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

Consolidated Financial Statements
for the Year Ended 31 December 2010
in Accordance with Accounting Regulations
of the Republic of Serbia

and

Independent Auditor's Report

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

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated financial statements of a Joint stock telecommunications company "Telekom Srbija" a.d., Belgrade and its subsidiaries (together the "Group"), which comprise the consolidated balance sheet as of 31 December 2010, and the consolidated income statement, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information. The consolidated statistical annex represents an integral part of these consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the accounting regulations prevailing in the Republic of Serbia, based on the Law on Accounting and Auditing ("Official Gazette of the Republic of Serbia", no. 46/2006 and 111/2009), and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Joint stock telecommunications company "Telekom Srbija" a.d., Belgrade and its subsidiaries as of 31 December 2010, and their financial performance and cash flows for the year then ended in accordance with the accounting regulations prevailing in the Republic of Serbia, based on the Law on Accounting and Auditing, and accounting policies disclosed in Note 2 to the consolidated financial statements.

BDO d.o.o. Beograd; Registarski broj 44916 kod Agencije za privredne registre; PIB 101672840; Matični broj 06203159
Poslovni računi: 295-1214105-50 kod Srpske banke a.d. Beograd; 240-69872101500-75 kod Findomestic banke a.d. Beograd
Upisani i uplaćeni osnivački kapital Društva 4.557,18 EUR
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INDEPENDENT AUDITOR'S REPORT

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

Emphasis of Matter

We draw attention to Note 34(a) to the consolidated financial statements disclosing that as of 31 December 2010 the estimated contingent liabilities arising from lawsuits filed against the Group amount to RSD 4,187,858 thousand, excluding any related penalty interest that may arise thereto. Based on the estimate of the final outcome of these lawsuits made by the Group's legal departments, the provision for potential losses arising from pending litigations recognized in the Group's consolidated financial statements amounts to RSD 251,601 thousand as of 31 December 2010 (Note 26). The Group's management considers that the final outcome of litigations cannot be predicted with a high degree of certainty, and it judges that no material liabilities will arise from the contingent liabilities other than those provided for. Our opinion is not qualified in respect of this matter.

Belgrade, 18 April 2011

Ksenija Ristic Kostic

Ksenija Ristic Kostic
Certified Auditor

Društvo za [illegible]
Beograd

MANAGEMENT'S REPRESENTATION

The Group's management is responsible for the preparation of the consolidated financial statements, which give a true and fair view of the financial position of the Group as of the end of the reporting period, and of their financial performance and cash flows for the reporting period then ended in accordance with the accounting regulations prevailing in the Republic of Serbia, based on the Law on Accounting and Auditing. The management also have a general responsibility for implementation of processes and controls to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Group's management considers that, preparing the consolidated financial statements as of and for the year ended 31 December 2010, set out on pages 4 to 97, the Group has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates and the Republic of Serbia accounting regulations based on the Law on Accounting and Auditing ("RS Official Gazette", no. 46/2006 and 111/2009) have been followed.

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

ТЕЛЕКОМУНИКАЦИЈЕ „ТЕЛЕКОМ СРБИЈА" АКЦИОНАРСКО ДРУШТВО
„ТЕЛЕКОМ СРБИЈА" а.д. 7 БЕОГРАД

Branko Radujko
General Manager

ТЕЛЕКОМ СРБИЈА" АКЦИОНАРСКО ДРУШТВО
ТЕЛЕКОМ СРБИЈА а.д. 6 БЕОГРАД

Georgios Christodoulopoulos
Director of Economic Affairs Division

CONSOLIDATED INCOME STATEMENT
For the Year Ended 31 December 2010
In RSD thousand

	Note	2010	2009
OPERATING INCOME			
Sales	5	112,793,068	109,529,843
Other operating income	6	700,802	738,868
		113,493,870	**110,268,711**
OPERATING EXPENSES			
Cost of goods sold		(311,962)	(426,426)
Cost of material	7	(7,014,192)	(6,145,156)
Wages, salaries and other personnel expenses	8	(18,563,258)	(18,693,088)
Depreciation, amortization and provisions	9	(24,735,797)	(23,371,966)
Other operating expenses	10	(35,753,789)	(35,157,224)
		(86,378,998)	**(83,793,860)**
OPERATING PROFIT		**27,114,872**	**26,474,851**
Financial income	11	3,727,575	3,248,469
Financial expenses	12	(10,836,643)	(11,829,055)
Other income	13	3,896,261	2,768,405
Other expenses	14	(5,885,893)	(6,366,132)
PROFIT FROM OPERATIONS BEFORE TAX		**18,016,172**	**14,296,538**
NET LOSS FROM DISCONTINUED OPERATIONS	15	(84,008)	-
PROFIT BEFORE TAX		**17,932,164**	**14,296,538**
INCOME TAXES	16		
Current tax expense		(1,284,368)	(1,107,545)
Deferred tax income		337,398	124,570
PROFIT FOR THE YEAR		**16,985,194**	**13,313,563**
PROFIT ATTRBUTABLE TO:			
Owners of the parent		15,145,828	12,165,259
Non-controlling interests		1,839,366	1,148,304
		16,985,194	**13,313,563**
Earnings per share			
Profit attributable to the owners of the parent			
Basic earnings per share	25	**14.02**	**11.26**

The accompanying notes on pages 12 to 97
are an integral part of these consolidated financial statements.

The accompanying consolidated financial statements were authorised for issue by the Managing Board on 18 April 2011 and signed on behalf of the Group's management by:

Branko Radujko
General Manager

Georgios Christodoulopoulos
Director of Economic Affairs Division

CONSOLIDATED BALANCE SHEET
As of 31 December 2010
In RSD thousand

	Note	31 December 2010	31 December 2009
ASSETS			
Non-current assets			
Intangible assets	17	64,419,378	61,648,154
Advances for Intangible assets		58,528	68,231
Property, plant and equipment	18	154,608,738	153,555,295
Advances for property and equipment	19	505,248	484,881
Other long-term financial placements	20	1,635,567	1,516,000
		221,227,459	**217,272,561**
Current assets			
Inventories	21	7,468,702	7,154,659
Advances to suppliers		548,872	437,660
Accounts receivable	22	15,069,928	15,365,788
Receivables for overpaid income tax		270,978	88,671
Short-term financial placements		1,828,258	1,496,004
Cash and cash equivalents	23	9,785,260	14,384,798
Value added tax, prepayments and accrued income	24	2,855,698	2,907,277
		37,827,696	**41,834,857**
Deferred tax assets	16(c)	**1,266,720**	**1,076,482**
TOTAL ASSETS		**260,321,875**	**260,183,900**
EQUITY AND LIABILITIES			
Equity	25		
Share capital		82,512,552	82,512,552
Other capital		8,588	8,588
Reserves		1,325,288	1,053,745
Currency translation differences		14,016,786	9,740,880
Retained earnings		36,726,417	27,747,636
		134,589,631	**121,063,401**
Non-controlling interests		**19,619,923**	**18,090,166**
		154,209,554	**139,153,567**
Long-term provisions and liabilities			
Long-term provisions	26	2,614,168	2,710,570
Long-term borrowings	27	47,374,184	52,949,662
Other long-term financial liabilities	27	2,072,599	2,454,986
		52,060,951	**58,115,218**
Current liabilities			
Short-term borrowings	27	25,042,217	31,746,887
Accounts payable	28	7,196,213	11,209,215
Other current liabilities	29	1,784,875	1,121,197
Value added tax and other tax liabilities, accruals and deferred income	30	17,851,446	16,704,042
		51,874,751	**60,781,341**
Deferred tax liabilities	16(c)	**2,176,619**	**2,133,774**
TOTAL EQUITY AND LIABILITIES		**260,321,875**	**260,183,900**
OFF-BALANCE SHEET ITEMS	31	**16,807,447**	**17,166,121**

The accompanying notes on pages 12 to 97
are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the Year Ended 31 December 2010
In RSD thousand

	Attributable to the equity holders of the parent						
						Non-	
	Share	Other		Retained		controlling	TOTAL
	capital	capital	Reserves	earnings	Total	interests	EQUITY
Balance as of							
1 January 2009	**82,512,552**	**8,588**	**5,730,221**	**19,766,240**	**108,017,601**	**17,928,317**	**125,945,918**
Dividends paid		-	-	(3,897,029)	(3,897,029)	(2,730,354)	(6,627,383)
Transfer from retained earnings to legal reserves	-	-	286,834	(286,834)	-	-	-
Fair value losses on available-for-sale financial assets, net	-	-	(241)	-	(241)	(129)	(370)
Currency translation differences	-	-	4,777,811	-	4,777,811	1,744,028	6,521,839
Profit for the year ended 31 December 2009	-	-	-	12,165,259	12,165,259	1,148,304	13,313,563
Balance as of	-						
31 December 2009	**82,512,552**	**8,588**	**10,794,625**	**27,747,636**	**121,063,401**	**18,090,166**	**139,153,567**
Dividends declared	-	-	-	(6,664,615)	(6,664,615)	(2,489,424)	(9,154,039)
Changes in non-controlling interests	-	-	-	769,096	769,096	(769,096)	-
Transfer from retained earnings to legal reserves	-	-	271,528	(271,528)	-	-	-
Fair value gains on available-for-sale financial assets, net	-	-	15	-	15	8	23
Currency translation differences	-	-	4,275,906	-	4,275,906	2,948,903	7,224,809
Profit for the year ended 31 December 2010	-	-	-	15,145,828	15,145,828	1,839,366	16,985,194
Balance as of	-						
31 December 2010	**82,512,552**	**8,588**	**15,342,074**	**36,726,417**	**134,589,631**	**19,619,923**	**154,209,554**

The accompanying notes on pages 12 to 97
are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the Year Ended 31 December 2010
In RSD thousand

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and advances received	130,446,124	125,292,593
Other receipts from operating activities	926,210	1,168,057
Payments to suppliers and advance payments to suppliers	(55,840,597)	(52,132,820)
Payments for wages, salaries and other personnel expenses	(18,182,996)	(18,580,676)
Interest paid	(2,674,709)	(3,992,479)
Income tax paid	(1,461,983)	(1,314,182)
Other public charges paid	(12,754,988)	(11,201,773)
Net cash flows from operating activities	**40,457,061**	**39,238,720**
CASH FLOWS FROM INVESTING ACTIVITIES		
Receipts from sale of intangible assets and property and equipment	11,049	11,815
Interest received	870,491	871,394
Other financial placements (net inflows)	291,130	208,325
Purchase of intangible assets and property and equipment	(20,047,772)	(21,374,037)
Other financial placements (net outflows)	(153,675)	(134,640)
Net cash flows used in investing activities	**(19,028,777)**	**(20,417,143)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Net repayments of borrowings (net outflows)	(12,662,535)	(6,903,517)
Net repayments of borrowings and other liabilities (net outflows)	(2,723)	(2,037)
Dividends paid	(8,521,561)	(6,627,383)
Net cash flows used in financing activities	**(21,186,819)**	**(13,532,937)**
Net increase in cash and cash equivalents	241,465	5,288,640
Cash and cash equivalents, beginning of the year	14,384,798	13,202,314
Foreign exchange losses on cash and cash equivalents' translation, net	(4,841,003)	(4,106,156)
Cash and cash equivalents, end of the year (Note 23)	**9,785,260**	**14,384,798**

The accompanying notes on pages 12 to 97
are an integral part of these consolidated financial statements.

CONSOLIDATED STATISTICAL ANNEX
For the Year Ended 31 December 2010
In RSD thousand

I GENERAL CORPORATE INFORMATION

	2010	2009
Number of months of operations (1 to 12)	12	12
Size indication (1 to 3)	3	4
Ownership structure indication (1 to 5)	4	4
Number of foreign entities holding a share in capital	1	1
Average number of employees, based on the number at the end of each month (whole number)	2,767	2,832

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

	Cost	Accumulated depreciation/ amortization	Net book value
1. Intangible assets			
Balance at beginning of year	49,170,785	(17,982,510)	31,188,275
Additions during the year	3,300,633	-	4,894,966
Disposals	(825,353)	-	(5,192,782)
Revaluation	-	-	-
Balance at end of year	**51,646,065**	**(20,755,606)**	**30,890,459**
2. Property, plant, equipment and biological assets			
Balance at beginning of year	255,305,797	(101,265,621)	154,040,176
Additions during the year	23,908,280	-	23,908,280
Disposals	(3,441,935)		(22,834,470)
Revaluation	-	-	-
Balance at end of year	**275,772,142**	**(120,658,156)**	**155,113,986**

III INVENTORY STRUCTURE

	2010	2009
Material	7,174,363	6,945,436
Work in progress	-	-
Finished goods	-	-
Merchandise	294,339	209,223
Non-current assets held for sale	-	-
Payments in advance	548,872	437,660
Total	**8,017,574**	**7,592,319**

IV CAPITAL STRUCTURE

	2010	2009
Share capital	82,512,552	82,512,552
Out of which: foreign capital	16,502,510	16,502,510
Stakes of a limited liability company	-	-
Out of which: foreign capital	-	-
Stakes of partnership or limited partnership	-	-
Out of which: foreign capital	-	-
State-owned capital	-	-
Socially-owned capital	-	-
Stakes in cooperatives	-	-
Other capital	8,588	8,588
Total	**82,521,140**	**82,521,140**

V SHARE CAPITAL STRUCTURE

	2010	2009
Ordinary shares		
Number of ordinary shares	1,080,000	1,080,000
Nominal value of ordinary shares – total	82,512,552	82,512,552
Preference shares		
Number of preference shares	-	-
Nominal value of preference shares – total	-	-
Total - nominal value of shares	**82,512,552**	**82,512,552**

VI RECEIVABLES AND LIABILITIES

	2010	2009
Trade receivables (balance at end of year)	14,676,262	15,084,765
Accounts payable (balance at end of year)	7,136,898	10,996,728
Receivables from insurance companies for damage compensations during the year (debit turnover without opening balance)	2,391	10,990
VAT – previous tax (annual amount as per tax returns)	11,210,887	10,517,796
Accounts payable (credit turnover without opening balance)	102,950,644	81,544,882
Liabilities for net salaries and fringe benefits (credit turnover without opening balance)	8,759,024	9,202,277
Liabilities for payroll taxes born by the employee (credit turnover without opening balance)	1,146,490	1,250,401
Liabilities for payroll contributions born by the employee (credit turnover without opening balance)	2,718,780	2,707,242
Liabilities for dividends, profit-sharing and personal income of the employer (credit turnover without opening balance)	9,154,046	6,627,405
Liabilities to individuals for services rendered based on agreements (credit turnover without opening balance)	486,403	379,029
Liabilities for VAT (annual amount as per tax returns)	18,765,738	17,920,030
Control total	**177,007,563**	**156,241,545**

CONSOLIDATED STATISTICAL ANNEX (Continued)
For the Year Ended 31 December 2010
In RSD thousand

VII OTHER EXPENSES

	2010	2009
Fuel and energy	1,275,884	1,200,688
Gross salaries and fringe benefits	11,921,295	12,517,236
Payroll taxes and contributions born by the employer	2,645,031	2,647,038
Gross benefits of natural persons for services rendered based on agreements	776,746	604,256
Gross remuneration to the Managing Board' and Supervisory Board's members	17,888	14,805
Other personal expenses	3,202,298	2,909,753
Production services	31,928,678	31,685,396
Rental expenses	5,363,732	4,620,272
Land-rental expenses	127,834	110,100
Research and development costs	9,470	4,959
Depreciation/amortization charge	24,601,244	23,063,047
Insurance premium costs	564,133	545,593
Bank charges and payment operations costs	371,267	383,648
Membership fees	56,334	63,090
Taxes	1,088,198	1,056,988
Contributions	-	-
Interest expenses	2,458,388	4,045,238
Interest expenses and a portion of financial expenses	2,458,388	4,045,238
Interest expenses on borrowings from banks and other financial institutions	2,044,522	3,161,555
Costs of humanitarian, cultural, health, educational, scientific and religious purposes, environmental protection and sports purposes	197,355	207,787
Control total	**91,108,685**	**92,886,687**

VIII OTHER INCOME

	2010	2009
Income from sale of goods	265,996	299,272
Premiums, subventions, subsidies, regress, compensations and recovery of tax duties	18,158	30,321
Conditional donations	476,001	464,374
Land-rental income	-	-
Membership fees	-	-
Interest income	1,342,783	1,369,414
Interest income on accounts and deposits held with banks and other financial institutions	780,344	865,118
Dividend income	-	-
Control total	**2,883,282**	**3,028,499**

IX OTHER INFORMATION

	2010	**2009**
Excise duties (as per annual calculation of excise duties)	-	-
Customs and other import duties (annual total as per calculation)	1,544,248	495,271
Capital subventions and other government grants for construction and acquisition of property, plant, equipment and intangible assets	-	-
Government grants for premiums, regress and coverage of current operating expenses	-	-
Other government grants	-	-
Foreign donations and other non-refundable funds, received either in cash or in kind from foreign legal entities and/or individuals	46,791	437,589
Entrepreneurs' personal income from net profit (to be completed only by entrepreneurs)	-	-
Control total	**1,591,039**	**932,860**

The accompanying notes on pages 12 to 97
are an integral part of these financial statements.

1. CORPORATE INFORMATION

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

Pursuant to Article 14a of the Law on Communications of the Republic of Serbia, JP PTT assigned certain exclusive and non-exclusive operating rights to the "Telekom Srbija" for an initial period of twenty years, with the right to an extension of an additional ten years. In consideration of such transfer and assignment rights, the "Telekom Srbija" issued a certificate representing 1,080,000 fully-paid, registered ordinary voting shares with an individual par value of RSD 10,000 and also performed a special issuance of "Golden Share" to the Government of the Republic of Serbia. The Golden Share bestows entitlements to their bearers, which include voting rights and presence to the Parent Company's Shareholders' Assembly sessions, certain approval rights of the proposal for appointment of the Managing Board members and the proposal for the appointment of General Manager of the Parent Company, amendments to the Statute and other rights determined by the Statute of the Parent Company. This share may solely be held by the Government of the Republic of Serbia represented by its appointed representative(s).

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

On 20 February 2003, JP PTT concluded a Share Purchase Agreement ("SPA") with the seller, Stet International Netherlands NV, Amsterdam, whereby JP PTT purchased additional 29 percent of the share capital owned by STET and subsequently became owner of 80 percent of the share capital. This share purchase transaction was registered with the Commercial Court of Belgrade on 25 December 2003 under inscription number Fi. 13612/03. On 10 December 2004, the parties, JP PTT, OTE and the Parent Company executed a Shareholder Agreement numbered 128077/1, which represents the basis under which the mutual relations between the aforementioned parties are defined. The above Shareholder Agreement was approved by the Parent Company's Shareholders' Assembly at its 11th Special Session held in December 2004.

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

On 30 December 2010, the Ministry of Telecommunications and Information Society submitted to the Parent Company, for further realisation, the Conclusion of the Government of the Republic of Serbia 05 no. 023-9705/2010 dated 23 December 2010, recommending the Parent Company to undertake all activities necessary in order to convert the Parent Company into an open join stock entity.

1. CORPORATE INFORMATION (Continued)

The Parent Company's principal business activity is in the provision of telecommunication services, of which its primary areas of operation include the provision of national and international telecommunication services, in addition to a wide range of other telecommunication services involving fixed voice services, data transmission, leased lines, private circuits and broadband services, additional mobile telephony services, fixed satellite services, internet and multimedia services. In 1998, the Parent Company introduced GSM mobile telecommunication services.

The Parent Company also supplies leases, construction, management and security services in the area of network infrastructure. Furthermore, the Parent Company has the rights to provide directory services including "White" and "Yellow Pages", operator-assisted services and electronic directory services relating to fixed telephony services.

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

On 24 March 2006, at the meeting of the Managing Board of the Serbian Republic Telecommunications Agency ("RATEL"), a Decision was enacted on the determination of a public telecommunications operator for the provision of services for the public fixed telephone network which holds a significant market share, under which the Parent Company was selected as the public telecommunications operator to provide the services related to the public fixed telephony network with a significant market share. In accordance with the aforementioned, the Parent Company must obtain prior approval from RATEL for each price change in the services it offers, for which it is licensed.

On 28 July 2006, the Parent Company was granted a license for public mobile telecommunication network and services for public mobile telecommunication network in accordance with GSM/GSM1800 and UMTS/IMT-2000 standards by RATEL, and accordingly all fees concerning the license and frequencies are payable to RATEL.

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

At its session held on 22 December 2008, the Managing Board of RATEL brought the decisions on the fulfilment of conditions in order to issue approvals to the operators and providers for the provision of voice transmission service over the Internet (9 providers), for public telecommunication networks (3 providers) and for international interconnection of a public telecommunication network (3 providers) in the Republic of Serbia. The list of the granted authorizations by RATEL was extended during 2009 and 2010.

On 31 March 2009, RATEL published a Public invitation for participation of interested bidders in issuing two licenses for fixed wireless access to public telecommunication network and services (CDMA licenses). "Telekom Srbija" and "Media Works" purchased the licenses for the amount of EUR 540,000 per licence. Licenses are valid through a 10-year period, while the provision of commercial services commences within the six-month period after the license issuing date.

1. CORPORATE INFORMATION (Continued)

In accordance with the Decision of the Managing Board of RATEL dated 25 December 2009, the Rule Book on number portability in the public mobile telecommunications networks was adopted. This Rule Book, effective from 31 March 2011, envisages the obligation of operators to provide their users with the national number portability when changing their operator, i.e., retaining the existing number. As of the date of issuing the consolidated financial statements, the application of the Rule Book has not started yet.

On 22 January 2010, the Managing Board of RATEL passed a decision to grant a License for public fixed telecommunication networks and services for the territory of the Republic of Serbia to the company “Telenor” d.o.o., Belgrade. The License was issued on 19 February 2010 for the ten-year period with the possibility of its extension for the same period. “Telenor” d.o.o., Belgrade is obliged to commence the provision of commercial services within a year after the license issuing date. The license fee amounts to EUR 1.05 million.

In the course of 2010, by merging business entities “Media Works”, “Neobee.net” and “SezamPro”, a Limited Liability Telecommunications Company “Orion Telekom” d.o.o., Belgrade, has been established, with the aim of providing fixed telephony and internet services.

On 8 July 2010, the Law on Electronic Communications came into force (“RS Official Gazette”, no. 44 dated 30 June 2010), introducing certain innovations in the telecommunications market of the Republic of Serbia. With the passing of this Law, the previous Law on Telecommunications ceased to be valid (“RS Official Gazette”, no. 44 dated 24 April 2003 with amendments in no. 36 dated 27 April 2006).

On the date the Law on Electronic Communications became effective, the Republic Telecommunications Agency, established according to the previously applicable Law on Telecommunications continued its work as the Republic Agency for Electronic Communications (“Agency”), in compliance with the provisions of the new Law.

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

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

- retail market of access to the public telephone network,
- wholesale market of call origination in the public telephone network,
- wholesale market of call termination in the public telephony network,
- wholesale market of (physical) access to the network elements with the attributable resources (including the full and shared unbundled access to the local loop),
- wholesale market of broadband access,
- wholesale market for leased lines, and
- wholesale market of call termination in the mobile telephony network.

1. CORPORATE INFORMATION (Continued)

On 2 July 2010, the Government of the Republic of Serbia passed a decision to select a consortium Citigroup Global Markets Limited, Analysis Mason Limited, KPMG d.o.o., Belgrade and Harrisons Solicitors as an advisor to provide professional assistance in the preparation and implementation of a procedure of the announced sale of a portion of the Parent Company's shares, which is owned by the Republic of Serbia.

As disclosed in Note 25 to the consolidated financial statements, for the purpose of sale of the major portion of the Parent Company's shares owned by the Republic of Serbia, in 2010 there was a change in the Parent Company's shareholder structure. In accordance with the Conclusion of the Government of the Republic of Serbia 05 no. 023-6816 dated 21 September 2010 and the Decision on the transfer of the shares in the Parent Company to the Republic of Serbia, without compensation, of the Board of Directors of JP PTT saobracaja "Srbija", Belgrade dated 20 September 2010, on 24 September 2010 JP PTT saobracaja "Srbija", Belgrade and the Government of the Republic of Serbia concluded the Agreement on the transfer of the shares of Telekom Srbija a.d., Belgrade without compensation – Gift.

Pursuant to this Agreement, the Republic of Serbia became the major shareholder and the legal owner of 80% of the Parent Company's shares, represented by 864,000 ordinary shares with the nominal value of RSD 10 thousand per share, i.e., with the total nominal value amounting to RSD 8,640,000 thousand. Total value of the Parent Company's share capital has not been changed.

In 2010, the Government of the Republic of Serbia announced an international tender for the sale of the majority block of shares of the Parent Company. Qualification requirements for participating companies were as follows:

1. Provision of telecommunication services in the period of five years preceding the public invitation announcement, with at least 20 million subscribers to fixed and mobile telephony, internet and multimedia service by the end of 2009;
2. With the market capitalization of at least EUR 3.0 billion as of 30 September 2010; and
3. Realized consolidated revenue in the prior financial year of over EUR 4.0 billion and consolidated assets of at least EUR 5.0 billion.

The deadline for submission of binding offers by the companies which purchased the tender documentation is 21 March 2011.

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

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

1. CORPORATE INFORMATION (Continued)

On 31 March 2005, at its 18th meeting, the Parent Company's Managing Board brought Resolutions numbered 25837/8 and 25837/9 with respect to the Separation of Activities from the Parent Company of the internal functions performing the Cleaning, Regular Maintenance and Security of the Parent Company's Business Premises. A Subsidiary "Telus" a.d., Belgrade, ("Telus") was established to perform the aforementioned operations.

On 19 January 2007, the Parent Company signed a Share Purchase Agreement ("SPA") with the seller Republic of Srpska, represented by the Directorate for Privatization. Subject of the sale was ownership over 319,428,193 ordinary shares of "Telekomunikacije Republike Srpske" a.d., Banja Luka ("Telekom Srpske") at the par value of 1 KM, representing 65.005851% of total share capital of "Telekom Srpske". The acquisition date, i.e. the closing date of the transaction when the Parent Company obtained control of the aforesaid subsidiary was 18 June 2007.

On 4 April 2007, a subsidiary "Mtel" d.o.o., Podgorica, the Republic of Montenegro ("Mtel"), in which the Parent Company's equity investment totals 51% of capital, was founded by the consortium consisting of Ogalar B.V., Amsterdam and the Parent Company. The aforementioned subsidiary possesses licenses for rendering telecommunication services (rendering public mobile telecommunication services and rendering public telecommunication services through fixed wireless access) granted by the Telecommunications and Postal Services of Montenegro.

On 1 February 2010, the minority owner Ogalar B.V., Amsterdam, sold 49% of its equity interest in the subsidiary "Mtel" d.o.o., Podgorica to the subsidiary "Telekom Srpske". In accordance with the Parent Company's Managing Board Decision on the increase of founding capital of the subsidiary "Mtel" dated 12 March 2010, subscribed capital of "Mtel" was increased by the amount of EUR 40 million. By 15 March 2010, the owners paid in the aforementioned amount in proportion to their interest.

Although the subsidiary "Telekom Srpske" has its representatives in the Management Board of the subsidiary "Mtel", the management of "Telekom Srpske" considers that its influence and power to participate in the financial and operating policy decisions in the subsidiary "Mtel" is insignificant.

On 8 July 2008, the Parent Company signed a Joint Venture Agreement with the Railways of Montenegro for placement, utilization and maintenance of the optical and power cable along the railway Bar-Vrbnica. Accordingly, on 3 December 2008, the Parent Company's Managing Board passed the Decision on founding the subsidiary "FiberNet" d.o.o., Podgorica. "FiberNet" was founded as a limited liability company, and it is solely owned by the Parent Company. Pursuant to the Agreement, 50% of ownership over the newly built optical voltage facilities will be transferred to the Railways of Montenegro, with an obligation of a two-year exclusive utilization period, without the right to commercialize them, whereas the Parent Company owns 50% with an obligation of regular maintenance of the total investment.

1. CORPORATE INFORMATION (Continued)

At its 47th regular session held on 22 July 2009, the Managing Board of the Parent Company passed the Decision on founding the new legal entity "TS:NET BV" domiciled in Amsterdam, the Netherlands. "TS:NET" BV has been founded as a closed joint stock company with limited liability for commitments up to the amount of the founding capital and limits for transfer of shares contracted by the Statute. Principal business activities of the subsidiary are lease of telecommunication equipment and other operating activities in order to create conditions for construction and exploitation of international transport network of the Parent Company. The Parent Company is the sole shareholder in the newly founded subsidiary. Contribution in cash amounting to RSD 6,034 thousand and contribution in kind amounting to RSD 208,298 thousand were fully paid in by the end of 2010.

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

At 31 December 2010, the Group had 13,771 employees (31 December 2009: 14,179 employees). Out of this number, the Parent Company had 9,468 employees (31 December 2009: 9,655 employees), while the Consolidated Subsidiaries had 4,303 employees (31 December 2009: 4,524 employees).

These consolidated financial statements were authorised for issue by the Managing Board of the Parent Company on 18 April 2011.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis for Consolidation

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

The accompanying consolidated financial statements of the Group represent the consolidation of the annual financial statements of the Parent Company and the following domestic and foreign subsidiaries (the "Consolidated Subsidiaries") as of 31 December 2010:

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

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

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

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

The purchase method of accounting was used to account for the acquisition of the subsidiary "Telekom Srpske" a.d., Banja Luka by the Parent Company "Telekom Srbija" in 2007. The cost of an acquisition was measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination were measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Parent Company's share of the identifiable net assets acquired was recorded as goodwill (Note 2.13).

There have been no acquisitions since that date (and in the current reporting period).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1. Basis for Consolidation (Continued)

Non-controlling interests

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2. Basis of Preparation and Presentation of the Consolidated Financial Statements

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

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

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

The accompanying consolidated financial statements are presented in the format prescribed by the "Rule Book on the Contents and Form of the Financial Statements of Enterprises, Cooperatives and Entrepreneurial Ventures" ("RS Official Gazette", no. 114/2006, 5/2007, 119/2008 and 2/2010), which differ from the presentation and titles of certain general purpose financial statements and the presentation of certain items as required under Revised IAS 1 "Presentation of Financial Statements". The application of the revised standard is mandatory for the first time for the annual periods beginning on 1 January 2009. Accordingly, the accompanying consolidated financial statements do not fully comply with IFRS, and therefore, they cannot be considered as the consolidated financial statements prepared and presented in accordance with IFRS.

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

The accounting policies and estimates adopted in the preparation of these consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2009, except for the adoption of new standards and interpretations, noted below.

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

The application of the following new and amended standards and IFRIC interpretations to existing standards mandatory for the first time for the financial year beginning 1 January 2010, did not result in substantial changes to the Group's accounting policies and did not have an impact on the Group's accompanying consolidated financial statements:

- Revised IFRS 3 "Business Combinations" and complementary amendments to IAS 27 "Consolidated and Separate Financial Statements" are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. The revised IFRS 3 introduces a series of changes in the accounting treatment of business combinations occurring after 1 January 2010.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

- Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results.

  IAS 27 (Amended) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recorded in the income statement (profit and loss). There has been no impact of revised IFRS 3 and amended IAS 27 on the current period.

- Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" – Eligible Hedged Items (effective for annual periods beginning on or after 1 July 2009). The amendments clarify that an entity is permitted to designate a portion of fair value changes or cash flow variability of a financial instrument as a hedged item. These amendments did not have any impact on the financial position or performance of the Group.

- Amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards" - Additional Exemptions for First-time Adopters (effective for annual periods beginning on or after 1 January 2010). These amendments are not relevant to the Group, as it is an existing IFRS preparer.

- Amendments to IFRS 2 "Share-based Payment" – Group Cash-settled Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2010). In addition to incorporating IFRIC 8 "Scope of IFRS 2" and IFRIC 11 "IFRS 2 – Group and Treasury Share Transactions", the amendments expand on the guidance in IFRIC 11 to address the classification of group arrangements that were not covered by that interpretation. These amendments are not relevant to the Group, due to the absence of such arrangements.

- IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" - Amendments resulting from May 2008 Annual Improvements to International Financial Reporting Standards (effective for annual periods beginning on or after 1 July 2009). The amendments clarify when a subsidiary is classified as held for sale, all its assets and liabilities are classified as held for sale, even when the entity remains a non-controlling interest after the sale transaction. These amendments did not have any impact on the financial position or performance of the Group.

- IFRIC 17 "Distributions of Non-cash Assets to Owners" (effective for annual periods beginning on or after 1 July 2009). IFRIC 17 clarifies how an entity should measure distributions of assets other than cash made as a dividend to its owners. IFRIC 17 applies to pro rata distributions of non-cash assets, but does not apply to common control transactions. This IFRIC is not relevant to the Group, as it has not made any non-cash distributions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

- IFRIC 18 “Transfers of Assets from Customers” (applied to transfers of assets from customers received on or after 1 July 2009). This interpretation provides guidance on how to account for items of property, plant and equipment received from customers, or cash that is received and used to acquire or construct specific assets. This interpretation has no material impact on the Group’s consolidated financial statements.

- Amendments to various standards and interpretations (IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9 and IFRIC 16), which are part of the IASB’s annual IFRS improvements project published in April 2009, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The effective dates vary standard by standard but most are effective 1 January 2010. The adoption of these amendments has not led to significant changes in the Group’s accounting policies and it did not have a material impact on the financial position or performance of the Group.

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

The following new and amended standards and IFRIC interpretations have been issued but are not effective for the financial year beginning 1 January 2010. They have not been early adopted and the Group is in the process of assessing their impact, if any, on the consolidated financial statements. The Group intends to adopt those standards when they become effective.

- Revised IAS 24 “Related Party Disclosures”, issued in November 2009. It supersedes IAS 24 “Related Party Disclosures” issued in 2003. The revised standard is effective for annual periods beginning on or after 1 January 2011.

- Amendment to IAS 32 “Financial Instruments: Presentation” - Classification of Rights Issues, issued in October 2009. This amendment relates to the rights issues offered for a fixed amount of foreign currency which were treated as derivative liabilities by the existing standard. The amendment states that if certain criteria are met, these should be classified as equity regardless of the currency in which the exercise price is denominated. The amendment is effective for annual periods beginning on or after 1 February 2010.

- Amendment to IFRS 1 “First-time Adoption of International Financial Reporting Standards” - Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters, issued in January 2010. The amendment is effective for annual periods beginning on or after 1 July 2010.

- IFRS 9 “Financial instruments”, issued in November 2009. This standard addresses the classification and measurement of financial assets. The new standard is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The Group has not yet decided when to adopt IFRS 9.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

- Amendments to IFRIC 14 "IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" - Prepayments of a Minimum Funding Requirement, issued in November 2009. The amendments apply in limited circumstances: when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements. The amendments permit such an entity to treat the benefit of such an early payment as an asset. The amendments are effective for annual periods beginning on or after 1 January 2011.
- IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments", issued in November 2009. This interpretation clarifies the requirements of IFRSs when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. The interpretation is effective for annual periods beginning on or after 1 July 2010.
- Amendments to various standards and interpretations (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 21, IAS 28, IAS 31, IAS 34 and IFRIC 13), which are part of the IASB's annual IFRS improvements project published in May 2010. These amendments result primarily in removal of inconsistencies and terminology or editorial changes. The effective dates vary standard by standard but most are effective for annual periods beginning on or after either 1 July 2010 or 1 January 2011.

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

2.3. Comparative Figures

Comparative figures represent the audited consolidated financial statements for the year ended 31 December 2009, prepared in accordance with the accounting regulations prevailing in the Republic of Serbia. In accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", the Group has assessed that the effects of error adjustments from the previous period are not materially significant, and therefore, no restatement of comparative figures was performed. Such adjustments were recorded in the current year.

The total negative effect of error adjustments charged to the accompanying consolidated income statement for the year ended 31 December 2010 amounts to RSD 84,008 thousand (Note 15).

In addition, in order to conform the presentation of prior year figures to the current reporting period, 2009 comparative data for roaming revenues and expenses based on roaming discounts realized in roaming with foreign operators (Notes 5 and 10), as well as comparative data related to expenses allocated to reportable operating segments (Note 35), were reclassified.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4. Fixed and Mobile Telephony Income

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

2.4.1. Fixed Telephony Income

(a) Telephony Traffic

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

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

(b) Telecommunication Subscription

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

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

(c) New Subscribers

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

(d) Income from Other Telecommunication Services

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

2.4.2. Mobile Telephony Income

Mobile telephony income is associated with the income earned on users who use prepaid and postpaid services, such as spent call minutes, messages, income from subscription, sold mobile telephones, etc. Income is recorded at the invoiced value, less applicable value added tax and tax on mobile phones, at the moment in which the services have been provided.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4. Fixed and Mobile Telephony Income (Continued)

2.4.3. Multi-Element Agreements (MEA)

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

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

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

2.5. Income and Expenses from International Traffic Settlements

2.5.1. Income and Expenses from International Fixed Telephony Traffic Settlements

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

2.5.2. Income and Expenses from Roaming

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

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

2.6. Interconnection Income and Expenses

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

2.7. Operating Leases

Leases where the Group does not transfer substantially all the risks and rewards incidental to ownership of a leased asset to the lessee are classified as operating leases.

Revenues based on operating leases are recognized in the consolidated income statement (profit and loss) in the period to which they relate.

Operating leases relate to the rental of business premises, warehouses, RBS locations and other rental expenses. The aforementioned expenses are recorded in the consolidated income statement at the moment in which such expenses arise in accordance with the relevant operating lease agreements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8. Sales of Handsets and Cost of Goods Sold

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

2.9. Maintenance and Repairs

The maintenance and repair of property, plant and equipment are expensed as incurred at the effective amounts, and are recognized in the consolidated income statement. Maintenance and repairs primarily relate to the maintenance of telecommunication equipment, local networks and computer software.

2.10. Borrowing Costs

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

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

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

Items included in the consolidated financial statements are valued by using currency of primary economic environment (functional currency). As disclosed in Note 2.2, the accompanying consolidated financial statements are stated in thousands of Dinars (RSD), which represents the functional and official reporting currency of the Group.

Assets and liabilities' components denominated in foreign currencies are translated into RSD at the official exchange rates of the National Bank of Serbia prevailing at the reporting date (Note 37).

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

Foreign exchange gains or losses arising upon the translation of assets, liabilities and transactions are credited or debited as appropriate, to the consolidated income statement (Notes 11 and 12).

Income or expenses arising upon the translation of assets and liabilities by applying contractual foreign currency clause are credited or debited as appropriate, to the consolidated income statement (Notes 11 and 12).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

2.12. Property, Plant and Equipment

Property, plant and equipment of the Group at 31 December 2010 comprise property and equipment. Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

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

Property and equipment is capitalized for tangible fixed assets if it is expected that their useful economic life will exceed one year.

Subsequent investments in property and equipment of the Parent Company, which value at the time of investment is higher than the average gross salary in the Republic of Serbia according to the most recent data published by the Republic Bureau for Statistics, are capitalized (increase the cost of the asset).

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.13. Intangible Assets

Intangible assets consist of goodwill, customer relationship, software, licenses and other rights. Intangible assets are stated at cost less accumulated amortization (excluding goodwill) and accumulated impairment losses, if any.

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

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

Software and licenses are stated at cost less accumulated amortization.

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

2.14. Depreciation and Amortization

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

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

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

Property	1.5% – 20%
Equipment for fixed telephony	2.5% – 50%
Equipment for mobile telephony	5% – 25%
Transportation equipment	10% – 33.33%
Computer equipment	12.5% – 33.33%
Other equipment	6.67% – 50%

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.14. Depreciation and Amortization (Continued)

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

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

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

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

2.15. Impairment of Non-financial Assets

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

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

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

2.16. Inventories

Inventories are primarily stated at the lower of cost and net realizable value. Cost includes the invoiced value, transport and other attributable expenses. Cost is computed using the weighted-average method.

The net realizable value is the price at which inventories may be realized in the normal course of business, after allowing for the costs of realization.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.16. Inventories (Continued)

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

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

Valuation of Mobile Telephones on Stock

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

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

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

2.17. Financial Instruments

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

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

2.17.1. Financial Assets

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

The Group's financial assets include cash and short-term deposits, loans and other long-term financial placements, trade and other receivables.

The Group has classified its financial assets into the following categories: "loans and receivables", "held-to-maturity investments" and "available-for-sale financial investments".

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.17. Financial Instruments (Continued)

2.17.1. Financial Assets (Continued)

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

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

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

(a) Loans and Receivables

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

Other Long-term Financial Placements

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

Employee housing loans are measured based on their amortized cost using the interest rate at which the Group could obtain long-term borrowings, which is approximately the effective interest rate. Other non-current financial assets also encompass rental payments in advance measured at amortized cost. An allowance for impairment of receivables from employees is established when there is objective evidence that the Group will be unable to collect all of the amounts due according to original terms of the receivables. The amount of the impairment loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows discounted at the financial asset’s effective interest rate.

Accounts Receivable

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

A provision for impairment is made on the basis of the ageing of the receivables balances and historical experience, and when the partial or full collection of an account receivable is deemed to be no longer probable. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of loss is recognised in the consolidated income statement within “Other expenses” (Note 14). When a receivable is uncollectible, it is written off against the allowance account for accounts receivable. Subsequent recoveries of amounts previously written off and reversal of the impairment are credited to “Other income” (Note 13).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.17. Financial Instruments (Continued)

2.17.1. Financial Assets (Continued)

(b) Held-to-Maturity Investments

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

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

(c) Available-for-Sale Financial Investments

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

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

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

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

2.17.2. Financial Liabilities

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.17. Financial Instruments (Continued)

2.17.2. Financial Liabilities (Continued)

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

(a) Loans Received from Banks and Suppliers

Loans received from banks and suppliers are initially measured at the amount of the loan disbursements received (i.e., nominal value), and are subsequently stated at the amortized cost that is computed based on the contractual interest rate. The Group's management judges that the effects of application of contractual instead of effective interest rate as required by IAS 39 "Financial Instruments: Recognition and Measurement", have no material significance on the consolidated financial statements. Loans bear mostly variable market interest rates and prepaid loan origination fees are deferred over the life of the loan using the straight-line method.

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

(b) Operating Liabilities

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

2.17.3. Offsetting Financial Instruments

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

2.18. Accrued Expenses and Income

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

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

2.19. Cash and Cash Equivalents

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.20. Granted Assets

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

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

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

2.21. Provisions and Contingencies

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

Provisions for retirement benefits and jubilee awards are measured at the present value of the estimated future cash outflows using interest rates of high-quality securities that are denominated in the currency in which the benefits will be paid (Note 26).

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

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

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

2.22. Employee Benefits

(a) Employee Taxes and Contributions for Social Security

In accordance with the prevailing tax regulations, the Group has an obligation to pay taxes and contributions to various state social security funds. These obligations involve the payment of contributions on behalf of the employee, by the employer in an amount calculated by applying the specific, legally-prescribed rates.

The Group is also legally obligated to withhold contributions from gross salaries to employees, and on their behalf to transfer the withheld portions directly to the appropriate government funds. The Group has no legal obligation to pay further benefits due to its employees by the stated pension funds upon their retirement. These taxes and contributions payable on behalf of the employee and employer are charged to expenses in the period in which they arise.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.22. Employee Benefits (Continued)

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

Pursuant to the signed collective bargaining agreements (CBAs), the Parent Company and the Consolidated Subsidiaries, except "Mtel", are obligated to pay retirement benefits in the amount equal to three monthly salaries, which are not to be less than three times the average gross salary paid in the aforementioned companies. The Consolidated Subsidiary "Mtel" is obligated to pay retirement benefits in the amount of six minimum labour costs in the Republic of Montenegro.

Furthermore, the Parent Company and the Consolidated Subsidiary "Telekom Srpske" provide between one half and three average monthly salaries to be paid out as a jubilee employment anniversary award. In the Parent Company, the number of monthly salaries for jubilee employment anniversary awards corresponds to the total number of the employee's years of service in the Parent Company or in JP PTT (except for the ten year jubilee award, which is related only to the years of service in the Parent Company).

In the Consolidated Subsidiary "Telekom Srpske", the number of monthly salaries for jubilee employment anniversary awards corresponds to the number of the employee's years of service in the Consolidated Subsidiary.

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

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

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

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

The Parent Company defined a plan named "Business Policy of Stimulating Voluntary Employee Terminations in Telekom Srbija a.d.", by which it aimed to reduce the number of employees in the forthcoming period, by encouraging voluntary terminations at the request of the employee. This plan was approved by the Managing Board at its meeting held on 30 March 2007. During 2009 the contest was conducted in accordance with the aforementioned Business policy adopted in 2007.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.22. Employee Benefits (Continued)

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

The Parent Company has not anticipated funds for this purpose for the years 2010 and 2011. In accordance with the aforementioned plan for voluntary terminations, 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. In 2010, there were no voluntary resignations from the Parent Company.

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

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

The maximal individual amount of one-off payment, based on the sum of gross salaries, cannot exceed EUR 22,500.

Benefit recognition for employment termination is charged to current period expenses based on a number of employees who have entered the contest and fulfilled the contest requirements, i.e. who have left the Parent Company at the reporting date, and, consequently have no further receivables from this company.

(d) Short-Term Compensated Absences

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

(e) Employee Profit-Sharing

Pursuant to the decision of the competent statutory body of the Parent Company or other relevant management's decision, the Parent Company recognizes a liability and an expense for employee profit-sharing. Employee profit-sharing includes both fixed and variable component, with a variable component being based on the management estimate on the contribution of each employee to the Parent Company's performance and operating result.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.23. Taxes and Contributions

(a) Income Taxes

Current Income Tax

Current income tax represents an amount that is calculated and paid in accordance with the effective Corporate Income Tax Law of the Republic of Serbia Tax ("RS Official Gazette", no. 25/2001, 80/2002, 43/2003, 84/2004 and 18/2010), Income Tax Law of the Republic of Srpska and the Corporate Income Tax Law of the Republic of Montenegro. Income tax is payable at the rate of 10% in the Republic of Serbia and the Republic of Srpska, i.e. 9% in the Republic of Montenegro, on the tax base reported in the annual corporate income tax return, and can be reduced by any applicable tax credits. The taxable base stated in the Tax returns includes the profit stated in the income statement, as adjusted for differences that are specifically defined under the effective tax regulations of the Republic of Serbia, the Republic of Srpska and the Republic of Montenegro.

In accordance with the Law on Corporate Income Tax of the Republic of Serbia, tax credit is recognized in the amount equal to 20% of the investments in own property and equipment used to perform the core activities and the activities registered in the Memorandum of Association or other document of the taxpayer, but it cannot exceed 50% of a tax liability in the year in which the investment was made. The non-utilised part of the tax credit in respect of investments in property and equipment can be carried forward to the profit tax account in the future accounting periods, but not for longer than ten years. In each year, the tax credit deriving from investments made in that year is to be applied first, and thereafter, the carried forward tax credits from previous years are to be used in the order of investment, up to the limit of 50% of calculated tax in a stated year. Tax regulations prevailing in the Republic of Montenegro do not envisage such tax relief, while tax regulations prevailing in the Republic of Srpska envisage such tax relief only for production registered activities.

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

Deferred Income Tax

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

Deferred tax liabilities are recognized on all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forwards of unused tax credits and unused tax losses can be utilised. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.23. Taxes and Contributions (Continued)

(a) Income Taxes (Continued)

Deferred Income Tax (Continued)

Current and deferred taxes are recognized as income or expense and are included in the profit for the period. Deferred income taxes related to items that are recorded directly in equity are also recognized in equity.

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

Taxes, contributions and other duties that are not related to the operating result, include property taxes, various other taxes and contributions paid pursuant to republic and municipal regulations. These taxes and contributions are included within other operating expenses (Note 10).

2.24. Earning per Share

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

2.25. Dividends on Ordinary Shares

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

2.26. Related Party Disclosures

For the purpose of these consolidated financial statements related legal entities are those entities when one legal entity has a possibility to control another entity or have the right to govern the financial and business operations of the entity, as defined by IAS 24 “Related Party Disclosures”. Relations between the Group and its related parties are regulated at contractual basis and are carried out on commercial terms and conditions. Outstanding balances of receivables and liabilities at the reporting date, as well as transactions occurred during the reporting periods with related parties are separately disclosed in notes to the consolidated financial statements (Note 32).

2.27. Operating Segment Information

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

Common costs allocation is based on the Group’s management best estimation. The segment information for the reportable operating segments, based on the Group’s organization of business activities, is disclosed in Note 35 to the consolidated financial statements.

3. FINANCIAL RISK MANAGEMENT

In the ordinary course of business, the Group is exposed to a different extent to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), liquidity risk and credit risk.

The Group's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Risk management has been defined by the accounting policies adopted by the Managing Boards of the Parent Company and the Consolidated Subsidiaries.

Categories of financial instruments, presented at their carrying amounts as of 31 December 2010 and 2009, are summarized in the table below:

	2010	2009
Financial assets		
Available-for-sale securities	537	465
Held-to-maturity investments	5,821	5,292
Other non-current financial assets (excluding employee solidarity placements)	1,623,661	1,510,224
Trade and other receivables, excluding prepayments and accrued income	17,845,960	17,447,506
Cash and cash equivalents	9,785,260	14,384,798
	29,261,239	**33,348,285**
Financial liabilities at amortized cost		
Borrowings and other long term liabilities	74,489,000	87,151,535
Payables and other current liabilities, including income tax payable	10,562,627	13,534,422
	85,051,627	**100,685,957**

No trading transactions with financial instruments, such as interest rate swaps or forwards, were undertaken by the Group during the year ended 31 December 2010, but the Parent Company entered into agreements on covered forward transactions. During the year ended 31 December 2009, the Parent Company entered into agreements on forward transactions.

3.1. Market Risk

(a) Currency Risk

The Parent Company is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to EUR. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities denominated in foreign currency.

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

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1. Market Risk (Continued)

(a) *Currency Risk (Continued)*

The Consolidated Subsidiaries are not considerably or at all exposed to foreign exchange risk because they either conduct transactions in local currency and in EUR for which the local currency is linked by a fixed rate of exchange ("Telekom Srpske"), or they conduct transactions in the local functional currency ("Mtel", "FiberNet" and "TS:NET").

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

At 31 December 2010, if the local currency (RSD) has strengthened/weakened by 10% against all currencies other than functional currency (i.e. RSD/EUR exchange rate was RSD 116.0480/94.9484) with all other variables held constant, profit after tax for the year 2010 would have been RSD 5,672,626 thousand (2009: RSD 6,354,357 thousand) higher/lower, mainly as a result of foreign exchange gains/losses on translation of borrowings denominated in foreign currencies and receivables/liabilities from international settlement that mostly relate to the Parent Company. Profit is more sensitive to fluctuations in foreign currency rates during the year ended 31 December 2010 than in 2009 due to decrease in value of RSD value toward EUR, which was partially compensated by decrease in foreign currency denominated liabilities, influencing consequently equity at 31 December 2010.

At 31 December 2010, financial assets in the amount of RSD 10,218,710 thousand (31 December 2009: RSD 11,268,243 thousand) are denominated in EUR, which represents 69.9% (2009: 59.7%) of the total financial assets of the Group denominated in foreign currencies.

At 31 December 2010, financial liabilities denominated in EUR amount to RSD 66,973,855 thousand (31 December 2009: RSD 83,257,058 thousand), which represents 92.7% (2009: 93.5%) of the total financial liabilities of the Group denominated in foreign currencies.

(b) *Interest Rate Risk*

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

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

During 2010 and in 2009, the majority of the Group's borrowings were granted at variable interest rates, which are tied to Euribor. The Group's borrowings at variable rate were mainly denominated in the foreign currency (EUR).

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1. Market Risk (Continued)

(b) Interest Rate Risk (Continued)

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

The gross interest rates of the Consolidated Subsidiary "Telekom Srpske" range within the abovementioned rates. Interest rates on long-term cash and commodity loans granted to the Consolidated Subsidiary "Mtel" do not exceed Euribor increased by 2.5% per annum, i.e. an interest rate equal to Euribor increased by margin up to 5.5% per annum on the long-term loan granted by Hypo Alpe-Adria-Bank a.d., Podgorica, and 8.75% on short-term loans granted by NLB Montenegro banka a.d., Podgorica, respectively. In addition, the Consolidated Subsidiary "Mtel" pays interest at the rate of 10.73% on the long-term loan granted by Komercijalna banka a.d., Belgrade, i.e., interest at the rate equal to Euribor increased by margin up to 6.25% on the long term loan granted by Eurobank EFG Ltd, Cyprus.

The Group analyses its interest rate exposure on a dynamic basis, taking into consideration alternative resources of financing and refinancing, primarily for long-term borrowings as they represent the major interest-bearing position. The Group does not yet manage its cash flow interest rate risk by using floating-to-fixed interest rate swaps due to the existing legislation and undeveloped financial market, but undertakes adequate measures to provide loans from banks at the most favourable conditions.

At 31 December 2010, if interest rates on currency-denominated borrowings at that date (both from banks and suppliers) had been 0.1 percentage point higher/lower on an annual basis with all other variables held constant, profit after tax for the year 2010 would have been RSD 65,559 thousand (2009: RSD 67,967 thousand) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

At 31 December 2010, if interest rates on RSD-denominated commodity loans had been 0.1 percentage point higher/lower on an annual basis with all other variables held constant, profit after tax for the year 2010 would have been RSD 4,467 thousand (2009: RSD 9,656 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 investments classified in the consolidated balance sheet either as available-for-sale or at fair value through income statement.

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

Furthermore, as stated in Note 1 to the consolidated financial statements, the Parent Company is obliged to obtain the approval of the Republic Agency for Electronic Communications (the "Agency") for any change in service prices, for which it has been declared as the operator with the significant market power.

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1. Market Risk (Continued)

(c) Price Risk (Continued)

Pursuant to the new Law on Electronic Communications of the Republic of Serbia, the Agency is obliged to perform an analysis of the relevant wholesale market of network elements access and the associated assets within one year following the date of entering this Law into force, and to select operators with a significant market share within six months from the date of publishing the aforesaid report. Such operator is obliged to prepare and publish a standard offer for a local loop unbundling service (LLU) within 60 days from the request receipt date. In accordance with aforementioned, at 31 December 2010, the Parent Company has no obligation to offer such service. At present, it is not possible to estimate the financial effect of introducing the above mentioned service. In accordance with the Decision of the Agency dated 4 June 2010, the following prices for the unbundled access to the local loop were determined:

- One-time fee for the unbundled access in the amount of EUR 38.20 per access line;
- Monthly fee for the full unbundled access in the amount of EUR 6.28 per access line; and
- Monthly fee for the shared unbundled access to the local loop in the amount of EUR 2.49 per access line.

In accordance with the Law on Telecommunications of the Republic of Srpska, the Communications Regulatory Agency of Bosnia and Herzegovina grants approval to the operator with a significant market power for voice telephone services over mobile or fixed networks as well as leased lines.

The Consolidated Subsidiary „Telekom Srpske“ has an obligation to offer unbundled access to the local loop to other operators.

3.2. Liquidity Risk

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

The Group has sufficient highly liquid funds (cash and cash equivalents), as well as a continuous inflow of cash from services rendered, to meet its commitments on due dates.

The Group generally does not use financial derivatives.

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

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

3. FINANCIAL RISK MANAGEMENT (Continued)

3.2. Liquidity Risk (Continued)

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

Similar limits have been established in the Consolidated Subsidiaries.

Maturity structure of borrowings is presented in Note 27(b), while liabilities towards suppliers (Note 28) are payable within 12 months after the reporting period.

The following table details the Group's remaining contractual maturity for its non-derivative financial assets and liabilities as of 31 December 2010 and 2009.

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

	Up to 3 month	From 3 to 12 months	From 1 to 2 years	From 2 to 5 years	Over 5 years	Total
Financial assets						
At 31 December 2010						
Non-interest bearing	27,958,543	599,752	1,241,410	282,623	1,245,432	31,327,760
Fixed interest rate instruments	8,668,353	1,427,556	221,349	293,564	172,635	10,783,457
Total	**36,626,896**	**2,027,308**	**1,462,759**	**576,187**	**1,418,067**	**42,111,217**
At 31 December 2009						
Non-interest bearing	28,796,058	534,367	809,893	578,591	1,247,872	31,966,781
Fixed interest rate instruments	9,908,430	1,347,442	199,708	906	177,129	11,633,615
Total	**38,704,488**	**1,881,809**	**1,009,601**	**579,497**	**1,425,001**	**43,600,396**
Financial liabilities						
At 31 December 2010						
Non-interest bearing	10,531,302	57,938	3,748	-	-	10,592,988
Fixed interest rate instruments	445,327	446,809	1,137,970	949,484	316,495	3,296,085
Fluctuating interest rate instruments	5,934,238	19,859,076	30,136,984	16,437,968	1,992,197	74,360,463
Total	**16,910,867**	**20,363,823**	**31,278,702**	**17,387,452**	**2,308,692**	**88,249,536**
At 31 December 2009						
Non-interest bearing	13,980,561	433,887	338,277	42,992	-	14,795,717
Fixed interest rate instruments	1,110,347	1,097,232	1,901,079	2,643,866	1,109,364	7,861,888
Fluctuating interest rate instruments	4,543,022	23,405,045	19,646,856	32,793,300	2,628,773	83,016,996
Total	**19,633,930**	**24,936,164**	**21,886,212**	**35,480,158**	**3,738,137**	**105,674,601**

3. FINANCIAL RISK MANAGEMENT (Continued)

3.2. Liquidity Risk (Continued)

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

	Up to 3 month	From 3 to 12 months	From 1 to 2 years	From 2 to 5 years	Over 5 years	Total
At 31 December 2010						
Interest-bearing loans and borrowings	6,380,120	20,331,943	31,278,702	17,387,452	2,308,692	77,686,909
Accounts payable	7,164,333	31,880	-	-	-	7,196,213
Other current liabilities	3,366,414	-	-	-	-	3,366,414
Total	**16,910,867**	**20,363,823**	**31,278,702**	**17,387,452**	**2,308,692**	**88,249,536**
At 31 December 2009						
Interest-bearing loans and borrowings	5,599,294	24,448,563	21,547,935	35,441,367	3,738,137	90,775,296
Accounts payable	10,438,149	393,998	338,277	38,791	-	11,209,215
Other current liabilities	3,596,487	93,603	-	-	-	3,690,090
Total	**19,633,930**	**24,936,164**	**21,886,212**	**35,480,158**	**3,738,137**	**105,674,601**

The Group intends to repay its borrowings according to the contractual repayment plans.

3.3. Credit Risk

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

The Group is exposed to credit risk to a limited degree. Credit risk is managed by taking certain measures and activities on individual basis of the Group's entities, which are appropriate to their activities. In case of default in payments, the Group's entities disable further rendering of services to the customers. In addition, the Group has no significant concentrations of credit risk, due to its customer base being large, with individually small amounts, and unrelated. Besides disabling further rendering of services, in order to secure payments, the Group also carries out the following actions: rescheduling of debts, compensations with corporate customers, initializing lawsuit, out-of-court settlements and other.

Receivables from roaming are not directly influenced by the local market conditions. These receivables are based on firm bilateral agreements, which presume simultaneous and mutual rendering of services. Information on credit risk exposure with respect to these receivables is disclosed in Note 22 to the consolidated financial statements.

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

3. FINANCIAL RISK MANAGEMENT (Continued)

3.4. Capital Risk Management

The Group has adopted a financial capital concept and its maintenance pursuant to which the capital has been defined on the basis of nominal cash units. According to the foundation method, the Parent Company is a closed joint stock company (Note 25).

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

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to maintain an optimal capital structure to reduce the cost of capital and to provide returns for owners. In order to maintain or adjust the capital structure, the Group may consider the following options: to adjust the amount of dividends paid to shareholders, to return capital to shareholders, to issue new shares or to sell assets to reduce debts. The Group's strategy in respect of capital risk management has remained unchanged from the previous year.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. The gearing ratios at 31 December 2010 and 2009 were as follows:

	2010	2009
Total short-term and long-term borrowings and other long-term financial liabilities	74,489,000	87,151,535
Less: Cash and cash equivalents	(9,785,260)	(14,384,798)
Net debt*	**64,703,740**	**72,766,737**
Capital	154,209,554	139,153,567
Total capital**	**218,913,294**	**211,920,304**
Gearing ratio	**29.6%**	**34.3%**

** Net debt is calculated as total borrowings (including short-term and long-term borrowings and other long-term financial liabilities 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 2010 resulted primarily from repayment of non-current borrowings, as well as increase in equity due to a net profit realized for the year ended 31 December 2010.

3.5. Judgements on the Effects of the Global Financial Crisis

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

3. FINANCIAL RISK MANAGEMENT (Continued)

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

By introducing a set of measures during 2009, the National Bank of Serbia and the Government of the Republic of Serbia succeeded to mitigate the early effects of the crisis, thus contributing to the return of the confidence in the banking sector, and establishing the conditions for reviving the commercial activities. Similar measures were undertaken by the governments of the Republic of Montenegro and the Republic of Srpska.

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

- *The effect of the crisis to the current and future liquidity* (primarily by the end of 2011) from the standpoint of collection of receivables from debtors whose liquidity and solvency cannot be estimated at present; the Group's ability to settle liabilities toward suppliers and banks; and the possibility of obtaining favourable sources of financing for overcoming critical situations. The Group's management does not expect significant problems in collection of its receivables in the future period and in cash flows, but considers that the liquidity risk management and securing the appropriate sources of financing will be the key determination of the management and the governing bodies of the Group in future.

- *The effect of the crisis to the settlement of liabilities arising from loans extended in dinars, and, especially, in foreign currencies.* Although the Group's current liabilities as of 31 December 2010 exceed its current assets by RSD 14,047,055 thousand, the Group does not have liquidity problems, and/or problems with settlement of its liabilities. In December 2009, the Parent Company repaid the remaining outstanding debt of EUR 190 million per Arrangement C and part of the debt per Arrangement A in the amount of EUR 69.96 million. In May and November 2010, the Parent Company repaid a part of the debt per Arrangement A in the amount of EUR 69.96 million. In addition, in 2010, the Parent Company made a repayment of the part of loan from Alpha Bank A.E., London in the total amount of EUR 80 million. In March 2010, the Consolidated Subsidiary "Mtel" repaid loan granted by Ericsson Credit A.B., Sweden in the amount of EUR 5.9 million. Moreover, the Group has considerable equity, which can also mitigate market risks. The management expects that the Group will be able to fulfil all its contracted liabilities arising from extended loans in accordance with the contracted terms.

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

3. FINANCIAL RISK MANAGEMENT (Continued)

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

Furthermore, the management cannot reliably estimate the further effects of the crisis to the economic environment in the Republic of Serbia and the neighbouring countries, or the impact on the financial position and the results of the Group's operations, but they consider that the crisis cannot jeopardize the Group's ability to continue as a going concern. In addition, favourable effects of the sale of the major portion of the Parent Company's shares are expected, in terms of increased investments for further capacity expansion, improvement of network and technology and introduction of new services.

3.6. Fair Value of Financial Assets and Liabilities

It is a policy of the Group to disclose the fair value information of those components of assets and liabilities for which published or quoted market prices are readily available, and of those for which the fair value may be materially different than their recorded amounts.

A market price, where an active market exists, is the best evidence of the fair value of a financial instrument. However, market prices are not available for a significant number of financial assets and liabilities held by the Group. Therefore, for financial instruments where no market price is available, the fair values of financial assets and liabilities are estimated using present value or other estimation and valuation techniques based on current prevailing market conditions.

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

The following methods and assumptions were used to estimate the fair values of the Group's financial instruments as of 31 December 2010 and 2009:

The Group does not have materially significant financial assets or financial liabilities carried at fair value in the consolidated balance sheet. Securities available-for-sale, which comprise shares of banks listed in an active market, amounts to RSD 537 thousand as of 31 December 2010 (31 December 2009: RSD 465 thousand). The fair value of the financial instruments traded in active markets is based on quoted market prices at the reporting date. These instruments are included in level 1 of the fair value measurement hierarchy. Apart from the aforementioned financial instruments, the Group does not have any other financial assets or liabilities that are measured at fair value subsequent to their initial recognition.

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

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

3. FINANCIAL RISK MANAGEMENT (Continued)

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

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

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

The fair values of financial assets and financial liabilities at the reporting date approximate their carrying amounts disclosed in Note 3 to the consolidated financial statements. The fair value of borrowings is disclosed in Note 27(a) to the consolidated financial statements.

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the consolidated financial statements in accordance with IFRS requires the Group's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date, as well as income and expenses for the reporting period. These estimations and related assumptions are based on information available as of the reporting date. Actual results could differ from those estimates. These estimates and underlying assumptions are reviewed on an ongoing basis, and changes in estimates are recognized in the periods in which they become known.

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

Useful Lives of Intangible Assets, Property and Equipment

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

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

Further, due to the significant weight of long-lived assets in the total assets, the impact of any changes in these assumptions could be material to the Group's financial position, and the results of its operations. As an example, if the Group was to shorten the average useful life for 10%, this would result in additional depreciation expense of approximately RSD 2,195,538 thousand for the twelve-month period.

4. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Impairment of Non-Financial Assets

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

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

Impairment of Goodwill

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

IAS 36 "Impairment of Assets" defines the recoverable amount as the higher of CGU's fair value less costs to sell and its value in use. If it is determined that either fair value less costs to sell or value in use exceeds the asset's carrying amount, the asset is not impaired and it is not necessary to estimate the other amount. These calculations require the use of estimates (Note 17).

If pre-tax discount rate used to discount cash flows was 0.5% higher than the rate estimated by the Group's management (for example for fixed telephony and internet services 11.60% instead of 11.10%, and for mobile telephony 10.90% instead of 10.40%), there would be no indications of goodwill impairment as of 31 December 2010.

Impairment of Accounts Receivable and Other Receivables

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

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

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Income and Expenses from International Traffic

The Parent Company and some of its subsidiaries ("Telekom Srpske" and "Mtel") have entered into numerous agreements on international traffic in fixed and mobile telephony. The respective income and expenses, as well as receivables and payables resulting from these agreements are presented in the accompanying consolidated financial statements, and are associated with revenues and expenses generated on all incoming and outgoing international calls realized with countries with which the Parent Company and the above subsidiaries have direct international settlement.

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

Accounting for Provisions and Contingencies

The Group is subject to a number of claims incidental to the normal conduct of its business, relating to and including commercial, contractual and employment matters, which are handled and defended in the ordinary course of business. The Group routinely assesses the likelihood of any adverse judgements or outcomes to these matters as well as ranges of probable and reasonable estimated losses. Reasonable estimates involve judgement made by management after considering information including notifications, settlements, estimates performed by legal department, available facts, identification of other potentially responsible parties and their ability to contribute, and prior experience. A provision is recognised when it is probable that an obligation exists for which a reliable estimate can be made of the obligation after careful analysis of the individual matter. The required provision may change in the future due to new developments and as additional information becomes available.

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

Deferred Tax Assets

Deferred tax assets are recognized for all unused tax credits and tax losses available for carry forward to the extent to which taxable profit will be available against which the unused tax credits and tax losses can be utilized. Significant estimate of the management is necessary to determine the amount of deferred tax assets which can be recognized, based on the period of in which it was created and the amount of future taxable profits (Note 16(c)).

Retirement and Other Post-Employment Benefits to Employees

The costs of defined employee benefits payable upon the termination of employment, i.e. retirement in accordance with the legal requirements, and the costs of jubilee awards are determined based on the actuarial valuation. The actuarial valuation includes an assessment of the discount rate, future movements in salaries, mortality rates and future increases in post-employment benefits. As these plans are long-term ones, significant uncertainties influence the outcome of the assessment. Additional information is disclosed in Note 26 to the consolidated financial statements.

Were the discount rate used to differ by 1 percentage point from management's estimates, the provision for retirement benefits and anniversary awards would be an estimated RSD 179,705 thousand lower or RSD 206,440 thousand higher.

5. SALES

	2010	2009
Fixed telephony services:		
Domestic market	36,639,231	35,140,213
Foreign market	14,483,231	12,925,765
Related parties	361,287	457,636
	51,483,749	**48,523,614**
Mobile telephony services:		
Domestic market	33,271,618	36,859,645
Foreign market	20,502,512	19,139,835
Related parties	61,458	85,551
	53,835,588	**56,085,031**
Sales of internet services:		
Domestic market	4,965,955	3,265,584
Foreign market	1,162,885	678,516
Related parties	14	-
	6,128,854	**3,944,100**
Multimedia services (IPTV):		
Domestic market	357,794	75,394
Foreign market	60,246	-
Related parties	20	22
	418,060	**75,416**
Physical/technical security and cleaning:		
Related parties	380,706	512,820
Domestic market	280,115	89,590
	660,821	**602,410**
Sales of handsets:		
Others	264,024	299,272
Related parties	1,972	-
	265,996	**299,272**
Total	**112,793,068**	**109,529,843**

Pursuant to the Decision of the Managing Board of the Republic of Serbia Telecommunications Agency dated 12 February 2010, the subscription fee of the Parent Company for a direct fixed telephony connection increased by 99% starting from 1 April 2010. Subscription is invoiced a month in advance, and, consequently, the increased subscription fee was introduced starting from March 2010. In addition, the subscription fee includes 150 free pulses.

5. SALES (Continued)

Structure by sales category is presented in the table below:

	2010	2009
Fixed telephony services:		
Traffic	27,544,457	29,418,668
Subscription	14,589,635	9,514,646
Leased circuit and data services	4,439,668	4,421,832
Connection and installation services	720,262	941,021
Interconnection	1,328,845	1,605,244
Wholesale of internet services	2,060,477	2,069,977
CDMA services	558,831	305,768
Other	241,574	246,458
	51,483,749	**48,523,614**
Mobile telephony services:		
Prepaid services	24,311,247	25,838,243
Postpaid services	*18,763,201*	*18,846,274*
- Traffic	10,383,971	11,029,964
- Subscription	8,379,230	7,816,310
Interconnection	7,698,996	6,542,843
National roaming – VIP Mobile d.o.o., Belgrade	239,093	2,122,672
Roaming	2,651,240	2,619,212
Other	171,811	115,787
	53,835,588	**56,085,031**
Retail of internet services	**6,128,854**	**3,944,100**
Multimedia services (IPTV)	**418,060**	**75,416**
Physical/technical security and cleaning:		
Physical/technical security	316,074	335,501
Cleaning	342,377	265,799
Other	2,370	1,110
	660,821	**602,410**
Sales of handsets:		
Fixed devices	85	2,186
Mobile phones	265,911	297,086
	265,996	**299,272**
Total	**112,793,068**	**109,529,843**

6. OTHER OPERATING INCOME

	2010	2009
Granted assets:		
- Intangible assets and equipment (Note 30(e))	462,638	464,374
- Donation for projects from the European Union	11,225	-
- Inventories	2,138	-
	476,001	**464,374**
Rental income	165,476	204,615
Other income	59,325	69,879
Total	**700,802**	**738,868**

7. COST OF MATERIAL

	2010	2009
Material for rendering services	3,342,990	2,854,913
Fuel and energy	1,275,884	1,200,688
SIM cards	129,731	179,293
Spare parts	432,690	258,963
ADSL modems	736,841	584,479
Inventories for mobile internet access	116,349	134,930
Tools and inventories	36,288	51,497
Other	943,419	880,393
Total	**7,014,192**	**6,145,156**

8. WAGES, SALARIES AND OTHER PERSONNEL EXPENSES

	2010	2009
Gross salaries	11,921,295	12,135,510
Contributions on behalf of the employer	2,645,031	2,640,124
	14,566,326	**14,775,634**
Employee profit-sharing	1,434,249	1,077,027
Withholding tax	159,361	269,257
	1,593,610	**1,346,284**
Retirement benefits for voluntary termination of employment	-	390,275
Other personnel expenses	2,403,322	2,180,895
Total	**18,563,258**	**18,693,088**

9. DEPRECIATION, AMORTIZATION AND PROVISIONS

	2010	2009
Amortization charge (Note 17)	3,905,453	4,030,542
Depreciation charge (Note 18)	20,695,791	19,032,505
	24,601,244	**23,063,047**
Provision for:		
- Retirement benefits and jubilee awards (Note 26)	13,864	276,985
- Litigations (Note 26)	120,689	31,934
	134,553	**308,919**
Total	**24,735,797**	**23,371,966**

10. OTHER OPERATING EXPENSES

	2010	2009
Interconnection:		
- Fixed telephony	3,290,212	2,994,341
- Mobile telephony	5,065,233	4,962,417
International settlement and leased circuits	3,480,832	3,505,667
Roaming	1,739,539	1,818,336
	13,575,816	**13,280,761**
Telecommunication license fees, approvals and frequency fees:		
GSM and UMTS licenses (a)	399,938	410,970
License for fixed telephony (b)	84,575	84,702
Radio frequency RRL, RBS and other fees	632,065	617,781
	1,116,578	**1,113,453**
Rental expenses	5,363,732	4,620,272
Maintenance	4,628,454	3,902,814
Marketing, advertisement and sponsorship fees	2,887,846	3,615,126
Consignment sale fees	1,307,137	2,385,647
Transport expenses	1,360,066	1,629,635
Public utility services and heating	295,589	280,216
Data processing fees	37,200	70,660
Other production services	619,747	487,611
Research and development costs	9,470	4,959
Broadcast content fee	523,913	113,470
Hygiene and security services	41,736	36,763
Indirect taxes	1,088,198	1,056,988
Youth employment expenses	232,379	365,639
Fees and charges	871,386	397,363
Education and professional training	168,519	193,573
Bank charges	371,267	383,648
Insurance premiums	564,133	545,593
Audit fee and other professional services	152,313	156,455
Entertainment	77,922	97,527
Software license	203,130	180,772
Other general expenses	257,258	238,279
Total	**35,753,789**	**35,157,224**

10. OTHER OPERATING EXPENSES (Continued)

(a) GSM/UMTS licenses fee amounting to RSD 399,938 thousand for the year ended 31 December 2010 relates to the license for public mobile telecommunication network and services for public mobile telecommunication network in accordance with GSM/ GSM1800 and UMTS/IMT-2000 standards, granted by the Agency for Telecommunications of the Republic of Serbia (RATEL) to the Parent Company on 28 July 2006, and GSM/UMTS license granted by the Agency for Telecommunications and Postal Services of the Republic of Montenegro to the Consolidated Subsidiary “Mtel”.

For 2009 and 2010, the GSM license fee of the Parent Company was calculated in the amount of 0.9% of the total revenues earned in the commercial year for which the fee is being paid. Pursuant to the new Rule Book on fees for the performance of electronic communications activities (“RS Official Gazette”, no. 93 dated 8 December 2010), effective from 1 January 2011, the GSM license fee is to be calculated in the amount of 0.5% of the revenues earned from the sales in the commercial year for which the fee is being paid.

Out of the total amount of GSM/UMTS licenses fee, RSD 296,145 thousand relates to the Parent Company’s license fee (2009: RSD 319,411 thousand), while the amount of RSD 103,793 thousand relates the license fee of the Consolidated Subsidiary “Mtel” (2009: RSD 91,559 thousand).

(b) On 13 April 2007, the Parent Company renewed the License for construction, possessing and exploitation of public fixed telecommunication network and rendering public fixed telecommunication services and since that date all fees concerning the license are payable to RATEL. The License for construction, possessing and exploitation of public fixed telecommunication network and rendering public fixed telecommunication services was issued to the Parent Company for the period throughout 9 June 2017, and the Parent Company may, in six months notice prior to the expiration of this period, submit the request for extension of the existing license. For 2009 and 2010, the license fee was calculated in the amount of 0.1% of the total revenue earned from services the license was issued for.

Pursuant to the new Rule Book on fees for the performance of electronic communications activities the license fee is to be calculated in the amount of 0.08% of the revenues earned from the sales in the commercial year for which the fee is being paid, for the public fixed telecommunications network services provided via operator’s own access network (voice service, data transmission, Internet access, media content transmission, etc.). The fee for the year ended 31 December 2010 amounts to RSD 40,750 thousand (2009: RSD 42,332 thousand).

The Consolidated Subsidiary “Mtel” calculates and pays a monthly fee for WiMAX license in the amount equal to 1% of revenue generated in the previous month from services the license relates to. The fee for the year ended 31 December 2010 amounts to RSD 7,309 thousand (2009: RSD 4,394 thousand).

The Consolidated Subsidiary “Telekom Srpske” calculates and pays “Fee for the usage of the License for public fixed telephony operator and for work in relation to management and monitoring of the license” to the Communications Regulatory Agency of Bosnia and Herzegovina. The fee for the year ended 31 December 2010 amounts to RSD 36,516 thousand (2009: RSD 37,976 thousand).

11. FINANCIAL INCOME

	2010	2009
Interest income	1,342,783	1,369,414
Foreign exchange gains	1,711,714	1,030,912
Gains from foreign currency clause application	664,073	763,386
Other financial revenues	9,005	84,757
Total	**3,727,575**	**3,248,469**

12. FINANCIAL EXPENSES

	2010	2009
Interest expenses	2,458,388	4,045,238
Foreign exchange losses	7,345,491	6,596,835
Losses from foreign currency clause application	1,032,662	1,186,900
Other financial expenses	102	82
Total	**10,836,643**	**11,829,055**

Interest expenses on borrowings abroad, incurred during the year ended 31 December 2010, include the amount of RSD 818,251 thousand, representing interest expense for the current reporting period, arising from the syndicated loan granted by Citibank N.A., London (2009: RSD 1,690,583 thousand).

13. OTHER INCOME

	2010	2009
Reversal of impairment losses (Note 14)	1,466,150	1,299,096
Liabilities waived	1,035,162	17,672
Revenue from charged court dispute	178,516	66,309
Gains on sale of material and waste material	121,896	41,030
Provision for retirement benefits and jubilee awards (Note 26)	185,014	61,485
Provision for litigations (Note 26)	11,370	10,361
Damage compensations	35,111	46,028
Gains on sale of intangible assets, property and equipment	17,678	12,044
Income arising from the Agreements entered into with the Government of the Republic of Srpska	-	221,584
Recoveries of bad debts	3,914	5,685
Other income	841,450	987,111
Total	**3,896,261**	**2,768,405**

Liabilities waived totalling RSD 1,035,162 thousand for the year ended 31 December 2010 mostly relate to write-offs of the Consolidated Subsidiary's “Mtel” trade payables in the amount RSD 1,016,793 thousand (EUR 9,825,284).

14. OTHER EXPENSES

	2010	2009
Allowances for impairment of receivables and advances paid	4,362,001	5,218,732
Grants and donations	197,355	207,787
Fair value adjustment – employee loans	57,025	51,670
Losses on sale and disposal of intangible assets, property and equipment	247,318	199,693
Scrapping of material and goods:		
- Write-down of inventories (Note 21)	18,902	7,648
- Direct write-off of material and goods	411,036	335,207
Other expenses	592,256	345,395
Total	**5,885,893**	**6,366,132**

Movements in the allowance for impairment of advances paid and receivables during the year ended 31 December 2010 and 2009 were as follows:

	Advances for intangible assets	Advances for property and equipment (Note 19)	Advances for goods and services	Accounts receivable (Note 22)	Total
Balance as of 1 January 2009	**265**	**96,986**	**41,820**	**7,038,443**	**7,177,514**
Charge for the year	-	120,013	50,606	5,048,113	5,218,732
Reversal of impairment losses (Note 13)	-	(130,414)	(54,423)	(1,114,259)	(1,299,096)
Transfer out of the books based on year-end count	-	-	-	(376,102)	(376,102)
Other movements and exchange differences	-	100	39	143,942	144,081
Transfer (from)/to	-	(3,385)	3,385	-	-
Balance as of 31 December 2009	**265**	**83,300**	**41,427**	**10,740,137**	**10,865,129**
Charge for the year	-	17,802	69,603	4,274,596	4,362,001
Reversal of impairment losses (Note 13)	-	(55,613)	(33,436)	(1,377,101)	(1,466,150)
Transfer out of the books based on year-end count	-	-	-	(434,314)	(434,314)
Other movements and exchange differences	-	(331)	(1,295)	290,393	288,767
Balance as of 31 December 2010	**265**	**45,158**	**76,299**	**13,493,711**	**13,615,433**

15. NET LOSS FROM DISCONTINUED OPERATIONS

In accordance with IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”, in 2010 the Group considered that the effects of error adjustments from previous period are not material, and therefore, the prior year information were not restated. Such adjustments were recorded in the current reporting period.

Total negative effect of error adjustments charged to the consolidated income statement for the year ended 31 December 2010, and recognized within Net loss from discontinued operations, amounted to RSD 84,008 thousand.

16. INCOME TAXES

(a) Components of Income Taxes

	2010	2009
Current tax expense	1,284,368	1,107,545
Deferred tax income, net	(337,398)	(124,570)
Total income tax expense	**946,970**	**982,975**

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

	2010	2009
Profit before tax	**17,932,164**	**14,296,538**
Income tax at prescribed rates	**1,783,266**	**1,435,250**
Non-deductible expenses	199,862	528,469
Income reconciliation	68,880	70,583
Utilized tax credits	(1,105,038)	(1,051,327)
Income tax expense	**946,970**	**982,975**
Effective tax rate	*5.3%*	*6.9%*

(c) Deferred Tax Assets/Liabilities

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

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

	2010	2009
Balance as of 1 January	**1,076,482**	**1,062,178**
Effects of temporary differences arising from different depreciation rates credited to the consolidated income statement	188,408	131,896
Effects of temporary differences arising from retirement benefits credited to the consolidated income statement	73,968	-
Effects of other temporary differences	(92,707)	(143,132)
Exchange differences	20,569	25,540
Balance as of 31 December	**1,266,720**	**1,076,482**

16. INCOME TAXES (Continued)

(c) Deferred Tax Assets/Liabilities (Continued)

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

	2010	2009
Balance as of 1 January	**2,133,774**	**2,099,443**
Effects of temporary differences credited to the consolidated income statement	(167,729)	(135,806)
Exchange differences	210,574	170,137
Balance as of 31 December	**2,176,619**	**2,133,774**

Unrecognized Deferred Tax Assets

The Group did not recognize deferred tax assets arising on not utilized tax credits carried forward amounting to RSD 12,202,079 thousand as of 31 December 2010 (31 December 2009: RSD 9,984,952 thousand) due to uncertainty whether sufficient taxable profit will be available in the future against which the unused tax credits may be utilized.

According to the past experience, used tax credits each year were significantly below the available amounts for utilization, arising from investments in equipment, and due to that fact, the Group was not using tax credits carry forwards.

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

The aforementioned tax credits expire as follows:

Date of origin/ Tax credit carry forward	Expiration date	31 December 2010	31 December 2009
2003	2013	1,130,414	1,131,781
2004	2014	1,899,006	1,900,373
2005	2015	1,592,599	1,593,966
2006	2016	1,028,036	1,028,402
2007	2012	14,745	102,455
2007	2017	1,552,096	1,553,462
2008	2013	40,938	37,209
2008	2018	1,560,029	1,561,396
2009	2014	54,855	49,859
2009	2019	1,024,682	1,026,049
2010	2020	2,304,679	-
Total		**12,202,079**	**9,984,952**

17. INTANGIBLE ASSETS

	Goodwill	Customer relations	Licenses	Software	Other intangible assets	Intangible assets under develop-ment	Total
Cost as of 1 January 2009	**28,207,891**	**14,700,174**	**16,708,458**	**11,815,939**	**941,321**	**2,132,341**	**74,506,124**
Additions	-	-	-	-	-	2,744,001	2,744,001
Transfer from intangible assets under development	-	-	1,507,100	1,054,576	24,090	(2,585,766)	-
Disposals	-	-	(2,820)	(784,640)	(3,461)	-	(790,921)
Transfer (from)/to	-	-	130	(74)	8,869	(1,132,961)	(1,124,036)
Exchange differences	2,320,219	1,209,152	646,139	84,441	29,236	6,041	4,295,228
Balance as of 31 December 2009	**30,528,110**	**15,909,326**	**18,859,007**	**12,170,242**	**1,000,055**	**1,163,656**	**79,630,396**
Additions	-	-	-	-	-	1,679,644	1,679,644
Transfer from intangible assets under development	-	-	234,557	875,179	4,169	(1,113,905)	-
Disposals	-	-	(652)	(422,405)	-	-	(423,057)
Transfer (from)/to	-	-	172	-	-	(402,297)	(402,125)
Other movements	-	-	468,127	(32,086)	-	14,930	450,971
Exchange differences	3,059,337	1,594,333	969,352	134,876	39,564	26,054	5,823,516
Balance as of 31 December 2010	**33,587,447**	**17,503,659**	**20,530,563**	**12,725,806**	**1,043,788**	**1,368,082**	**86,759,345**
Accumulated amortization as of 1 January 2009	**-**	**1,242,330**	**3,332,561**	**9,368,793**	**427,655**	**-**	**14,371,339**
Amortization (Note 9)	-	879,808	1,727,653	1,387,452	15,532	20,097	4,030,542
Long-term rentals per year	-	-	-	-	134,186	-	134,186
Disposals	-	-	(2,465)	(784,213)	(3,461)	-	(790,139)
Other movements	-	-	-	(5,033)	-	-	(5,033)
Transfer (from)/to	-	-	-	(52)	-	-	(52)
Exchange differences	-	118,725	90,491	26,574	5,609	-	241,399
Balance as of 31 December 2010	**-**	**2,240,863**	**5,148,240**	**9,993,521**	**579,521**	**20,097**	**17,982,242**
Amortization (Note 9)	-	967,375	1,853,885	1,043,127	8,671	32,395	3,905,453
Long-term rentals per year	-	-	-	-	134,452	-	134,452
Disposals	-	-	(576)	(421,368)	-	-	(421,944)
Other movements	-	-	231,815	12,863	96	(18,862)	225,912
Transfer (from)/to	-	-	-	-	-	(1,235)	(1,235)
Exchange differences	-	243,362	196,995	58,791	15,939	-	515,087
Balance as of 31 December 2010	**-**	**3,451,600**	**7,430,359**	**10,686,934**	**738,679**	**32,395**	**22,339,967**
Net book value as of:							
- 31 December 2010	**33,587,447**	**14,052,059**	**13,100,204**	**2,038,872**	**305,109**	**1,335,687**	**64,419,378**
- 31 December 2009	**30,528,110**	**13,668,463**	**13,710,767**	**2,176,721**	**420,534**	**1,143,559**	**61,648,154**

17. INTANGIBLE ASSETS (Continued)

As disclosed in Note 1 to the consolidated financial statements, following an international tender for the privatization of "Telekom Srpske", on 19 January 2007, the Parent Company signed a Share Purchase Agreement (SPA) with the seller, the Republic of Srpska, represented by the Directorate for Privatization.

Subject of the sale was ownership over 319,428,193 ordinary shares of "Telekom Srpske" at the par value of 1 KM, representing 65.005851% of total share capital of "Telekom Srpske". With the closing of the transaction on 18 June 2007, the Parent Company effectively obtained control of "Telekom Srpske", thus "Telekom Srpske" has been consolidated in the Group's financial statements as of that date (acquisition date).

Goodwill amounting to RSD 33,587,447 thousand as of 31 December 2010 represents the excess of the cost of an acquisition over the fair value for the Parent Company share of the net identifiable assets of the acquired subsidiary "Telekom Srpske" at the date of acquisition. The goodwill is attributable to "Telekom Srpske's" strong position and profitability, as well as to significant synergies emerging as a consequence of an increasing market share as well as efficiency increases resulting from utilization of common capacities.

Impairment of Goodwill Test

In accordance with adopted accounting policy described in Note 2.13., goodwill is tested annually for impairment. Fixed telephony, mobile telephony and internet segment of the Consolidated Subsidiary "Telekom Srpske" are treated as cash generating units (CGU).

As of 31 December 2010 and 2009, the carrying amount of goodwill is allocated on CGUs as follows:

	2010	**2009**
Fixed telephony and internet services	5,591,229	5,081,948
Mobile telephony	27,996,218	25,446,162
	33,587,447	**30,528,110**

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

The CGU's recoverable amount has been determined based on fair value calculation, applying the income approach through Discounted Cash Flow method. The analysis is based on the "Telekom Srpske" budget for 2011 and the management's expectations related to the "Telekom Srpske" performance for the period from 2011 to 2015. This calculation is performed on the basis of planned cash flow, before taxation, for the five-year period as adopted by management of the above Consolidated Subsidiary.

The aforementioned Plan of operations projects growth of total fixed line services and Internet services revenues by 2.4% in 2012 and 2013, while in 2014 by 2.1% and by 1.8% in 2015. In addition, the mobile telephony revenues are projected to grow by 7.2% in 2012, by 6% in 2013, by 4.6% in 2014 and by 4.4% in 2015, respectively.

17. INTANGIBLE ASSETS (Continued)

Impairment of Goodwill Test (Continued)

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

- Determination of CGU's value in use is based on estimating the future cash inflows and outflows to be derived from continuing use of CGU and from its ultimate disposal, and discounting the resulting future net cash flows to derive their present value. Projections used to derive values in use of fixed telephony and internet services and mobile telephony of "Telekom Srpske" as CGUs, cover the five-year period from 2011 to 2015.
- In determination of value in use, projections of future operations were estimated for the CGU in its current operation conditions. Cash inflows and outflows from activities related to introduction of new technology are excluded from examination.
- The Beta coefficient measures the volatility of the return on a specific stock in relation to the market. As of the valuation date, the unlevered Beta for "Telekom Srpske" per group was set as the median Beta of companies in the same industry group, excluding their financing structure, and then corrected by the median debt-equity ratio for the comparable companies in the same industry group in order to include influence of their financing structure. Beta calculated in such way amounts to 0.5 in fixed telephony, 0.7 in mobile telephony and 1.0 in internet segment.
- The adequate discount rate is estimated as the weighted average cost of capital (WACC) and amounts to 11.1% in fixed telephony and Internet services and 10.4% in mobile telephony. This rate was used to discount projected net cash flows for the period 2011 to 2015, as well as the residual value, to their present value.

Comparison of the carrying amount with the recoverable amount of each CGU as of 31 December 2010 is presented as follows:

FIXED TELEPHONY AND INTERNET SERVICES	In 000 RSD	In 000 KM
Recoverable amount of cash generating unit	46,282,104	858,023
Carrying amount of cash generating unit	42,488,205	787,688
Excess over carrying amount	**3,793,899**	**70,335**
CONCLUSION	*There is no impairment*	

MOBILE TELEPHONY	In 000 RSD	In 000 KM
Recoverable amount of cash generating unit	84,198,159	1,560,948
Carrying amount of cash generating unit	70,323,286	1,303,722
Excess over carrying amount	**13,874,873**	**257,226**
CONCLUSION	*There is no impairment*	

Based on the conducted impairment test, there is no indication of goodwill impairment at 31 December 2010 since each CGU's recoverable amount exceeds its carrying value.

17. INTANGIBLE ASSETS (Continued)

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

Licenses relate to the GSM/UMTS licenses, other licences for mobile telephony, license for wireless fixed access (CDMA and WiMAX) and other licenses. As of 31 December 2010, the carrying value of the GSM/UMTS licenses amounts to RSD 6,853,217 thousand (31 December 2009: RSD 6,886,673 thousand), the carrying value of the licenses for wireless fixed access (CDMA and WiMAX) amounts to RSD 71,770 thousand (31 December 2009: RSD 94,370 thousand), the carrying value of other mobile telephony licenses amounts to RSD 5,881,463 thousand (31 December 2009: RSD 6,005,636 thousand), while the carrying value of other licenses amounts to RSD 293,754 thousand (31 December 2009: RSD 724,088 thousand).

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

As collateral provided to secure the regular repayment of the loans granted by NLB banka d.d., Ljubljana, Slovenia, the License GSM-UMTS no. 01-124 issued by the Telecommunications Agency, registered under no. R-07062000034 in the Register of pledges with the Commercial Court in Podgorica was pledged (Note 27(c)/ii/). The net book value of the pledged license amounts to RSD 1,270,626 thousand as of 31 December 2010 (31 December 2009: RSD 1,257,222 thousand).

The Consolidated Subsidiary "Telekom Srpske" was granted the License for rendering GSM services in the territory of Bosnia and Herzegovina by the Communications Regulatory Agency of Bosnia and Herzegovina for a 15-year period from the date of granting the license, commencing from 12 October 2004. The net book value of this licence amounts to RSD 4,503,329 thousand as of 31 December 2010 (31 December 2009: RSD 4,486,753 thousand).

On 26 March 2009, the Communications Regulatory Agency of Bosnia and Herzegovina issued the License for provision of mobile services in universal mobile telecommunication systems to the Consolidated Subsidiary "Telekom Srpske" (UMTS license) for a 15-year period commencing from 1 April 2009. As of 31 December 2010, the net book value of this license amounts to RSD 1,079,263 thousand (31 December 2009: RSD 1,054,571 thousand).

Other intangible assets as of 31 December 2010 mostly relate to long-term rentals with the net book value of RSD 291,221 thousand (31 December 2009: RSD 399,859 thousand).

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

18. PROPERTY, PLANT AND EQUIPMENT

	Land, telephone lines, cable sewers and flats	Switches and transmitting devices	Other equipment	Investments in PP&E not owned by the Group	Construction in progress	Total
Cost as of 1 January 2009	**88,730,032**	**100,717,530**	**11,025,896**	**9,237,606**	**22,976,171**	**232,687,235**
Additions	-	-	-	-	19,389,871	19,389,871
Transfer from construction in progress	6,593,875	10,502,615	1,129,516	542,548	(18,768,554)	-
Grants	-	-	-	-	479,953	479,953
Disposals	(292,857)	(1,205,223)	(191,792)	(352)	-	(1,690,224)
Transfer (from)/to	(37,652)	53,630	(5,700)	(16,318)	105,735	99,695
Transfer from inventories	-	4,629	-	-	(41,209)	(36,580)
Other movements	-	(6,515)	(1,629)	-	(2,985)	(11,129)
Exchange differences	1,530,459	1,566,141	293,141	44,845	329,087	3,763,673
Balance as of 31 December 2009	**96,523,857**	**111,632,807**	**12,249,432**	**9,808,329**	**24,468,069**	**254,682,494**
Additions	-	-	-	-	18,371,749	18,371,749
Transfer from construction in progress	6,290,036	11,642,220	1,205,409	628,434	(19,766,099)	-
Grants (Note 30(e))	-	-	-	-	67,680	67,680
Disposals	(345,521)	(2,020,767)	(475,936)	(97,610)	(27,492)	(2,967,326)
Transfer from inventories	-	-	-	-	104,801	104,801
Transfer (from)/to	(3,096)	(412,710)	18,680	-	(35,816)	(432,942)
Other movements	2,093	(9,314)	(2,307)	(1,903)	(30,236)	(41,667)
Exchange differences	2,182,257	2,282,179	435,811	65,456	398,351	5,364,054
Balance as of 31 December 2010	**104,649,626**	**123,114,415**	**13,431,089**	**10,402,706**	**23,551,007**	**275,148,843**
Accumulated depreciation as of 1 January 2009	**26,656,923**	**44,819,145**	**5,402,200**	**5,937,121**	**155,156**	**82,970,545**
Transfer from construction in progress	46,381	84,092	343	2,793	(133,609)	-
Depreciation (Note 9)	4,498,137	11,326,710	1,376,719	1,142,515	688,424	19,032,505
Disposals	(216,121)	(1,012,651)	(151,094)	(126)	-	(1,379,992)
Transfer (from)/to	(461)	7,424	(2,104)	226	-	5,085
Other movements	-	39	10	-	-	49
Exchange differences	162,172	263,243	66,777	6,694	121	499,007
Balance as of 31 December 2009	**31,147,031**	**55,488,002**	**6,692,851**	**7,089,223**	**710,092**	**101,127,199**
Transfer from construction in progress	70,495	327,977	23,250	29,641	(451,363)	-
Depreciation (Note 9)	4,878,727	12,539,844	1,521,690	1,074,656	680,874	20,695,791
Disposals	(253,509)	(1,197,508)	(427,580)	(62,273)	(46)	(1,940,916)
Transfer (from)/to	(2,357)	883	2,013	(539)	1,235	1,235
Other movements	193	(180,508)	(45,112)	-	(225,441)	(450,868)
Exchange differences	342,799	607,398	139,977	17,133	357	1,107,664
Balance as of 31 December 2010	**36,183,379**	**67,586,088**	**7,907,089**	**8,147,841**	**715,708**	**120,540,105**
Net book value as of:						
- 31 December 2010	**68,466,247**	**55,528,327**	**5,524,000**	**2,254,865**	**22,835,299**	**154,608,738**
- 31 December 2009	**65,376,826**	**56,144,805**	**5,556,581**	**2,719,106**	**23,757,977**	**153,555,295**

18. PROPERTY, PLANT AND EQUIPMENT (Continued)

Cost of fully-depreciated property and equipment still in use amounts to RSD 36,477,723 thousand as of 31 December 2010 (31 December 2009: RSD 39,153,620 thousand).

Construction in progress includes completed investments not yet transferred to property and equipment amounting to RSD 6,153,721 thousand as of 31 December 2010 (31 December 2009: RSD 8,158,566 thousand). The Group has charged depreciation for these investments.

Cost of construction in progress without any additions/investments for more than one year amounts to RSD 1,855,125 thousand (31 December 2009: RSD 1,478,184 thousand).

Pursuant to the Decision of the Serbian Business Registers Agency no. 6969/06 dated 21 November 2006, telecommunication equipment of the Parent Company was pledged in favour of Ericsson Credit A.B., Sweden. In December 2007, the aforementioned loan passed from Ericsson Credit A.B., Sweden to BNP Paribas, branch London, and the Parent Company was informed. The substitution of pledgee has not yet been registered in the Register of pledges with the Serbian Business Registers Agency. On 14 June 2010 and 3 December 2010, the requests had been submitted to the Register for the substitution of the pledge, which were rejected. Subsequently, the complaint was submitted, but it has not been resolved until the reporting date. The net book value of pledged equipment amounts RSD 2,294,672 thousand as of 31 December 2010 (31 December 2009: RSD 2,779,431 thousand).

Pursuant to the Agreement on the telecommunication equipment pledge dated 15 September 2008, as collateral provided for regular repayment of the long-term loan extended by Ericsson Credit A.B., Sweden to the Consolidated Subsidiary “Mtel” in the amount of RSD 871,821 thousand as of 31 December 2010 (Note 27(c)/iv/), the first ranking pledge on its telecommunication equipment acquired from the foreign supplier Ericsson Credit A.B., Sweden, with the total purchase value amounting to RSD 2,683,660 thousand, was registered. This first ranking pledge was inscribed in the Pledge Registry of the Commercial Court in Podgorica on 24 September 2008 under the registration number R-08092400053.

As collateral for regular repayment of the long-term loan extended by Nova Ljubljanska banka – NLB d.d., Ljubljana, Slovenia to the Consolidated Subsidiary “Mtel” in the amount of RSD 2,077,995 thousand as of 31 December 2010, pledge on its telecommunication equipment acquired from the foreign supplier Ericsson Credit A.B., Sweden, with the total purchase value amounting to RSD 3,246,522 thousand, was registered. This pledge was inscribed in the Pledge Registry of the Commercial Court in Podgorica on 24 September 2008 under the registration number R-08092400020 (Note 27(c)/ii/).

As collateral for regular repayment of the long-term loan extended by Hypo Alpe-Adria-Bank a.d., Podgorica to the Consolidated Subsidiary “Mtel” in the amount of RSD 404,462 thousand as of 31 December 2010, the first ranking pledge on its equipment with the total purchase value amounting to RSD 615,244 thousand, was registered. The pledge on equipment, acquired from the foreign supplier Intracom S.A. Telecom Solution, Greece, was inscribed in the Pledge Registry of the Commercial Court in Podgorica on 18 May 2009 under the registration number R-09061800166 (Note 27(c)/ii/).

18. PROPERTY, PLANT AND EQUIPMENT (Continued)

As collateral for regular repayment of the long-term loan extended by Komercijalna banka a.d., Belgrade in the amount of RSD 107,194 thousand as of 31 December 2010, the first ranking pledge on its equipment with the total purchase value amounting to RSD 240,576 thousand, was registered. The pledge on equipment, acquired from the foreign supplier Ericsson Credit A.B., Sweden, was inscribed in the Pledge Registry of the Commercial Court in Podgorica on 18 October 2010 under the registration number R-10101800158 (Note 27(c)/i/).

Capital expenditure contracted for at the reporting date but not yet incurred, representing capital commitments, amount to RSD 2,470,477 thousand (Note 33(b)).

Property and equipment lease rentals amounting to RSD 5,363,732 thousand (2009: RSD 4,620,272 thousand), mostly relating to the lease of business premises are included in the consolidated income statement within other operating expenses (Note 10).

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

19. ADVANCES FOR PROPERTY AND EQUIPMENT

	2010	2009
Payments in advance for property and equipment:		
- in RSD	364,103	163,026
- in foreign currency	177,340	393,263
Payments in advance for investments in property and equipment not owned by the Group	8,963	11,892
	550,406	**568,181**
Less: Allowance for impairment (Note 14)	(45,158)	(83,300)
Balance as of 31 December	**505,248**	**484,881**

20. OTHER LONG-TERM FINANCIAL PLACEMENTS

	2010	2009
Loans to employees:		
- Residential	1,964,131	1,817,457
- For repurchase of apartments	14,850	15,116
- For purchase of vehicles	149	149
Other long-term loans	905	24,258
	1,980,035	1,856,980
Less: Fair value adjustment	(723,575)	(668,484)
Total loans	**1,256,460**	**1,188,496**
Long-term receivables from the Government of the Republic of Srpska	269,162	231,924
Term financial deposits	102,136	87,993
Other long-term financial assets	7,809	7,587
Balance as of 31 December	**1,635,567**	**1,516,000**

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

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

/ii/ At its meetings held on 28 and 29 September 2006, the Managing Board of the Parent Company passed the Business policy of resolving housing needs of employees. In cooperation with selected banks, the employees are granted the following loans: one-off loans for a down payment for the loan with a 5-year grace period, a 7-year repayment period after the expiry of the grace period, contracted foreign currency clause and interest rate of 0.1% per annum; and instalment loans for down payment of interest with the grace period of 20 (10) years, a 5-year repayment period after the expiry of the grace period, without foreign currency clause and interest rate of 0.1% per annum.

The management of the Group considers that the carrying amount of the above disclosed loans to employees reasonably approximates their fair value. The fair value of loans to employees is based on cash flows discounted using a rate based on the market interest rate at which the Parent Company could obtain long-term loans and that reflect market rate for similar financial instruments in the current reporting period – 5.36% per annum (2009: 5.05% per annum). The Consolidated Subsidiary "Telekom Srpske" used a discount rate of 5.5% per annum (2009: 5.5% per annum).

The maximum exposure to credit risk at the reporting date is the nominal value of loans to employees. The exposure is however limited due to the fact that collection of loans from employees is secured through the administrative ban on their salaries. None of the loans to employees is either past due or impaired.

21. INVENTORIES

	2010	2009
Material and fuel	4,618,021	4,722,632
Spare parts	2,020,744	1,731,385
Tools	2,995,502	2,145,632
Waste material	105,639	329,445
	9,739,906	8,929,094
Less: Allowance for impairment		
Material and spare parts	(18,902)	(7,648)
Tools in use	(2,441,002)	(1,646,565)
Waste material	(105,639)	(329,445)
	7,174,363	**6,945,436**
Goods in warehouses	265,107	198,981
Goods in retail	29,232	10,242
	294,339	**209,223**
Balance as of 31 December	**7,468,702**	**7,154,659**

The amount of write-down of inventories recognized as an expense and included in other expenses (Note 14) totalled RSD 18,902 thousand (2009: RSD 7,648 thousand).

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

22. ACCOUNTS RECEIVABLE

	2010	2009
Trade receivables		
Fixed telephony, Internet and data services	9,864,869	8,584,555
Mobile telephony	14,148,722	12,826,839
International settlement of fixed telephony	1,878,709	1,432,233
Roaming	542,952	402,213
National roaming – VIP Mobile d.o.o., Belgrade	-	896,265
Interconnection	1,036,245	945,652
Other receivables	77,818	63,557
	27,549,315	**25,151,314**
Receivables from related parties		
JP PTT	-	154,509
OTE (Note 32(a))	7,629	17,438
	7,629	**171,947**
Other receivables		
Other receivables from sales	252,589	263,256
Interest receivables	35,563	29,072
Receivables from employees	160,983	90,828
Prepaid taxes and contributions	31,643	35,106
Receivables for war damages on property and equipment and inventories	139,202	139,202
Receivables from the state institutions	90,493	84,033
Other receivables	296,222	141,167
	1,006,695	**782,664**
Gross accounts receivable	**28,563,639**	**26,105,925**
Less: Allowance for impairment (Note 14)		
Accounts receivable	(12,880,682)	(10,238,495)
Other receivables from sales	(245,914)	(241,585)
Interest receivables	(6,157)	(5,116)
Receivables from employees	(4,117)	(5,402)
Prepaid taxes and contributions	(394)	(358)
Receivables for war damages on property and equipment and inventories	(139,202)	(139,202)
Receivables from the state institutions	(85,412)	(76,638)
Other receivables	(131,833)	(33,341)
	(13,493,711)	**(10,740,137)**
Balance as of 31 December	**15,069,928**	**15,365,788**

Trade receivables are predominantly non-interest bearing.

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

The average collection period during the year ended 31 December 2010 was 48 days (year ended 31 December 2009: 47 days).

22. ACCOUNTS RECEIVABLE (Continued)

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

The ageing structure of gross accounts receivable as of 31 December 2010 and 2009 was as follows:

	2010	2009
Up to 30 days	11,323,027	10,958,826
From 30 to 60 days	2,563,225	2,228,796
From 60 to 180 days	3,277,814	4,064,460
From 180 to 360 days	3,075,139	1,953,796
Over 360 days	8,324,434	6,900,047
Total	**28,563,639**	**26,105,925**

As of 31 December 2010, receivables of RSD 15,069,928 thousand (31 December 2009: RSD 15,365,788 thousand) were considered to be fully performing.

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

As of 31 December 2010, receivables of RSD 3,295,612 thousand (31 December 2009: RSD 4,755,920 thousand) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

As of 31 December 2010, receivables of RSD 13,493,711 thousand (31 December 2009: RSD 10,740,137 thousand) were impaired and provided for in the amount of RSD 13,493,711 thousand (31 December 2009: RSD 10,740,137 thousand). It was assessed that a part of the receivables is expected to be recovered.

As of 31 December 2010 and 2009, the carrying amounts of the Group's accounts receivables were denominated in the following currencies:

	2010	2009
RSD – local currency	10,327,163	11,206,831
EUR	2,438,601	1,996,808
BAM (KM)	2,082,748	1,912,877
Other currencies	221,416	249,272
Total	**15,069,928**	**15,365,788**

Concentrations of credit risk with respect to accounts receivable are limited due to the Group's customer base being large, with individually small amounts, and unrelated. Due to this, the Group's management believes there is no further credit risk provision required in excess to the allowance for bad and doubtful debts. Therefore, the maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The fair value of trade and other receivables is approximately equal to their book value net of related allowance for impairment.

Out of RSD 28,563,639 thousand, representing gross outstanding balance of accounts receivable as of 31 December 2010, the amount of RSD 902,383 thousand has not been reconciled with the debtors in 2010, mainly due to impossibility to perform reconciliation.

23. CASH AND CASH EQUIVALENTS

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

	2010	2009
Current accounts	1,938,861	1,066,561
Foreign currency accounts with domestic banks	7,843,190	13,303,403
Cash coupons	3,209	14,834
Balance as of 31 December	**9,785,260**	**14,384,798**

24. VALUE ADDED TAX, PREPAYMENTS AND ACCRUED INCOME

	2010	2009
Deferred value added tax	550,819	600,674
Overpaid value added tax	122,398	59,383
Prepaid expenses:		
- Banks' commissions for syndicated loan (a)	281,921	471,749
- Rental	84,300	80,246
- Insurance premiums	40,740	33,618
- Long-term loan origination fee	15,695	14,835
- Other	134,238	223,226
	556,894	**823,674**
Accrued income:		
- International settlement (b)	553,360	558,140
- Roaming (c)	1,046,607	765,214
Other accrued income	25,620	100,192
	1,625,587	**1,423,546**
Balance as of 31 December	**2,855,698**	**2,907,277**

(a) As of 31 December 2010, banks' commissions in respect to the withdrawal of the syndicated loan for acquisition of shares of "Telekom Srpske" as well as for refinancing the repayment of the Arrangement C of the syndicated loan, relate to arrangement fee paid to Citibank N.A., London in the amount of RSD 261,570 thousand (EUR 2,479,383.62) and agency fee paid to EFG EuroBank Ergasias S.A., Athens in the amount of RSD 20,351 thousand (EUR 192,901.55).

(b) As of 31 December 2010, accrued income arising from fixed telephony international settlement comprises uninvoiced revenue from international settlement for November and December 2010 in the estimated amount of RSD 514,193 thousand and unsettled international traffic settlements for the previous period of 2010 amounting to RSD 39,167 thousand.

(c) As of 31 December 2010, accrued income from mobile telephony traffic comprises accrued income from roaming services for November and December of 2010 estimated to RSD 212,763 thousand and uninvoiced income arising from International GSM roaming contracts – Network operators' discounts amounting to RSD 833,844 thousand.

25. EQUITY

/i/ Share Capital

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

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

In 2010, there was a change in the Parent Company’s shareholders’ structure. In accordance with the Conclusion of the Government of the Republic of Serbia 05 no. 023-6816 dated 21 September 2010 and the Decision on the transfer of the shares in the Parent Company to the Republic of Serbia without compensation of the Board of Directors of JP PTT saobracaja “Srbija”, Belgrade (the Public Enterprise for PTT communications “Srbija”) dated 20 September 2010, on 24 September 2010 JP PTT saobracaja “Srbija”, Belgrade and the Government of the Republic of Serbia concluded the Agreement on the transfer of the shares of Telekom Srbija a.d., Belgrade without compensation – Gift.

Pursuant to this Agreement, the Republic of Serbia became the major shareholder and the legal owner of 80% of the Parent Company’s shares, represented by 864,000 ordinary shares with the nominal value of RSD 10 thousand per share, i.e., with the total nominal value amounting to RSD 8,640,000 thousand.

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

The share capital structure at 31 December 2010 and 2009 was as follows:

	2010		2009	
	Number of shares	In %	Number of shares	In %
Republic of Serbia	864,000	80.00	-	-
JP PTT saobracaja “Srbija”, Belgrade	-	-	864,000	80.00
Hellenic Telecommunications Organisation A.E. (“OTE”), Athens	216,000	20.00	216,000	20.00
Total	**1,080,000**	**100.00**	**1,080,000**	**100.00**

The ultimate parent of the Group at 31 December 2010 is the Republic of Serbia, since the prior ultimate parent, JP PTT saobracaja “Srbija”, Belgrade, ceased to be the shareholder on 24 September 2010, as described above.

Weighted average amount of shares in use for the purpose of calculating earnings per share amounts to 1,080,000, since the number of shares did not change during the years ended 31 December 2010 and 2009.

25. EQUITY (Continued)

/i/ Share Capital (Continued)

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

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

/ii/ Other Capital

Other capital amounting to RSD 8,588 thousand as of 31 December 2010 and 2009 was created in prior years by a mandatory allocation of employees' contributions to the Fund for financing solidarity housing.

/iii/ Reserves

Reserves amounting to RSD 15,342,074 thousand as of 31 December 2010 (31 December 2009: RSD 10,794,625 thousand) consist of legal reserves, statutory reserves, available-for-sale reserve (investments revaluation reserve) and foreign currency translation reserve.

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

Legal Reserves

Legal reserves represent allocations from profit made in accordance with relevant provision of the Companies Laws in the amount of no less than 5% of the net profit for the year.

Legal reserves can be used for loss coverage, as well as for the increase in share capital.

Statutory Reserves

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

Available-for-Sale Reserve (Investments Revaluation Reserve)

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

Foreign Currency Translation Reserve

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

25. EQUITY (Continued)

/iii/ Reserves (Continued)

Movements in reserves during the year were as follows:

	Legal reserves	Statutory reserves	Available-for-sale reserve	Translation reserve	Total reserves
Balance as of 1 January 2009	**742,163**	**24,509**	**480**	**4,963,069**	**5,730,221**
Transfer from retained earnings to legal reserves	286,834	-	-	-	286,834
Fair value losses on available-for-sale financial assets, net	-	-	(241)	-	(241)
Currency translation differences	-	-	-	4,777,811	4,777,811
Balance as of 31 December 2009	**1,028,997**	**24,509**	**239**	**9,740,880**	**10,794,625**
Transfer from retained earnings to legal reserves	271,528	-	-	-	271,528
Fair value gains on available-for-sale financial assets, net	-	-	15	-	15
Currency translation differences	-	-	-	4,275,906	4,275,906
Balance as of 31 December 2010	**1,300,525**	**24,509**	**254**	**14,016,786**	**15,342,074**

/iv/ Basic Earnings per Share

	2010	2009
Profit attributable to equity holders of the Parent Company (A)	15,145,828	12,165,259
Weighted average number of ordinary shares in issue (B)	1,080,000	1,080,000
Basic earnings per share (A/B)	**14.02**	**11.26**

26. LONG-TERM PROVISIONS

	2010	2009
Provisions for retirement benefits and jubilee anniversary awards	2,300,509	2,512,693
Provision for litigations	251,601	141,471
Other provisions for likely events	62,058	56,406
Balance as of 31 December	**2,614,168**	**2,710,570**

Movements in the provisions during the year were as follows:

	Retirement benefits	Jubilee anniversary awards	Litigations	Other provisions	Total
Balance as of 1 January 2009	**921,196**	**1,435,062**	**126,485**	**52,118**	**2,534,861**
Charge for the year (Note 9)	103,262	173,723	31,934	-	308,919
Utilized	(9,787)	(90,560)	(7,992)	-	(108,339)
Release of provision (Note 13)	(18,587)	(42,898)	(10,361)	-	(71,846)
Exchange differences	16,470	24,812	1,405	4,288	46,975
Balance as of 31 December 2009	**1,012,554**	**1,500,139**	**141,471**	**56,406**	**2,710,570**
Charge for the year (Note 9)	13,864	-	120,689	-	134,553
Utilized	(5,141)	(84,674)	(3,035)	-	(92,850)
Release of provision (Note 13)	(128,067)	(56,947)	(11,370)	-	(196,384)
Exchange differences	19,381	29,400	3,846	5,652	58,279
Balance as of 31 December 2010	**912,591**	**1,387,918**	**251,601**	**62,058**	**2,614,168**

The provisions for employees' retirement benefits and anniversary awards have been recorded in the consolidated financial statements on the basis of the independent actuaries' reports as of 31 December 2010 and 2009. They are stated in the amount of discounted present value of future payments to the Group's employees, based on the assumptions applicable in economic environment in which the Parent Company and the Consolidated Subsidiaries operate.

26. LONG-TERM PROVISIONS (Continued)

In the Parent Company, the discounted rate used by the actuary was 10%, representing the effective interest rate of six-month bonds of the Republic of Serbia, tied to EUR, being an appropriate rate according to the IAS 19 "Employee Benefits" in the absence of a developed market for high quality corporate bonds. The liability for employee benefits was determined in line with the Parent Company's Collective Agreement and the assumption of 6% nominal salary increase rate per annum, which reflects the projected long-term inflation rate, and employee fluctuation rate ranging from 1.5% to 4% per annum, depending on the number of the employee's years of service.

When calculating the present value of retirement benefits and jubilee awards in the Consolidated Subsidiary "Telekom Srpske" the following assumptions were used: the discount rate of 6.4% per annum, projected salaries' growth of 4.4% per annum, anticipated annual inflation rate of 2.4% and projected employee fluctuation based on historic turnover data during the previous period.

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

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

27. BORROWINGS

(a) Structure of Borrowings

	2010	2009
Long-term borrowings		
Loans from:		
- Domestic banks	116,970	1,138,680
- Foreign banks	22,971,304	30,366,179
- Other financial institutions	35,085	95,729
	23,123,359	**31,600,588**
Commodity loans	**24,250,825**	**21,349,074**
Total long-term borrowings	**47,374,184**	**52,949,662**
Other long-term financial liabilities	**2,072,599**	**2,454,986**
Total long-term borrowings and liabilities	**49,446,783**	**55,404,648**
Current portion of long-term borrowings		
Loans from domestic banks	1,277,996	3,031,197
Loans from foreign banks	12,529,980	17,066,872
Loans from other financial institutions	70,237	412,579
Commodity loans	9,948,007	10,418,964
Total current portion	**23,826,220**	**30,929,612**
Current portion of other long-term liabilities	697,614	601,070
Other short-term borrowings	518,383	216,205
Total short-term borrowings	**25,042,217**	**31,746,887**
Balance as of 31 December	**74,489,000**	**87,151,535**

The fair value of non-current borrowings, which is based on cash flows discounted using a rate based on the interest rate of 5.36% per annum (2009: 5.05% per annum), amounts to RSD 47,067,586 thousand as of 31 December 2010 (31 December 2009: RSD 52,639,250 thousand).

The fair value of current borrowings equals their carrying amount.

(b) Maturity of Borrowings

	2010	2009
Up to 1 year – current portion of long-term borrowings	23,826,220	30,929,612
From 1 to 2 years	29,463,213	18,824,975
From 2 to 3 years	6,794,866	23,545,059
From 3 to 4 years	5,310,219	4,377,799
From 4 to 5 years	3,829,253	3,131,856
Over 5 years	1,976,633	3,069,973
Balance as of 31 December	**71,200,404**	**83,879,274**

27. BORROWINGS (Continued)

(c) Detailed Breakdown of Borrowings per Creditors

		31 December 2010		31 December 2009	
	Currency	In foreign currency	In RSD thousand	In foreign currency	In RSD thousand
/i/ Loans from domestic banks					
Banca Intesa a.d., Belgrade	EUR	10,000,000	1,054,982	33,000,000	3,165,193
Alpha Bank Srbija a.d., Belgrade	EUR	-	-	7,000,000	673,236
Vojvodjanska banka a.d., Novi Sad	EUR	1,875,000	197,809	3,125,000	299,653
Beobanka a.d. in bankruptcy, Belgrade	EUR	331,582	34,981	331,582	31,795
Komercijalna banka a.d., Belgrade	EUR	1,016,074	107,194	-	-
		13,222,656	**1,394,966**	**43,456,582**	**4,169,877**
/ii/ Loans from foreign banks					
Citibank N.A., Great Britain	EUR	260,080,000	27,437,972	330,040,000	31,647,140
Deutsche Bank A.G., London branch (Alpha bank A.E. London in 2009)	EUR	40,000,000	4,219,928	120,000,000	11,506,656
NLB banka d.d., Slovenia	EUR	19,696,970	2,077,995	22,727,273	2,179,291
EFG New Europe Funding, Holland	EUR	12,900,000	1,360,927	16,900,000	1,620,520
Hypo Alpe- Adria- Bank a.d., Montenegro	EUR	3,833,831	404,462	5,000,000	479,444
		336,510,801	**35,501,284**	**494,667,273**	**47,433,051**
/iii/ Loans from other financial institutions					
EBRD	EUR	998,328	105,322	5,301,007	508,308
		998,328	**105,322**	**5,301,007**	**508,308**
/iv/ Foreign commodity loans					
BNP Paribas, London branch	EUR	36,603,641	3,861,618	43,116,986	4,134,436
KfW, Germany	EUR	6,155,993	649,448	13,574,954	1,301,686
Nokia Siemens, Finland, Austria and Holland	EUR	77,120,706	8,136,096	70,381,218	6,748,771
Ericsson Credit A.B., Sweden	EUR	34,363,873	3,625,327	27,228,401	2,610,899
Credit Agricole Cib Sverige (Calyon S.A., Sweden in 2009)	EUR	33,436,635	3,527,505	39,697,638	3,806,559
Huawei Technologies Co. Ltd., China	EUR	37,383,103	3,943,850	42,581,832	4,083,121
Huawei Technologies Pte. Ltd., China	EUR	4,426,424	466,980	-	-
Alcatel Lucent S.A., France	EUR	5,379,712	567,550	4,215,801	404,248
OTP bank Plc, Hungary	EUR	1,328,017	140,103	1,593,620	152,810
NEC Europe Ltd., Hungary	EUR	100,943	10,649	504,716	48,397
Sitronics, the Czech Republic	EUR	1,772,548	187,001	2,531,667	242,759
Intracom S.A., Greece	EUR	7,705,706	812,938	4,859,134	465,937
Skandinaviska Enskilda Bank, Sweden	EUR	7,382,367	778,826	8,860,514	849,624
Commerzbank AG, Hamburg branch	EUR	4,397,883	463,969	5,496,722	527,074
EuroBank EFG Factors S.A., Greece	EUR	758,391	80,009	1,956,987	187,653
Government of Spain (Alcatel, Spain)	USD	1,144,300	90,905	1,144,300	76,529
Government of Spain (Amper, Spain)	USD	1,111,990	88,338	1,111,990	74,368
Alcatel Lucent Italia S.p.A., Italy	EUR	1,106,004	116,682	1,563,788	149,950
Alcatel Lucent Italia S.p.A., Belgium	EUR	2,563,544	270,449	-	-
Unicredit Bank Austria A.G., Slovakia	EUR	-	-	1,923,354	184,428
Elsag Datamat S.p.A., Italy	EUR	471,841	49,779	107,091	10,266
			27,868,022		**26,059,515**
/v/ Other commodity loans			**6,330,810**		**5,708,523**
Total commodity loans			*34,198,832*		*31,768,038*
Total borrowings			**71,200,404**		**83,879,274**
Less: Current portion of non-current borrowings					
Loans from domestic banks			(1,277,996)		(3,031,197)
Loans from foreign banks			(12,529,980)		(17,066,872)
Loans from other financial institutions			(70,237)		(412,579)
Commodity loans			(9,948,007)		(10,418,964)
			(23,826,220)		**(30,929,612)**
Total non-current borrowings			**47,374,184**		**52,949,662**

27. BORROWINGS (Continued)

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

The Group pays interest on long-term foreign currency loans granted by domestic banks at rates ranging from Euribor increased by 1.3% to Euribor increased by 4.5% per annum i.e. 10.73% the most. Interest rates on loans granted by foreign banks, foreign suppliers and other financial institutions range from Euribor increased by 1% to Euribor increased by 4.35% per annum.

The Group pays interest at the rate of Euribor increased by 0.8% to Euribor increased by 2% per annum on the commodity loans granted by domestic suppliers.

Bank borrowings mature until 2017, while commodity loans mature until 2035.

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/ As of 31 December 2010, financial liabilities towards Banca Intesa a.d., Belgrade in the amount of RSD 1,054,982 thousand relate to the Loan Agreement entered into by the Parent Company in order to provide funds for refinancing the repayment of the Arrangement C of the syndicated loan granted by Citibank N.A., London. The Loan Agreement is subject to covenant clauses, whereby the Parent Company is required to meet certain key performance indicators, out of which the most important ones are Debt coverage and Interest coverage. As of 31 December 2010, the Parent Company fulfilled all required ratios.

Financial liabilities towards Beobanka a.d., Belgrade in bankruptcy, ("Beobanka") in the amount of RSD 34,981 thousand as of 31 December 2010, relate to a loan settled by the former National Bank of Yugoslavia ("NBY") toward LHB bank, Frankfurt on behalf of Beobanka, as guarantor and the Parent Company, as ultimate debtor. The NBY offset the aforesaid loan with the amount held at its account with LHB bank. Since the NBY deposits are subject to succession and due to the fact that repayment pattern of the outstanding balance of the loan has not yet been agreed, the Parent Company cannot settle its liabilities even though it requested the settlement permission from Beobanka.

Financial liabilities toward Komercijalna banka a.d., Belgrade in the amount of RSD 107,194 thousand as of 31 December 2010, relate to the long-term loan granted to the Consolidated Subsidiary "Mtel". As collateral provided to secure the regular repayment of the aforementioned loan, telecommunication equipment acquired from the foreign supplier Ericsson A.B. Sweden registered under no. R-10101800158 in the Register of pledges with the Commercial Court in Podgorica, was pledged (Note 18), and 24 stamped bonds supported with a bond authorization clause were provided. The Loan Agreement is subject to covenant clauses, whereby the Consolidated Subsidiary "Mtel" is required to maintain a positive level of the capital. As of 31 December 2010, the Consolidated Subsidiary "Mtel" fulfilled the required indicator.

Domestic banks' loans are secured with 41 blank promissory notes issued by the Group (Note 31(a)).

27. BORROWINGS (Continued)

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

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

The Parent Company withdrew the total available funds. During 2009, the Parent Company repaid the remaining outstanding debt of EUR 190 million per Arrangement C and a part of debt per Arrangement A in the amount of EUR 69.96 million. In May and November 2010, the Parent Company repaid a part of the debt per Arrangement A in the amount of EUR 69.96 million.

The Loan Agreement with Citibank N.A., London defines the commitment of the Parent Company to submit audited annual consolidated financial statements and audited annual financial statements, as well as financial statements for certain interim periods. The credit agreements are subject to covenant clauses, whereby the Parent Company is required to meet certain key performance indicators, out of which the most important ones are Debt coverage and Interest coverage. As of 31 December 2010, the Parent Company fulfilled all required ratios.

In order to provide funds for refinancing the repayment of the Arrangement C of the syndicated loan granted by Citibank N.A., London, on 18 May 2009 the Parent Company entered into the Facility Agreement with Alpha Bank A.E., London (Coordinator), financial institutions (original lenders – 6 banks) and EFG EuroBank Ergasias S.A., Athens (Agent). The Parent Company made a withdrawal of total available funds in the amount of EUR 120 million on 26 May 2009. Repayment period of the loan is 24 months from the date of first withdrawal of funds. In 2010, the Parent Company repaid a portion of the loan from Alpha Bank A.E., London in the total amount of EUR 80 million.

The Loan Agreement with Alpha Bank A.E., London defines the commitment of the Parent Company to submit audited annual consolidated financial statements and audited annual financial statements, as well as financial statements for certain interim periods.

The Loan Agreement is subject to covenant clauses, whereby the Parent Company is required to meet certain key performance indicators, out of which the most important ones are Debt coverage and Interest coverage. As of 31 December 2010, the Parent Company fulfilled all required ratios. In 2010, the loan was transferred from Alpha Bank A.E., London to the new creditor Deutsche Bank A.G., London branch, of which the Parent Company was informed.

27. BORROWINGS (Continued)

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

/ii/ Long-term borrowing from NLB banka d.d., Ljubljana, Slovenia, in the amount of RSD 2,077,995 thousand as of 31 December 2010, relate to the loan agreement entered into by the Consolidated Subsidiary "Mtel" the for the purpose of financing the purchase of the GSM/UMTS license, purchase of telecommunication equipment and financing the start up costs. As collateral provided to secure the regular repayment of the aforementioned loan, the License GSM/UMTS no. 01-124 granted by the Montenegrin Telecommunications Agency, registered under no. R-07062000034 in the Register of pledges with the Commercial Court in Podgorica, was pledged (Note 17). In relation to the aforementioned loan arrangement, owners of the Consolidated Subsidiary "Mtel" have issued the "Letter of Comfort", by which they gave additional guarantees for the preservation of liquidity and solvency and timely settlement of the above liability.

In addition, as collateral for repayment of the aforementioned loans, the pledge over 85% of capital of the Consolidated Subsidiary "Mtel", registered under no. R-07062000026 with the Register of pledges with the Commercial Court in Podgorica was constituted. Moreover, the pledge on the telecommunication equipment acquired from the foreign supplier Ericsson AB, Sweden was inscribed in the Pledge Registry of the Commercial Court in Podgorica under the registration number R-08092400020 (Note 18), and 10 stamped bonds supported with a bond authorization clause were provided.

Long-term borrowings from Hypo Alpe-Adria-Bank a.d., Podgorica, in the amount of RSD 404,462 thousand as of 31 December 2010, relate to the loan arrangement signed in 2009. As collateral provided to secure the regular repayment of this loan, telecommunication equipment acquired from the foreign supplier Intracom S.A. Telecom Solution, Greece, registered under no. R-09061800166 in the Register of pledges with the Commercial Court in Podgorica, was pledged (Note 18), and 20 stamped bonds supported with a bond authorization clause were provided.

Foreign bank loans (EFG New Europe Funding, Holland) are also secured with 10 blank promissory notes issued by the Parent Company (Note 31(a)).

/iii/ Liabilities towards the European Bank for Reconstruction and Development (EBRD) in the total amount of RSD 105,322 thousand as of 31 December 2010, relate to two loans granted to the Consolidated Subsidiary "Telekom Srpske" in 1998 and 2002 for urgent reconstruction of telecommunications.

/iv/ As of 31 December 2010, borrowings from BNP Paribas, London branch, amount to RSD 3,861,618 thousand. The loan was initially granted by Ericsson Credit A.B., Sweden. It is secured with assigned collateral rights on the Parent Company's equipment (Note 18). The collateral right is registered at the Register of pledges with the Serbian Business Registers Agency, based on the Agreement and the Agency's Decisions. In 2006 and 2007, the long-term borrowing from Ericsson Credit A.B., Sweden was transferred by Ericsson Credit A.B., Sweden to BNP Paribas, London branch.

The substitution of the pledgee has not yet been registered in the Register of pledges, but on 14 June 2010 the Parent Company submitted a request for the substitution of the pledgee in the Register of pledges with the Serbian Business Registers Agency. The credit agreements with Ericsson Credit A.B., Sweden and BNP Paribas, London branch, are subject to covenant clauses, whereby the Parent Company is required to meet certain key performance indicators. As of 31 December 2010, the Parent Company fulfilled the required ratios.

27. BORROWINGS (Continued)

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

/iv/ As collateral for regular repayment of the long-term loan extended by Ericsson Credit A.B., Sweden in the amount of RSD 871,821 thousand as of 31 December 2010, the first ranking pledge was inscribed on telecommunication equipment of the Consolidated Subsidiary "Mtel", acquired from the foreign supplier Ericsson Credit A.B., Sweden. The pledge was registered in the Pledge Registry of the Commercial Court in Podgorica under the registration no. R-08092400053. The credit agreement with Ericsson Credit A.B., Sweden is subject to covenant clauses, whereby the Consolidated Subsidiary "Mtel" is required to meet certain key performance indicators (Debt coverage, Total debts against capital and Current liquidity ratio).

At 31 December 2010, the Consolidated Subsidiary "Mtel" has not fulfilled all required ratios, which give the creditor the possibility to consider all of its receivables past due in full. On 18 November 2010, the creditor submitted a statement that it would not require early repayment of the loan provided that the liabilities under the credit arrangement are regularly paid in the defined period. The management of the Consolidated Subsidiary "Mtel" considers that there is no basis for reclassification of the aforementioned loan from long-term to short-term borrowings.

/v/ Other commodity loans total RSD 6,330,810 thousand as of 31 December 2010 (31 December 2009: RSD 5,708,523 thousand). The total contract value of the work is principally financed with 10 percent advances, whereas 90 percent is financed from the loans provided by the project contractors. Repayment period of the aforementioned loans, as well as grace period, depends on contracted value of the particular loan. Commodity loans provided on this basis are primarily secured by the appropriate number of blank promissory notes issued in favour of the beneficiary, the construction contractor (Note 31(a)).

/vi/ Undrawn commodity loans amount to RSD 2,470,477 thousand as of 31 December 2010 (31 December 2009: RSD 2,997,133 thousand). The majority of these loans have been granted at variable interest rates.

The facilities expiring within one year amount to RSD 458,621 thousand as of 31 December 2010 (31 December 2009: RSD 93,790 thousand), while the facilities expiring beyond one year up to five years amount to RSD 2,011,856 thousand (31 December 2009: RSD 2,903,343 thousand).

(d) Other Long-term Financial Liabilities

Other long-term financial liabilities totalling RSD 2,072,599 thousand as of 31 December 2010 mostly relate to the liabilities for GSM license and UMTS license granted to the Consolidated Subsidiary "Telekom Srpske" by the Communications Regulatory Agency of Bosnia and Herzegovina, in the amount of RSD 735,284 thousand (KM 13.6 million) and RSD 1,333,567 thousand (KM 24.7 million), respectively.

Current portion of other long-term financial liabilities in the amount of RSD 697,614 thousand is disclosed within short-term borrowings (Note 27 (a)).

28. ACCOUNTS PAYABLE

	2010	2009
Trade payables for equipment and services	5,876,794	9,364,159
Trade payables for telecommunication services:		
- Fixed telephony	694,134	701,860
- Mobile telephony	364,875	324,704
- Interconnection	26	85
Related parties' trade payables (Note 32(a))	3,015	488,424
Advances received	257,369	329,983
Balance as of 31 December	**7,196,213**	**11,209,215**

As of 31 December 2010, accounts payable amounting to RSD 3,188,056 thousand (31 December 2009: RSD 5,814,767 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 2009 was 59 days (year ended 31 December 2009: 71 days).

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

As of 31 December 2010, out of RSD 7,196,213 thousand and RSD 34,198,832 thousand, representing outstanding balance of accounts payable and commodity loans from domestic suppliers (Note 27), respectively, the amount of RSD 564,600 thousand has not been reconciled with the suppliers/creditors in 2010, mainly due to impossibility to perform reconciliation.

29. OTHER CURRENT LIABILITIES

	2010	2009
Gross salaries	457,404	466,456
Interest payable	19,727	110,175
Liabilities to employees	21,083	20,440
Dividends payable	1,013,884	335,497
Other liabilities	272,777	188,629
Balance as of 31 December	**1,784,875**	**1,121,197**

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

	2010	2009
Accruals		
Accrued expenses:		
International settlement (a)	298,521	207,347
Roaming (b)	1,030,040	796,556
	1,328,561	**1,003,903**
Accrued other expenses:		
Employee profit-sharing	1,678,713	1,346,284
Accumulated absences (vacation)	448,443	346,994
Accrued interest expenses (c)	296,343	396,310
Accrued other expenses (d)	6,298,464	6,293,092
	8,721,963	**8,382,680**
Deferred income:		
Mobile phone services	887,199	971,495
Chip cards	39,342	95,972
Fixed telephony subscription	1,123,158	589,317
Lease	173,931	-
Subscription for special telephone services	79,213	71,510
Other deferred income	16,963	18,219
	2,319,806	**1,746,513**
Deferred income (e):		
Donations	357,404	371,083
Grants from local municipalities	1,843,526	2,032,337
Grants from mobile telephony suppliers	1,352,611	1,584,733
Grants from other suppliers	191,247	221,165
	3,744,788	**4,209,318**
Deferred liabilities for value added tax	154,789	157,618
Value added tax and other tax liabilities (f)	1,581,539	1,204,010
Balance as of 31 December	**17,851,446**	**16,704,042**

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

(a) As of 31 December 2010, accrued expenses arising from fixed international traffic totalling RSD 298,521 thousand comprise uninvoiced expenses for November and December 2010 in the estimated amount of RSD 227,383 thousand and unreconciled liabilities arising from international traffic settlements for the period prior to December 2010 in the amount of RSD 71,138 thousand.

(b) As of 31 December 2010, accrued roaming expenses totalling RSD 1,030,040 thousand relate to uninvoiced roaming services for November and December 2010, estimated to RSD 203,346 thousand and uninvoiced expenses based on the International GSM roaming contract – Network operators' discounts amounting to RSD 826,694 thousand.

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

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

(d) Accrued other expenses amounting to RSD 6,298,464 thousand as of 31 December 2010 mostly relate to estimated uninvoiced expenses for services provided by suppliers during the year ended 31 December 2010.

Accrued other expenses as of 31 December 2010 also include a liability for property tax on telecommunication cable network and cable infrastructure for the years 2006 and 2010 in the amount of RSD 410,765 thousand, including related penalty interest.

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

	2010	2009
Balance as of 1 January	4,206,137	4,151,960
Grants received during the year (Note 18)	67,680	479,953
Released to the consolidated income statement (Note 6)	(462,638)	(464,374)
Other movements and exchange differences	(66,391)	41,779
Balance as of 31 December	**3,744,788**	**4,209,318**

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

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

	2010	2009
Nokia Siemens Networks, Finland and Austria	21,726	423,867
Huawei Technologies Co. Ltd., China	10,564	5,238
Huawei Technologies Pte. Ltd., China	6,739	-
Ericsson A.B., Sweden	7,761	257
Other	20,890	50,591
Total	**67,680**	**479,953**

(f) The Government of the Republic of Serbia prepared a set of measures in order to decrease budget deficit for 2009, which included introduction of 10% additional temporary tax on mobile telephony services starting from 1 June 2009. Mobile operators are obliged to pay, by the 15th of a month, a tax on mobile phones, both on prepaid services and postpaid invoices from a previous month.

As of 31 December 2010, the Group recognized the aforementioned tax liability in the amount of RSD 634,138 thousand, and recorded it within Value added tax and other tax liabilities (31 December 2009: RSD 564,948 thousand).

31. OFF-BALANCE SHEET ITEMS

	2010	2009
Issued promissory notes (a)	9,848,336	11,606,023
Guarantees received (b)	51,738	27,843
Property and equipment in liquidation	2,072,932	1,872,328
Other off-balance sheet items (c)	4,834,441	3,659,927
Balance as of 31 December	**16,807,447**	**17,166,121**

(a) Promissory notes were issued in favour of banks, state authorities and suppliers as collateral for securing regular and timely repayment of financial and commodity loans, as well as other liabilities from ordinary course of business. Promissory notes issued in favour of state authorities represent collateral for securing repayment of liabilities to the Ministry of Finance of the Republic of Srpska for the loans granted by EBRD and the Ministry of Finance and Treasury of Bosnia and Herzegovina for the GSM license.

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

	2010	2009
Issued promissory notes in favour of:		
- Banks	5,688,227	4,711,697
- State authorities	2,244,712	3,066,602
- Suppliers	1,915,397	3,827,724
Balance as of 31 December	**9,848,336**	**11,606,023**

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

	2010	2009
Societe Generale banka Srbija a.d., Belgrade	49,294	1,301
NLB Montenegro banka a.d., Podgorica	2,444	3,784
Banca Intesa a.d., Belgrade	-	22,002
AIK banka a.d., Nis	-	756
Balance as of 31 December	**51,738**	**27,843**

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

32. RELATED PARTY DISCLOSURES

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

As presented in the following tables, as of 31 December 2010, the Group did not disclose receivables and payables from/to JP PTT saobracaja "Srbija", Belgrade ("JP PTT") as related party transactions, considering the fact that on 24 September 2010, subsequent to the transfer of 80% of shares to the Republic of Serbia (Note 25), JP PTT ceased to be the shareholder of the Parent Company and the ultimate parent of the Group.

As of 31 December 2010, receivables from JP PTT and payables toward JP PTT are presented within domestic trade receivables (Note 22) and domestic trade payables (Note 28), respectively.

(a) **Outstanding balances of receivables and liabilities** as of 31 December 2010 and 2009, arising from the purchase and/or sale of goods/services from/to the shareholders (Note 25) are summarized below:

	2010	**2009**
RECEIVABLES		
Gross accounts receivable (Note 22):		
- JP PTT	-	154,509
- OTE	7,629	17,438
	7,629	**171,947**
Less: Allowance for impairment - JP PTT	-	(471)
Total	**7,629**	**171,476**
Payments in advance:		
JP PTT	-	168
Total		**168**
Other receivables and accrued income:		
JP PTT:		
- other receivables	-	1,141
	-	1,141
OTE:		
- accrued income from international settlement	5,217	24,618
	5,217	24,618
Total	**5,217**	**25,759**
Total receivables and accrued income	**12,846**	**197,403**

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

32. RELATED PARTY DISCLOSURES (Continued)

(a) Receivables and Liabilities (Continued)

	2010	2009
LIABILITIES		
Accounts payable (Note 28):		
- JP PTT	-	484,797
- OTE	3,015	3,627
Total	**3,015**	**488,424**
Other current liabilities and accruals:		
JP PTT:		
- deferred income – TT services	-	2,783
	-	2,783
OTE:		
- accrued expenses from international settlement	16,576	9,488
	16,576	9,488
Total	**16,576**	**12,271**
Total liabilities and accruals	**19,591**	**500,695**

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

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

32. RELATED PARTY DISCLOSURES (Continued)

(b) Transactions with the shareholders, i.e. **revenues and expenses** for the years ended 31 December 2010 and 2009, respectively, are summarized below:

	2010	2009
JP PTT		
Revenues:		
Income from fixed telephony, internet and other services	264,812	309,391
Income from mobile telephony	61,458	85,551
Physical/technical security and cleaning	380,706	512,821
Reversal of impairment loss	-	8,662
Mobile phones	1,972	-
Other	-	127
	708,948	**916,552**
Expenses:		
Rents	(2,028,473)	(2,314,370)
Cost of delivery and collection of phone bills and telegrams	(776,595)	(1,324,017)
Printing services	(2,009)	(5,463)
Electricity	(246,160)	(312,098)
Electronic data processing	(37,200)	(70,660)
City land rental fee	(992)	(17,101)
Postal services	(20,898)	(27,413)
Utilities	(28,311)	(38,930)
Maintenance	(33,025)	(73,255)
CALL centre services	(12,085)	(22,589)
Fees and commissions	(7,392)	(8,576)
Other	(9,145)	(6,066)
	(3,202,285)	**(4,220,538)**
Net expenses	**(2,493,337)**	**(3,303,986)**
OTE		
Revenues:		
International settlement	96,511	148,245
	96,511	**148,245**
Expenses:		
International settlement	(30,738)	(57,487)
	(30,738)	**(57,487)**
Net income	**65,773**	**90,758**
Total expenses, net	**(2,427,564)**	**(3,213,228)**

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

32. RELATED PARTY DISCLOSURES (Continued)

(c) **Salaries and other benefits** of directors and other key management personnel of the Group (Director Manager, Deputy General Manager, Chief Officers, Function and Department Managers), for the years ended 31 December 2010 and 2009 were as follows:

	2010	**2009**
Gross salaries	390,353	424,868
Compensations for business trips	23,559	26,484
Residential housing loans	149,845	181,517
Employee profit-sharing	87,570	68,600
Loans for repurchase of vehicles	28,791	29,855
Voluntary termination of employment	-	8,805
Retirement Benefits	2,248	757
Settled jubilee awards	746	676
Total	**683,112**	**741,562**

The housing loans to key management personnel are repayable monthly over at most 25 years and have been granted under the same conditions as for other Group's employees (Note 20).

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

33. COMMITMENTS

Commitments comprise the following:

	2010	**2009**
Operating lease commitments (a)	11,537,921	18,175,010
Construction of the mobile and fixed-line telecommunication network (b)	2,470,477	2,997,133
Balance as of 31 December	**14,008,398**	**21,172,143**

33. COMMITMENTS (Continued)

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

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

	2010	2009
Up to 1 year	1,862,811	9,228,736
From 1 to 5 years	5,294,853	5,899,296
Over 5 years	4,380,257	3,046,978
	11,537,921	**18,175,010**

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

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

34. CONTINGENT LIABILITIES

(a) Litigations

As of 31 December 2010, the total estimated value of potential damage claims arising from legal proceedings filed against the Group and still in course amounts to RSD 4,187,858 thousand (31 December 2009: RSD 573,246 thousand), excluding penalty interest that may arise thereto.

Out of the aforementioned amount, the estimated contingent liabilities arising from lawsuits filed against the Parent Company amount to RSD 732,947 thousand, while the remaining damage claims relate to the Consolidated Subsidiaries “Telekom Srpske” in the amount of RSD 3,353,870 thousand, “Mtel” in the amount of RSD 24,828 thousand, “Fibernet” in the amount of RSD 75,163 thousand and “Telus” in the amount of RSD 1,050 thousand, respectively.

On 19 May 2010, the lawsuit against the Consolidated Subsidiary “Telekom Srpske” was filed by the company “Aneks”, Banja Luka claiming damages in the amount of RSD 2,237,540 thousand based on an illegal agreement, abuse of dominant position as well as unfair competition on the telecommunication market of Bosnia and Herzegovina.

Moreover, on 26 February 2010, the lawsuit was filed by the company “Crumb group”, Bijeljina in the amount of RSD 539,404 thousand based on impossibility to execute an agreement on interconnection and accession to the existing telecommunication infrastructure.

35. CONTINGENT LIABILITIES (Continued)

(a) Litigations (Continued)

The final outcome of the legal proceedings still in course is uncertain. As disclosed in Note 26 to the consolidated financial statements, as of 31 December 2010, the Group recognized the provision of RSD 251,601 thousand (31 December 2009: RSD 141,471 thousand) for potential losses that might arise as a result of the aforementioned litigations. The Group's management considers that no material liabilities will arise as a result of the legal proceedings still in course, other than those provided for.

(b) Tax Risks

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

35. OPERATING SEGMENT INFORMATION

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

At 31 December 2010, for management purposes, the Group's activities are organized into five reportable operating segments based on their products and services as follows:

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

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

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

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

35. OPERATING SEGMENT INFORMATION (Continued)

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

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

	Mobile telephony	Internet	Multimedia services	CDMA services	Fixed telephony and other services	Total
Sales	54,101,499	6,128,854	418,060	558,831	51,585,824	112,793,068
Other income	2,440,595	50,935	20,283	5,607	2,079,643	4,597,063
Inter-segment settlement	6,259,084	63	-	106,700	8,490,867	14,856,714
Operating income	**62,801,178**	**6,179,852**	**438,343**	**671,138**	**62,156,334**	**132,246,845**
Wages, salaries and other personnel expenses	(3,667,449)	(1,117,184)	(657,211)	(127,883)	(12,993,531)	(18,563,258)
Charges of other network operators	(6,804,772)	-	-	-	(6,771,044)	(13,575,816)
Cost of material and maintenance	(6,783,318)	(1,004,895)	(174,439)	(31,389)	(5,320,633)	(13,314,674)
Depreciation and amortization	(9,493,635)	(373,342)	(447,481)	(189,230)	(14,097,556)	(24,601,244)
Rental costs	(2,242,478)	(208,836)	(135,883)	(68,830)	(2,707,705)	(5,363,732)
Other operating expenses	(9,902,932)	(458,514)	(764,558)	(66,334)	(5,737,837)	(16,930,175)
Inter-segment settlement	(5,860,929)	(2,482,064)	-	(177,542)	(6,336,179)	(14,856,714)
Operating expenses	**(44,755,513)**	**(5,644,835)**	**(2,179,572)**	**(661,208)**	**(53,964,485)**	**(107,205,613)**
Operating profit/ (loss)	**18,045,665**	**535,017**	**(1,741,229)**	**9,930**	**8,191,849**	**25,041,232**
Interest income	474,560	42,426	2,480	3,688	819,629	1,342,783
Interest expense	(1,258,723)	(29,023)	(28,621)	(5,157)	(1,136,864)	(2,458,388)
Foreign exchange losses, net	(2,689,213)	(29,950)	(44,045)	2,524	(3,241,682)	(6,002,366)
Other financial income	8,657	-	-	-	246	8,903
	(3,464,719)	**(16,547)**	**(70,186)**	**1,055**	**(3,558,671)**	**(7,109,068)**
Profit/(loss) before tax	**14,580,946**	**518,470**	**(1,811,415)**	**10,985**	**4,633,178**	**17,932,164**
Income tax expense	(699,352)	(24,868)	-	(527)	(222,223)	(946,970)
Profit/(loss) for the year	**13,881,594**	**493,602**	**(1,811,415)**	**10,458**	**4,410,955**	**16,985,194**

The reportable segments' revenues, expenses and results have been presented in the manner and in the format in which the management of the Group continuously review their performance for internal purposes.

35. OPERATING SEGMENT INFORMATION (Continued)

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

The reportable segments' results for the year ended 31 December 2009 are as follows:

	Mobile telephony	Internet	Multimedia services	CDMA services	Fixed telephony and other services	Total
Sales	56,382,117	3,944,100	75,416	305,773	48,822,437	109,529,843
Other income	1,189,163	83,911	50,513	2,881	2,180,805	3,507,273
Inter-segment settlement	7,711,314	25,986	-	-	7,619,804	15,357,104
Operating income	**65,282,594**	**4,053,997**	**125,929**	**308,654**	**58,623,046**	**128,394,220**
Wages, salaries and other personnel expenses	(3,955,754)	(741,957)	(319,347)	(173,687)	(13,502,343)	(18,693,088)
Charges of other network operators	(6,780,753)	-	-	-	(6,500,008)	(13,280,761)
Cost of material and maintenance	(6,024,662)	(733,854)	(78,080)	(21,403)	(5,246,032)	(12,104,031)
Depreciation and amortization	(9,202,006)	(278,400)	(205,471)	(42,342)	(13,334,828)	(23,063,047)
Rental costs	(1,936,620)	(142,661)	(71,128)	(35,784)	(2,434,079)	(4,620,272)
Other operating expenses	(12,407,974)	(307,140)	(256,980)	(52,033)	(5,374,666)	(18,398,793)
Inter-segment settlement	(5,714,395)	(1,916,061)	-	-	(7,726,648)	(15,357,104)
Operating expenses	**(46,022,164)**	**(4,120,073)**	**(931,006)**	**(325,249)**	**(54,118,604)**	**(105,517,096)**
Operating profit/ (loss)	**19,260,430**	**(66,076)**	**(805,077)**	**(16,595)**	**4,504,442**	**22,877,124**
Interest income	590,647	29,738	873	2,132	746,024	1,369,414
Interest expense	(2,272,347)	(7,998)	(9,761)	-	(1,755,132)	(4,045,238)
Foreign exchange losses, net	(2,210,279)	(14,827)	(8,545)	(370)	(3,755,416)	(5,989,437)
Other financial income	11,160	335	-	-	73,180	84,675
	(3,880,819)	**7,248**	**(17,433)**	**1,762**	**(4,691,344)**	**(8,580,586)**
Profit/(loss) before tax	**15,379,611**	**(58,828)**	**(822,510)**	**(14,833)**	**(186,902)**	**14,296,538**
Income tax expense	(982,975)	-	-	-	-	(982,975)
Profit/(loss) for the year	**14,396,636**	**(58,828)**	**(822,510)**	**(14,833)**	**(186,902)**	**13,313,563**

Inter-segment revenues and expenses are eliminated on consolidation.

The reportable operating segments derive their revenue from sales of fixed and mobile telephony services, internet retail services, multimedia and other services to external customers. A detailed breakdown of the sales by category, i.e. from all services is disclosed in Note 5 to the consolidated financial statements. The sale revenue from external customers reported to the management is measured in a manner consistent with that in the consolidated income statement.

35. OPERATING SEGMENT INFORMATION (Continued)

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

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

	Mobile telephony	Internet	Multimedia services	CDMA services	Fixed telephony and other services	Total
Assets	83,710,096	4,087,783	1,435,611	786,598	135,176,642	**225,196,730**
Liabilities	57,176,700	2,116,999	1,774,664	513,409	42,353,930	**103,935,702**
Capital expenditure (Notes 17 and 18)	7,243,077	2,739,115	1,117,345	445,071	8,506,785	**20,051,393**

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

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

The reportable segments' assets and liabilities at 31 December 2009 and capital expenditure for the year then ended are as follows:

	Mobile telephony	Internet	Multimedia services	CDMA services	Fixed telephony and other services	Total
Assets	87,903,278	3,129,626	1,052,831	982,581	135,422,321	**228,490,637**
Liabilities	62,233,175	789,870	465,227	883,297	54,524,990	**118,896,559**
Capital expenditure (Notes 17 and 18)	8,583,915	601,937	654,863	522,462	11,770,695	**22,133,872**

Segments' assets do not include Goodwill (RSD 30,528,110 thousand), deferred tax assets (RSD 1,076,482 thousand) and receivables for overpaid income tax (RSD 88,671 thousand), while segments' liabilities do not include deferred tax liabilities (RSD 2,133,774 thousand), as these assets and liabilities are managed on the Group's level.

35. OPERATING SEGMENT INFORMATION (Continued)

(b) Information about Geographical Areas

The country of origin of the Group (the Parent Company), which is also the main operating territory, is the Republic of Serbia. Revenues are allocated on the basis of the country in which the service is provided.

The Group's revenues are predominantly generated in the Republic of Serbia (68%). Revenues generated in the Republic of Srpska amount to 21%, while revenues generated in the Republic of Montenegro amount to 4% of the total consolidated revenues. The remaining revenues (7%) relate to international settlement services, roaming and other services on foreign markets.

Total assets are allocated based on where the assets are located. The total of non-current assets of the Group other than financial instruments and deferred tax assets (there are no employment benefit assets and right arising under insurance contracts) located in the Republic of Serbia amounts to RSD 117,306,107 thousand as of 31 December 2010, and represents 53.4% of total non-current assets (31 December 2009: RSD 118,972,079 thousand or 55.2%).

The total of these non-current assets located in other countries amounts to RSD 102,285,785 thousand or 46.6% (31 December 2009: RSD 96,784,482 thousand or 44.8%). Out of this amount, 92.3% (RSD 94,383,500 thousand) and 7.2% (RSD 7,328,270 thousand) of the non-current assets are located in the Republic of Srpska and the Republic of Montenegro, respectively, while 0.5% of the non-current assets of the Group (RSD 574,015 thousand) are located in other foreign countries.

(c) Information about Major Customers

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

36. EVENTS AFTER THE REPORTING PERIOD

(a) Pursuant to the Law on amendments and supplements to the Law on the tax on the use, possession and carrying of goods ("RS Official Gazette" no. 101 dated 29 December 2010), starting from 1 January 2011 the tax on the use of mobile telephones in the Republic of Serbia was abolished.

(b) Pursuant to the Decision of the Shareholders' Assembly of the Parent Company no. 21164/3 dated 21 January 2011, preliminary distribution of profit earned for 2010 was approved based on the estimated operating results in 2010, in the amount of RSD 349,202 thousand as employee profit-sharing. Out of this amount, RSD 34,920 thousand relate to withholding tax.

On 31 January 2011, the payment in respect of employee profit-sharing was made in the amount equalling to a half of a gross salary per employee paid out in 2010. Distribution of the remaining portion will be made upon the adoption of the Parent Company's financial statements for the year ended 31 December 2010.

(c) On 27 January 2011, the Consolidated Subsidiary "Mtel" entered into the long-term loan agreement with the Societe Generale Group a.d., Podgorica totalling RSD 2,637,746 thousand. As collateral provided to secure the regular repayment of the aforementioned loan, 15 stamped bonds supported with a bond authorization clause were provided and the first ranking pledge on telecommunication equipment with the purchase value of RSD 376,523 thousand, acquired from the foreign supplier Ericsson A.B. Sweden, was inscribed.

(d) On 21 March 2011, the company "Telekom Austria" submitted the offer in the international tender announced by the Government of the Republic of Serbia for the purchase of the majority block of shares of the Parent Company.

37. EXCHANGE RATES

The official exchange rates of the National Bank of Serbia for major currencies used in the translation of consolidated balance sheet items denominated in foreign currencies as of 31 December 2010 and 2009 into the functional currency (RSD) were as follows:

		In RSD
	2010	2009
EUR	105.4982	95.8888
USD	79.2802	66.7285
BAM (KM)	53.9404	49.0272
SDR	122.3420	104.3481

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