,373	3,373,484	
Net assets	**56,108,243**	**2,456,326**	
Carrying amount of NCI	**19,637,885**	**320,763**	**19,958,648**
Revenues	28,256,926	6,420,686	
Profit	5,108,269	(389,841)	
OCI	4,369,531	215,943	
Total comprehensive income	**9,477,800**	**(173,898)**	
Profit allocated to NCI	1,787,894	(212,569)	1,575,325
OCI allocate to NCI	1,529,336	37,034	1,566,370
Cash inflow from operating activities	4,587,439	21,824	
Cash outflow from investing activities	(853,279)	(71,641)	
Cash (outflow) /inflow from financing activities	(1,182,268)	138,858	
Net increase in cash and cash equivalents	**2,551,892**	**89,041**	

The accompanying consolidated financial statements were approved by the Supervisory Board of the Parent Company on 24 April 2014 and were signed on behalf of the management by:

Prof. dr Milenko Dželetović /signed/	Predrag Ćulibrk /signed/
CFO	CEO