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

Financial Statements for the
Year Ended 31 December 2009
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 and 2009 Financial Statements originally issued in the Serbian language

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BDO

Tel: +381 11 32 81 399
Fax: +381 11 32 81 808
www.bdo.co.rs

Knez Mihailova 10
11000 Beograd
Republika Srbija

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of a Joint stock telecommunications company "Telekom Srbija" a.d., Belgrade (hereinafter: the "Company"), which comprise the balance sheet as of 31 December 2009 and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. The statistical annex represents an integral part of these financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures 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 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 financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2009, and of its financial performance and its 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 financial statements.

INDEPENDENT AUDITOR'S REPORT

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

Emphasis of Matter

Without qualifying our opinion, we draw attention to the following matters:

(a) As disclosed in Note 36(a) to the financial statements, as of 31 December 2009, the total estimated value of potential damage claims that the Company might suffer as a result of adverse outcome of litigations filed against the Company still in course amounts to RSD 290,340 thousand, excluding any related penalty interest that may arise thereto. As of 31 December 2009, provision for the pending litigations stated in the Company's financial statements amounts to RSD 121,540 thousand (Note 28), based on the estimate of the final outcome of these legal proceedings made by the Company's Corporative Affairs Division. The Company'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.

(b) The effects of the ongoing global financial crisis that started to become felt in the Republic of Serbia in the last quarter of 2008, and which are still present with a moderate intensity, so far have had a limited impact on the Company's operations and its performance. Despite the fact that the information-communication technology sector is not among the most affected sectors, the Company has passed a set of measures in accordance with its risk management policies for the purposes of maintaining the satisfactory level of collection of receivables, liquidity and providing appropriate sources of financing, primarily for the settlement of borrowings in the future period. Although the Company's current liabilities as of 31 December 2009 exceed its current assets by RSD 14,829,862 thousand, the Company does not have liquidity problems, or problems with settlement of its liabilities. As disclosed in Note 3.5. to the financial statements, the management cannot reliably estimate the further effects of the crisis to the economic environment in the Republic of Serbia, or the impact on the financial position and the results of the Company's operations, but they consider that, in the given circumstances, they undertake all necessary measures in order to secure the sustainable growth and development of the Company.

Belgrade, 18 February 2010

Ksenija Ristić Kostić
Certified Auditor

MANAGEMENT'S REPRESENTATION

The Company's management is responsible for the preparation of the financial statements, which give a true and fair view of the financial position of the Company as of the end of the reporting period, and of its financial performance and its cash flows for the reporting period then ended in accordance with the accounting regulations prevailing in the Republic of Serbia, based on the Law on Accounting and Auditing. The Company's management is responsible for ensuring appropriate accounting records and preparation of financial statements, which will disclose with reasonable accuracy the financial position of the Company and its operating results, and which will enable them to ensure the financial statements comply with the accounting regulations prevailing in the Republic of Serbia, as well as other applicable laws' requirements. They also have a general responsibility for implementation of processes and controls to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The Company's management considers that, preparing the financial statements as of and for the year ended 31 December 2009, set out on pages 4 to 89, the Company 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 ("Official Gazette of the Republic of Serbia", no. 46/2006 and 111/2009) have been followed.

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

Branko Radujko	Georgios Christodoulopoulos
General Manager	Director of Economic Affairs Division

INCOME STATEMENT
For the Year Ended 31 December 2009
In RSD thousand

	Note	2009	2008 Restated
OPERATING INCOME			
Sales	6	85,473,127	82,534,606
Other operating income	7	564,376	959,664
		86,037,503	**83,494,270**
OPERATING EXPENSES			
Cost of goods sold		(51,156)	(435,143)
Cost of material	8	(4,398,891)	(4,170,985)
Wages, salaries and other personnel expenses	9	(13,010,299)	(12,595,133)
Depreciation, amortization and provisions	10	(16,857,302)	(16,145,056)
Other operating expenses	11	(30,794,730)	(29,666,867)
		(65,112,378)	**(63,013,184)**
OPERATING PROFIT		**20,925,125**	**20,481,086**
Financial income	12	8,025,550	10,770,328
Financial expenses	13	(11,077,611)	(22,311,420)
Other income	14	3,160,516	1,398,425
Other expenses	15	(5,079,153)	(4,305,754)
PROFIT FROM OPERATIONS BEFORE TAX		**15,954,427**	**6,032,665**
NET LOSS FROM DISCONTINUED OPERATIONS	16	-	(156,340)
PROFIT BEFORE TAX		**15,954,427**	**5,876,325**
INCOME TAXES	17		
Current tax expense		(537,607)	(575,987)
Deferred tax income		131,896	3,961
PROFIT FOR THE YEAR		**15,548,716**	**5,304,299**
EARNINGS PER SHARE			
Basic earnings per share	27	**14.40**	**4.91**

The accompanying notes on pages 12 to 89
are an integral part of these financial statements.

The accompanying financial statements were authorized for issue by the Managing Board of the Company on 18 February 2010 and were signed on its behalf by:

Branko Radujko
General Manager

Georgios Christodoulopoulos
Director of Economic Affairs Division

BALANCE SHEET
As of 31 December 2009
In RSD thousand

	Note	31 December 2009	31 December 2008 Restated
ASSETS			
Non-current assets			
Intangible assets	18	8,409,301	11,208,975
Advances for intangible assets		67,549	63,934
Property, plant and equipment	19	110,550,839	109,978,373
Advances for property and equipment	20	314,759	402,536
Investments in subsidiaries	21	58,046,388	57,289,282
Other long-term financial placements	22	1,151,217	1,198,314
		178,540,053	**180,141,414**
Current assets			
Inventories	23	5,439,097	6,603,583
Advances to suppliers		396,620	249,272
Accounts receivable	24	13,362,913	12,397,465
Receivables for overpaid income tax		19,264	171,386
Short-term financial placements		1,725	1,660
Cash and cash equivalents	25	9,461,806	4,861,350
Value added tax, prepayments and accrued income	26	2,622,452	2,474,929
		31,303,877	**26,759,645**
Deferred tax assets	17(c)	**850,184**	**718,288**
TOTAL ASSETS		**210,694,114**	**207,619,347**
EQUITY AND LIABILITIES			
Equity			
Share capital	27	82,512,552	82,512,552
Other capital		8,588	8,588
Reserves		589,634	589,634
Retained earnings		30,058,551	18,406,864
		113,169,325	**101,517,638**
Long-term provisions and non-current liabilities			
Long-term provisions	28	2,067,207	1,899,088
Long-term borrowings	29	49,319,642	49,750,462
Other long-term liabilities		4,201	4,951
		51,391,050	**51,654,501**
Current liabilities			
Current portion of long-term borrowings	29	23,547,419	30,767,772
Accounts payable	30	6,876,148	9,756,347
Other current liabilities	31	614,467	1,033,587
Value added tax and other tax liabilities, accruals and deferred income	32	15,095,705	12,889,502
		46,133,739	**54,447,208**
TOTAL EQUITY AND LIABILITIES		**210,694,114**	**207,619,347**
OFF-BALANCE SHEET ITEMS	33	**7,920,151**	**22,100,270**

The accompanying notes on pages 12 to 89
are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
For the Year Ended 31 December 2009
In RSD thousand

	Share capital	Other capital	Reserves	Retained earnings	Total
Balance as of 1 January 2008	**82,512,552**	**6,121**	**589,634**	**17,164,460**	**100,272,767**
Dividends paid	-	-	-	(4,061,895)	(4,061,895)
Movements on other capital, net	-	2,467	-	-	2,467
Profit for the year 2008	-	-	-	5,304,299	5,304,299
Balance as of 31 December 2008, restated	**82,512,552**	**8,588**	**589,634**	**18,406,864**	**101,517,638**
Dividends paid	-	-	-	(3,897,029)	(3,897,029)
Profit for the year 2009	-	-	-	15,548,716	15,548,716
Balance as of 31 December 2009	**82,512,552**	**8,588**	**589,634**	**30,058,551**	**113,169,325**

The accompanying notes on pages 12 to 89
are an integral part of these financial statements.

STATEMENT OF CASH FLOWS
For the Year Ended 31 December 2009
In RSD thousand

	2009	2008 Restated
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and advances received	102,430,701	97,710,351
Other receipts from operating activities	939,934	1,115,435
Payments to suppliers and advance payments to suppliers	(46,340,998)	(46,017,162)
Payments for wages, salaries and other personnel expenses	(13,308,715)	(11,922,485)
Interest paid	(3,449,938)	(4,663,318)
Income tax paid	(385,486)	(824,728)
Other public charges paid	(10,474,964)	(7,648,202)
Net cash flows from operating activities	**29,410,534**	**27,749,891**
CASH FLOWS FROM INVESTING ACTIVITIES		
Receipts from sale of intangible assets and property and equipment	11,601	38,363
Other financial placements (net inflows)	-	1,500,000
Interest received	613,913	467,152
Dividends received	5,094,484	316,454
Investment liability paid – "Telekom Srpske"	-	(4,082,820)
Purchase of equity instruments – "FiberNet", Montenegro	(757,106)	(127,675)
Purchase of intangible assets and property and equipment	(14,109,467)	(20,475,333)
Other financial placements (net outflows)	(4,640)	(119,282)
Net cash flows used in investing activities	**(9,151,215)**	**(22,483,141)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (payments)/receipts from borrowings	(7,651,923)	8,873,167
Net payments of other liabilities	(218)	(86)
Dividends paid	(3,897,029)	(4,061,895)
Net cash flows (used in)/from financing activities	**(11,549,170)**	**4,811,186**
Net increase in cash and cash equivalents	8,710,149	10,077,936
Cash and cash equivalents, beginning of the year	4,861,350	2,930,429
Foreign exchange losses on cash and cash equivalents' translation, net	(4,109,693)	(8,147,015)
Cash and cash equivalents, end of the year (Note 25)	**9,461,806**	**4,861,350**

The accompanying notes on pages 12 to 89
are an integral part of these financial statements.

STATISTICAL ANNEX
For the Year Ended 31 December 2009
In RSD thousand

I GENERAL CORPORATE INFORMATION

	2009	2008
Number of months of operations (1 to 12)	12	12
Size indication (1 to 3)	3	3
Ownership structure indication (1 to 5)	4	4
Number of foreign entities holding a share in capital	1	1
Average number of employees, based on the number at the end of each month (whole number)	9,594	9,820

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	23,151,649	(11,878,740)	11,272,909
Additions during the year	541,795	-	541,795
Disposals	(1,907,310)	-	(3,337,854)
Revaluation	-	-	-
Balance at end of year	**21,786,134**	**(13,309,284)**	**8,476,850**
2. Property, plant, equipment and biological assets			
Balance at beginning of year	188,382,908	(78,001,999)	110,380,909
Additions during the year	15,157,447	-	741,800
Disposals	(1,587,787)	-	(257,111)
Revaluation	-	-	-
Balance at end of year	**201,952,568**	**(91,086,970)**	**110,865,598**

III INVENTORY STRUCTURE

	2009	2008 Restated
Material	5,409,122	6,586,655
Work in progress	-	-
Finished goods	-	-
Merchandise	29,975	16,928
Non-current assets held for sale	-	-
Payments in advance	396,620	249,272
Total	**5,835,717**	**6,852,855**

STATISTICAL ANNEX (Continued)
For the Year Ended 31 December 2009
In RSD thousand

IV CAPITAL STRUCTURE

	2009	2008 Restated
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

	2009	2008 Restated
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

	2009	2008 Restated
Trade receivables (balance at end of year)	13,087,851	11,914,142
Accounts payable (balance at end of year)	6,689,034	8,028,309
Receivables from insurance companies for damage compensations during the year (debit turnover without opening balance)	9,164	1,471
VAT – previous tax (annual amount as per tax returns)	7,441,992	8,804,095
Accounts payable (credit turnover without opening balance)	85,671,604	93,091,660
Liabilities for net salaries and fringe benefits (credit turnover without opening balance)	6,577,262	6,497,533
Liabilities for payroll taxes born by the employee (credit turnover without opening balance)	1,018,975	992,447
Liabilities for payroll contributions born by the employee (credit turnover without opening balance)	1,561,673	1,419,069
Liabilities for dividends, profit-sharing and personal income of the employer (credit turnover without opening balance)	3,897,029	3,899,419
Liabilities to natural persons for services rendered based on agreements (credit turnover without opening balance)	254,921	136,956
Liabilities for VAT (annual amount as per tax returns)	15,507,652	15,782,058
Control total	**141,717,157**	**150,567,159**

STATISTICAL ANNEX (Continued)
For the Year Ended 31 December 2009
In RSD thousand

VII OTHER EXPENSES

	2009	2008 Restated
Fuel and energy	879,918	797,506
Gross salaries and fringe benefits	9,156,446	8,891,709
Payroll taxes and contributions born by the employer	1,563,832	1,425,575
Gross benefits of natural persons for services rendered based on agreements	403,816	207,778
Gross remuneration to the Managing Board' and Supervisory Board's members	6,244	26,217
Other personal expenses	1,879,961	2,043,854
Production services	26,983,375	25,771,497
Rental expenses	3,665,133	3,187,170
Land-rental expenses	23,278	26,920
Research and development costs	4,521	3,698
Depreciation/amortization charge	16,574,030	15,713,244
Insurance premium costs	497,744	477,471
Bank charges and payment operations costs	271,957	250,951
Membership fees	52,940	47,176
Taxes	983,996	983,012
Contributions	-	-
Interest expenses	3,316,005	4,795,052
Interest expenses and a portion of financial expenses	3,316,005	4,795,779
Interest expenses on borrowings from banks and other financial institutions	2,871,210	4,344,990
Costs of humanitarian, cultural, health, educational, scientific and religious purposes, environmental protection and sports purposes	173,872	291,829
Control total	**72,624,283**	**74,081,428**

VIII OTHER INCOME

	2009	2008 Restated
Income from sale of goods	35,824	274,635
Premiums, subventions, subsidies, regress, compensations and recovery of tax duties	9,433	-
Conditional donations	404,180	407,616
Land-rental income	-	-
Membership fees	-	-
Interest income	1,089,225	1,041,387
Interest income on accounts and deposits held with banks and other financial institutions	665,806	592,005
Dividend income	5,094,484	318,316
Control total	**7,298,952**	**2,633,959**

STATISTICAL ANNEX (Continued)
For the Year Ended 31 December 2009
In RSD thousand

IX OTHER INFORMATION

	2009	2008 Restated
Excise duties (as per annual calculation of excise duties)	-	-
Customs and other import duties (annual total as per calculation)	287,171	1,144,378
Capital subventions and other government grants for construction and acquisition of property, plant, equipment and intangible assets	-	251
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 natural persons	437,589	193,149
Entrepreneurs' personal income from net profit (to be completed only by entrepreneurs)	-	-
Control total	**724,760**	**1,337,778**

The accompanying notes on pages 12 to 89
are an integral part of these financial statements.

1. CORPORATE INFORMATION

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

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 Company 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 Company issued a certificate representing 1,080,000 fully-paid, registered ordinary voting shares with an individual par value of RSD 10 thousand and also performed a special issuance of "Golden Share" to the Government of the Republic of Serbia. The Golden Share bestows entitlements to their bearers, which include voting rights and presence to the 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 Company, amendments to the Statute and other rights determined by the Statute of the Company. This share may solely be held by the Government of the Republic of Serbia represented by its appointed representative(s).

The 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 Official Gazette of the FRY, no. 29 dated 26 June 1996.

In June 1997, 49 percent of the 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 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 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 Company's Shareholders' Assembly at its 11th Special Session held in December 2004.

On 5 November 2009, the Government of the Republic of Serbia passed a Conclusion no. 410-7142/2009 whereby it was recommended to the Company to engage, in cooperation with the Ministry of Telecommunications and Information Society, an advisor to prepare the analysis and give recommendation for long-term sustainable operations of the Company and JP PTT, and to make a list of telecommunication infrastructure, telecommunication networks, devices and equipment, spare parts, tools and instruments, office furniture and equipment and other assets in order to provide all necessary conditions for transfer of the Company's shares from JP PTT to the Republic of Serbia.

The 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 Company was reincorporated with the Serbian Business Registers Agency.

1. CORPORATE INFORMATION (Continued)

In accordance with the amendments to the Law on Telecommunications of the Republic of Serbia, on 19 June 2006 the Company's Managing Board passed a Decision on establishment of the following organizational units: Mobile Network Division and Internet Service Department. Moreover, Multimedia Services Department was established at the end of 2007. The newly established units are registered with the Serbian Business Registers Agency as separate parts of the Company. These parts, however, are not separate legal entities and they are authorized to act exclusively on behalf and for the account of the Company in legal operations.

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

The Company also supplies leases, construction, management and security services in the area of network infrastructure. Furthermore, the Company has the rights to provide directory services including "White" and "Yellow Pages", operator-assisted services and electronic directory services relating to fixed telephony services. In 1998, the Company introduced GSM mobile telecommunication services.

The Company's position as an exclusive supplier of fixed-line telephony services was to remain effective until 9 June 2005, the date upon which such market standing was eradicated, as in accordance with the Law on Telecommunications of the Republic of Serbia ("Official Gazette of the Republic of Serbia", no. 44 of 24 April 2003 with amendments in no. 36 of 27 April 2006).

On 24 March 2006, at the meeting of the Managing Board of the Republic Agency for Telecommunications (the "Agency" or "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 Company was selected as the public telecommunications operator to provide the services related to the public fixed telephony network with a significant market role. In accordance with the aforementioned, the Agency ordered that the Company must obtain prior approval from the Agency for each price change in the services it offers, for which it is licensed.

On 13 April 2007, the Company was granted a new 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.

On 28 July 2006, the Company was granted a new 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.

1. CORPORATE INFORMATION (Continued)

The Company's Managing Board adopted the Rules on the organization of the Joint Stock Telecommunications Company "Telekom Srbija" a.d. at its 42nd regular session, held on 30 July 2008. The new organization with amendments approved by the Company's Managing Board at its 48th regular session, held on 26 November 2009, includes basic functions (Commercial Affairs Division and Technical Affairs Division), economic function, corporate and logistic functions and support functions. The strategic plan of the Company's operations for the next five years was adopted by the Company's Shareholders' Assembly on 25 September 2008.

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). The list of the granted authorizations by RATEL was extended during the year ended 31 December 2009.

On 31 March 2009, RATEL published 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.

The Company is domiciled in Belgrade, 2 Takovska Street, the Republic of Serbia. At 31 December 2009, the Company had 9,655 employees (31 December 2008: 9,640 employees).

The Company holds equity instruments of the following subsidiaries (Note 21):

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

The Company's Managing Board at its 47th regular session, held on 22 July 2009, passed the Decision on founding the new legal entity "TS:NET BV" domiciled in the Kingdom of the Netherlands, Amsterdam (Note 38(b)).

These separate financial statements were authorized for issue by the Managing Board of the Company on 18 February 2010.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis of Preparation and Presentation of the Financial Statements

The accompanying 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 ("Official Gazette of the Republic of Serbia", 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 financial statements have been prepared under the historical cost convention and going concern principle.

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

The financial statements include accounts receivable, accounts payable, operations result, statement of changes in equity and cash flow statement of the Company, excluding its subsidiaries.

The financial statements are presented in the format prescribed by the "Rulebook on the Contents and Form of the Financial Statements of Enterprises, Cooperatives and Entrepreneurial Ventures" ("Official Gazette of the Republic of Serbia", 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 financial statements do not fully comply with IFRS, and therefore, they cannot be considered as the financial statements prepared and presented in accordance with IFRS.

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

The accounting policies and accounting estimates adopted in the preparation of these financial statements are consistent with those followed in the preparation of the Company's annual financial statements for the year ended 31 December 2008, except for the adoption of amended Standards and new Interpretations noted below, whose application did not have material effect on the financial position or performance of the Company.

(a) New Standards, Amendments and Interpretation to published Standards effective in 2009

The application of the following standards, amendments and interpretations (IFRIC) to published standards mandatory for the first time for annual periods beginning on or after 1 January 2009 did not result in substantial changes to the Company's accounting policies and did not have material impact on the Company's financial statements in the periods of their first application:

- Revised IAS 1 "Presentation of Financial Statements". IAS 1 has been revised to upgrade the quality of the information presented in the financial statements. The revised standard introduces minor changes in presentation and titles of certain financial statements in the interest of comparability and consistency.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(a) New Standards, Amendments and Interpretation to published Standards effective in 2009 (Continued)

The revised standard prohibits the presentation of items of income and expenses (that is, “non-owner changes in equity“) in the statement of changes in equity, requiring “non-owner changes in equity“ to be presented separately from owner changes in equity. All non-owner changes in equity are required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). The Company has elected to present one statement – a statement of comprehensive income.

- Amendments to IFRS 2 “Share-based Payment“. The amended standard deals with vesting conditions and cancellations. It clarifies two issues: the definition of “vesting condition”, introducing the term “non-vesting condition” for conditions other than service conditions and performance conditions. The Amendment to IFRS 2 is not relevant to the Company’s operations due to the absence of such arrangements.

- Amendments to IFRS 7 “Financial Instruments: Disclosures“ – Improving Disclosures about Financial Instruments. The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurement by level of a fair value measurement hierarchy. As the change in accounting policy only results in additional disclosures, there is no impact on earnings per share.

- IFRS 8 “Operating Segments“ replaces IAS 14 “Segment Reporting“ and aligns segment reporting with the requirements of the US standard SFAS 131, “Disclosures about Segments of an Enterprise and Related Information“. The new standard requires a ”management approach”, under which segment information is presented on the same basis as that used for internal reporting purposes. The Company has a non-complex structure of different business activities. Therefore, the Company concluded that the operating segments determined in accordance with IFRS 8 are the same as the business segments previously identified under IAS 14.

- Revised IAS 23 “Borrowing Cost“, which applies to borrowing cost relating to qualifying assets. It requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The option of immediately expensing those borrowing costs has been removed. The Company has amended its accounting policy accordingly, which did not result in any change in its financial position or performance, due to absence of qualifying assets that meet the definition under the IAS 23 requirements.

- Amendments to IAS 32 “Financial Instruments: Presentation“ and IAS 1 “Presentation of Financial Statements“ – Puttable Financial Instruments and Obligations Arising on Liquidations. The amendments to IAS 32 require that puttable financial instruments and obligations arising on liquidation are classified as equity if and only if they meet specific conditions. The amendments to IAS 1 require disclosures with respect to the puttable financial instruments that are classified as equity instruments. These amendments did not have any impact on the financial position or performance of the Company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(a) New Standards, Amendments and Interpretation to published Standards effective in 2009 (Continued)

- IFRIC 13 "Customer Loyalty Programmes" (effective for annual periods beginning on or after 1 July 2008). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. The adoption of this interpretation has no material impact on the Company's financial statements.

- IFRIC 15 "Agreements for the Construction of Real Estate". This Interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The interpretation clarifies whether IAS 18 "Revenue", or IAS 11 "Construction Contracts", should be applied to particular transactions. IFRIC 15 is not relevant to the Company's operations due to the absence of such arrangements.

- IFRIC 16 "Hedges of a Net Investment in a Foreign Operation" (effective for annual periods beginning on or after 1 October 2008). IFRIC 16 clarifies the accounting treatment in respect of net investment hedging. This includes the fact that net investment hedging relates to differences in functional currency not presentation currency, and hedging instruments may be held anywhere in the group. The requirements of IAS 21 "The Effects of Changes in Foreign Exchange Rates" do apply to the hedged item. IFRIC 16 is not relevant to the Company's operations, as the Company has not entered into such hedges.

- IFRIC 18 "Transfers of Assets from Customers" (prospectively 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 Company's financial statements.

- Amendments to various standards (IAS 1, IAS 8, IAS 10, IAS 16, IAS 19, IAS 20, IAS 23, IAS 27, IAS 28, IAS 29, IAS 31, IAS 34, IAS 36, IAS 38, IAS 39, IAS 40 and IAS 41), which are part of the IASB's annual improvements project published in May 2008. These amendments result both in accounting changes for presentation, recognition or measurement purposes, but primarily in terminology and editorial changes in order to remove inconsistencies and clarify wording. There are separate transitional provisions for each standard. The adoption of amendments to the above standards did not result in substantial changes to accounting policies and did not have any impact on the financial position or performance of the Company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(b) New Standards, Amendments and Interpretation to published Standards that are not yet effective and have not been early adopted by the Company

The following standards, amendments to existing standards and interpretations have been published and are mandatory for the Company's accounting periods beginning on or after 1 January 2010 or later periods, but the Company has not early adopted them:

- Revised IFRS 3 "Business Combinations" and complementary Amendments to IAS 27 "Consolidated and Separate Financial Statements" (both effective for annual periods beginning on or after 1 July 2009). The revised IFRS 3 introduces a series of changes in the accounting treatment of business combinations which will affect the amount of the recognized goodwill, income statement (the statement of comprehensive income) for the year that the business combination takes place and future 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 profit and loss.

- 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.

- Amendments to IFRIC 9 "Reassessment of Embedded Derivatives" and IAS 39 "Financial Instruments: Recognition and Measurement" – Embedded Derivatives (effective for annual periods ending on or after 30 June 2009). The amendment to IFRIC 9 requires an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit and loss category.

- 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.

- 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(b) New Standards, Amendments and Interpretation to published Standards that are not yet effective and have not been early adopted by the Company (Continued)

- 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 improvements project published in April 2009 (most of them effective for annual periods beginning on or after 1 January 2010). These amendments result both in accounting changes for presentation, recognition or measurement purposes, but primarily in removal of inconsistencies and terminology or editorial changes.

The Company will apply the above stated amendments to the standards and interpretations from 1 January 2010. The Company'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 Company's financial statements in the periods of their first application.

2.2. Comparative Figures

Comparative figures represent the audited annual financial statements as of and for the year ended 31 December 2008, 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 Company restated the comparative figures to account for the effects of error adjustments as disclosed in Note 5 to these financial statements. The amounts of the corrections relating to periods prior to those included in the comparative information in the accompanying financial statements are adjusted against the opening balance of retained earnings in the earliest period presented (FY 2008).

2.3. Domestic 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.

2.3.1. 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 one month in advance, irrespective of a subscriber's use of the network.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Domestic Fixed and Mobile Telephony Income (Continued)

2.3.1. Fixed Telephony Income (Continued)

(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) Other Income from Telecommunication Services

Other income primarily includes the 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.

2.3.2. 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, at the moment in which the services have been provided.

Prepaid services 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 "Deferred income".

2.3.3. 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.

2.4. Income and Expenses from International Settlements

2.4.1. Income and Expenses from International Fixed Telephony Traffic and Settlements

Income and expenses from direct international traffic and 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4. Income and Expenses from International Settlements (Continued)

2.4.2. Income and Expenses from Roaming

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

2.5. Interconnection Income and Expenses

Interconnection income and expenses are recognized as they are incurred in gross amounts, and are presented under sales revenue and other operating expenses.

2.6. Operating Leases

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

Revenues based on operating leases are recognized in the income statement in the period to which they relate.

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

2.7. Sales of Handsets and Cost of Goods Sold

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

2.8. Maintenance and Repairs

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

2.9. Borrowing Costs

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10. Dividend Income

Dividend income is recognized when the right to receive payment is established.

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

Balance sheet and income statement items stated in the financial statements are valued by using currency of primary economic environment (functional currency). As disclosed in Note 2.1., the accompanying financial statements are stated in thousands of Dinars (RSD), which represents the functional and official reporting currency of the Company.

Assets and liabilities' components denominated in foreign currencies are translated into RSD at the official exchange rates published by the National Bank of Serbia, prevailing at the reporting date (Note 39). Foreign currency transactions are translated into RSD at the official exchange rates published by the National Bank of Serbia, 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 income statement, as part of finance income/expense (Notes 12 and 13).

Income or expenses arising upon the translation of assets and liabilities by applying contractual foreign currency clause are credited or debited as appropriate, to the income statement, as part of finance income/expense (Notes 12 and 13).

2.12. Property, Plant and Equipment

Property, plant and equipment of the Company at 31 December 2009 comprise property and equipment. Property and equipment are stated at cost less accumulated depreciation.

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 investment in property and equipment, which value at the time of acquisition is higher than the average gross salary in the Republic of Serbia according to the most recent data published by the Republic Bureau for Statistics, increases the cost of the asset. Capital improvements, renewals and repairs that extend the useful life of an asset are capitalized. Repairs and maintenance are expensed as incurred and are shown as operating expenses (Note 2.8.).

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 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 software, licenses, other rights, long-term rent and other intangibles. Intangible assets 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.

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 Company's management and adopted by the Company's Managing Board. Competent departments of the Company revise the useful life of property and equipment periodically.

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

Property	1.5% – 10%
Equipment for fixed telephony	2.5% – 50%
Equipment for mobile telephony	5% – 20%
Transportation equipment	10% – 33.33%
Computer equipment	16.66% – 33.33%
Other equipment	6.67% – 50%

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

License for fixed wireless access (CDMA)	10%
Software licenses	20% – 50%
Software licenses – mobile telephony	10%
Software	20% – 33.33%

Depreciation and amortization on property, plant, equipment and intangible assets begins when the related assets are placed in service. Land is not depreciated.

The calculation of the depreciation and amortization for tax purposes is determined by the Law on Corporate Income Tax of the Republic of Serbia and the Rules on the Manner of Fixed Assets Classification in Groups and Depreciation for Tax Purposes. Different depreciation methods used for the financial reporting purposes and the tax purposes give raise to deferred taxes (Note 17(c)).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.15. Impairment of Non-financial Assets

In accordance with adopted accounting policy, at each reporting date, the Company's management reviews the carrying amounts of the Company'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 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.

2.16. Inventories

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

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

Allowances that are charged to "Other 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 Company is mostly realized through MEAs (multi-element agreement), i.e. as a part of special packages.

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 Company's business strategy. The Company, in return, enters agreements with the package users for a certain periods of time which ensure future economic benefits to the Company. The Company 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 user.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.17. Investments in Subsidiaries

Subsidiary is a legal entity in which the Company possesses a stake of more than 50 percent, or otherwise holds more than half of voting rights, or the right to manage the financial (business) policy of the subsidiary. Equity investments in subsidiaries are stated at historical cost.

2.18. 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 Company's Balance sheet on the date upon which the Company becomes counterparty to the contractual provisions of a specific financial instrument.

2.18.1. Financial Assets

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

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

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

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

(a) Other Long-Term Financial Placements

Other long-term financial placements include the long-term interest-free receivables from employees based on approved 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 residential loans are measured based on their amortized cost using the interest rate at which the Company could obtain long-term borrowings, which is approximately the effective interest rate.

An allowance for impairment of receivables from employees is established when there is objective evidence that the Company will not be able to collect all amounts due according to original terms of the receivables.

(b) Accounts Receivable

Accounts receivable are stated at their invoiced values, less allowance for impairment. An allowance for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to original terms of the receivables.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.18. Financial Instruments (Continued)

2.18.1. Financial Assets (Continued)

(b) Accounts Receivable (Continued)

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy of financial reorganization, 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 recognized in the Income Statement within "Other expenses"(Note 15). 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 14).

2.18.2. Financial Liabilities

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

Financial liabilities are derecognized when the Company fulfils the obligations, or when the contractual repayment obligation has either been cancelled or has expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of the existing liability are substantially modified, such 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 Income statement.

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

(a) Loans Received from Banks and Suppliers

Loans received from banks and suppliers are initially measured at the amount of the loan disbursements received (i.e. fair value), and are subsequently stated at the amortized cost that is computed based on the contractual interest rate. The Company'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 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 Company's normal operating cycle, i.e. if payment is due within 12 months or less after the reporting period. All other liabilities are classified as non-current.

(b) Operating Liabilities

Trade payables and other short-term liabilities are subsequently measured at the amount of the consideration received.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.18. Financial Instruments (Continued)

2.18.3. Offsetting Financial Instruments

Financial assets and liabilities are offset and the net amount reported in the Balance sheet if, and only if 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.

2.19. Accrued Expenses and Income

Accruals are primarily comprised of the 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.

2.20. 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.

2.21. Granted Assets

Granted assets (e.g., telephony equipment, software, local area networks and related equipment) received from suppliers, 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.

2.22. Provisions and Contingencies

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.23. Employee Benefits

(a) Employee Taxes and Contributions for Social Security

In accordance with the regulations prevailing in the Republic of Serbia, the Company has an obligation to pay contributions to various state social security funds. These obligations involve the payment of contributions on behalf of the employee, by the employer in an amount calculated by applying the specific, legally-prescribed rates. The Company is also legally obligated to withhold contributions from gross salaries to employees, and on their behalf to transfer the withheld portions directly to the appropriate government funds. The Company has no legal obligation to pay further benefits due to its employees by the Pension Fund of the Republic of Serbia upon their retirement. These contributions payable on behalf of the employee and employer are charged to expenses in the period in which they arise.

(b) Obligations for Retirement Benefits and Jubilee Anniversary Awards

Pursuant to the Company's signed collective bargaining agreements (CBAs), the Company is obligated to pay retirement benefits in an amount equal to three monthly salaries earned by the employee in the month prior to the payment of his/her terminal wage, which is not to be less than three times the average gross salary effective in the Company in the month prior to the payment of his/her terminal wage.

Furthermore, the Company provides between one half and three average monthly salaries to be paid out as a jubilee employment anniversary award. The number of monthly salaries for jubilee employment anniversary awards corresponds to the total number of the employee's years of service in the Company or in JP PTT (except for the ten year jubilee award, which is related only to the years of service in the Company) as presented in the table below:

Total Number of Service Years	Number of Salaries
10	½
20	1
30	2
35	3

The Company 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 from the Company)

The 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. The funds for the aforementioned employees' reductions was provided from the Company's budget for fiscal year 2007 and the distribution of funds was made based on the declared voluntary redundancy contest conducted in 2007 and 2008, in accordance with the provisions stated under this act and in other applicable Company's acts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.23. Employee Benefits (Continued)

(c) *Termination of Employment (Voluntary Resignations from the Company)(Continued)*

The Company has not anticipated funds for this purpose for the year 2010. In accordance with the aforementioned plan for voluntary terminations, it has been envisaged for certain categories of employees that wish to voluntarily terminate his/her employment contract and at the same time does not fulfil the regular retirement requirements, could exercise his/her right to a specific termination benefit.

On 2 November 2009, the General Manager brought the Decision on announcement and distribution of funds for voluntary terminations from the Company for 2009. The contest was conducted in accordance with the aforementioned Business policy for stimulating voluntary employee terminations adopted in 2007.

The benefit amount 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 left the Company at the reporting date, and, consequently they have no further receivables from the 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 Company's body or other relevant management's decision, the Company recognizes a liability and an expense for employee profit-sharing.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.24. 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 Law on Corporate Income Tax of the Republic of Serbia. Income tax is payable at the rate of 10% on the tax base reported in the annual corporate income tax return as reduced by any applicable tax credits. The taxable base stated in the income tax return includes the profit shown in the statutory Income Statement, as adjusted for differences that are specifically defined under statutory tax rules.

In accordance with the Law on Corporate Income Tax of the Republic of Serbia, tax credits are recognized in the amount equal to 20% of the investment in property and equipment made, and can be used for setting off against future current tax liability in the amount that cannot exceed 50% of current tax liability. The tax credits in respect of investments in property and equipment can be used in the next ten years. The tax regulations in the Republic of Serbia 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 losses may be used to reduce or eliminate taxes to be paid in future periods, but only for duration of no longer than ten 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 recognized for all deductible temporary differences, carryforward 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 carryforward of unused tax credits and unused tax losses can be utilized. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.25. Earning per Share

The Company discloses basic earning per share. Basic earning per share is calculated by dividing net profit attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding during the period (Note 27).

2.26. Dividends on Ordinary Shares

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

2.27. Related Party Disclosures

For the purpose of these 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 Company 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 financial statements (Note 34).

2.28. Operating Segment Information

An operating segment is a component of the Company 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 Company'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 Company's management best estimation.

The segment information for the reportable operating segments, based on the Company's organization of business activities, is disclosed in Note 37.

3. FINANCIAL RISK MANAGEMENT

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

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

Categories of financial instruments, presented at their carrying amounts as of 31 December 2009 and 2008, are summarized in the table below:

	2009	2008 Restated
Financial assets		
Other long-term assets (loans and placements to employees)	1,151,217	1,198,314
Trade and other receivables, excluding prepayments and accrued income	13,780,522	12,819,783
Cash and cash equivalents	9,461,806	4,861,350
	24,393,545	**18,879,447**
Financial liabilities		
Borrowings	72,871,262	80,523,185
Payables and other current liabilities	8,569,238	11,296,243
	81,440,500	**91,819,428**

During the year ended 31 December 2009, the Company entered into agreements on forward transactions. No trading transactions with financial instruments, such as interest rate swaps or forwards, were undertaken by the Company during the year ended 31 December 2008.

3.1. Market Risk

(a) Currency Risk

The 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 and recognised assets and liabilities denominated in foreign currency.

Management 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 Company 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 Company entered into transactions with derivative financial instruments by signing agreements on forward transactions.

At 31 December 2009, 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 86.2999/105.4777) with all other variables held constant, profit after tax for the year 2009 would have been RSD 6,354,357 thousand (2008: RSD 7,736,351 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. Profit is less sensitive to fluctuations in foreign currency rates during the year ended 31 December 2009 than in 2008 due to decrease in EUR denominated borrowings, influencing consequently equity at 31 December 2009.

At 31 December 2009, financial assets in the amount of RSD 10,350,791 thousand (31 December 2008: RSD 6,914,993 thousand) are denominated in EUR, which represents 97.2% (2008: 99.9%) of the total financial assets of the Company denominated in foreign currencies.

At 31 December 2009, financial liabilities denominated in EUR amount to RSD 69,448,291 thousand (31 December 2008: RSD 78,644,709 thousand), which represents 99.6% (2008: 99.8%) of the total financial liabilities of the Company denominated in foreign currencies.

(b) Interest Rate Risk

The Company is exposed to risk from changes in interest rates, which, through changes in the level of market interest rates, affect its financial position and cash flows.

As the Company has no significant interest-bearing assets, the Company's income and operating cash flows are substantially independent of changes in market interest rates.

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

During 2009 and in 2008, the majority of the Company's borrowings (99%) were granted at variable interest rates, which are tied to Euribor.

The Company's borrowings at variable rate were mainly denominated in the foreign currency (EUR).

Gross interest rate accrued on loans granted by suppliers cannot exceed the rate equal to Euribor increased by margin up to 1.8% 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.

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1. Market Risk (Continued)

(b) Interest Rate Risk (Continued)

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

At 31 December 2009, 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 2009 would have been RSD 62,445 thousand (2008: RSD 80,761 thousand) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

At 31 December 2009, 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 2009 would have been RSD 9,656 thousand (2008: RSD 7,480 thousand) lower/higher, mainly as a result of higher/lower interest expense.

(c) Price Risk

The Company is not exposed to equity securities price risk because it does not have significant investments classified in the statement of financial position either as available-for-sale or at fair value through profit or loss. The Company has equity investment in subsidiaries that are not publicly traded.

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

Pursuant to the current Law on Telecommunications ("Official Gazette of the Republic of Serbia", no. 44/03 and 36/06), the Company has no obligation to offer a local loop unbundling service, regardless of appearance of a new fixed telephony operator on the territory of the Republic of Serbia (see Note 38(a)). At 31 December 2009, it is not possible to estimate reasonably the financial effect of the introduction of the aforementioned service.

3.2. Liquidity Risk

Liquidity management is centralized in the Company. The Company manages its assets and liabilities in such a way that it can fulfil its due obligations at all times.

The Company 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 Company generally does not use financial derivatives.

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

3. FINANCIAL RISK MANAGEMENT (Continued)

3.2. Liquidity Risk (Continued)

In addition, pursuant to the Company's internal policy, 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. Following limits have been determined: the coordinator of section Technical Affairs Division and Corporative 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.

The following table details the Company's remaining contractual maturity for its non-derivative financial assets and liabilities as of 31 December 2009 and 2008. 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 Company can be required to pay its debt or receive amounts due to the Company. 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 2009						
Non-interest bearing	22,252,588	102,588	85,764	257,215	1,214,627	23,912,782
Fixed interest rate instruments	9,449,542	-	-	-	170,526	9,620,068
Total	**31,702,130**	**102,588**	**85,764**	**257,215**	**1,385,153**	**33,532,850**
At 31 December 2008, restated						
Non-interest bearing	19,093,124	393,942	83,033	249,084	1,261,664	21,080,847
Fixed interest rate instruments	4,842,615	-	-	-	132,372	4,974,987
Total	**23,935,739**	**393,942**	**83,033**	**249,084**	**1,394,036**	**26,055,834**
Financial liabilities						
At 31 December 2009						
Non-interest bearing	8,368,430	80,631	120,709	4,201	-	8,573,971
Fixed interest rate instruments	62,876	66,902	124,834	59,931	-	314,543
Fluctuating interest rate instruments	3,852,441	20,884,873	18,267,765	30,243,385	2,628,773	75,877,237
Total	**12,283,747**	**21,032,406**	**18,513,308**	**30,307,517**	**2,628,773**	**84,765,751**
At 31 December 2008, restated						
Non-interest bearing	11,195,391	87,765	13,087	4,951	-	11,301,194
Fixed interest rate instruments	59,094	65,290	119,501	170,099	-	413,984
Fluctuating interest rate instruments	1,908,222	31,869,333	14,457,072	36,397,847	3,602,607	88,235,081
Total	**13,162,707**	**32,022,388**	**14,589,660**	**36,572,897**	**3,602,607**	**99,950,259**

3. FINANCIAL RISK MANAGEMENT (Continued)

3.2. Liquidity Risk (Continued)

Maturity structure of borrowings is presented in Note 29(b), while liabilities towards suppliers (Note 30) are payable within 12 months after the reporting period.

The table below analyses the Company'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 2009						
Interest-bearing loans and borrowings	3,915,849	20,951,775	18,392,599	30,307,517	2,628,773	76,196,513
Accounts payable	6,674,808	80,631	120,709	-	-	6,876,148
Other current liabilities	1,693,090	-	-	-	-	1,693,090
Total	**12,283,747**	**21,032,406**	**18,513,308**	**30,307,517**	**2,628,773**	**84,765,751**
At 31 December 2008, restated						
Interest-bearing loans and borrowings	1,967,316	31,934,623	14,576,573	36,572,897	3,602,607	88,654,016
Accounts payable	9,655,495	87,765	13,087	-	-	9,756,347
Other current liabilities	1,539,896	-	-	-	-	1,539,896
Total	**13,162,707**	**32,022,388**	**14,589,660**	**36,572,897**	**3,602,607**	**99,950,259**

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

Receivables from roaming and interconnection 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.

3. FINANCIAL RISK MANAGEMENT (Continued)

3.3. Credit Risk (Continued)

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

3.4. Capital Risk Management

The Company 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 Company is a closed joint stock company (Note 27).

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to maintain an optimal capital structure to reduce the cost of capital and to provide returns for shareholders. In order to maintain or adjust the capital structure, the Company may consider the following options: to adjust the amount of dividends paid to shareholders, to return capital to shareholders, to issue new shares or to sell assets to reduce debts.

The Company 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 2009 and 2008 were as follows:

	2009	2008 Restated
Total non-current and current borrowings	72,871,262	80,523,185
Less: Cash and cash equivalents	(9,461,806)	(4,861,350)
Net debt*	**63,409,456**	**75,661,835**
Total equity	113,169,325	101,517,638
Total capital**	**176,578,781**	**177,179,473**
Gearing ratio	**35.9%**	**42.7%**

* *Net debt is calculated as total borrowings (including current and non-current borrowings as shown in the balance sheet) less cash and cash equivalents.*
** *Total capital is calculated as equity as shown in the balance sheet plus net debt.*

The decrease in the gearing ratio at 31 December 2009 resulted primarily from repayment of the part of syndicated loan granted by Citibank N.A., London, as well as increase in equity due to a net profit realized for the year ended 31 December 2009.

3. FINANCIAL RISK MANAGEMENT

3.5. Judgements on the Effects of the Global Financial Crisis

The effects of the ongoing global financial crisis started to become felt in the Republic of Serbia in the last quarter of 2008, first impacting the banking sector through a significant withdrawal of the deposits in retail banking, which had a further impact on the general liquidity crisis, fluctuation and 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.

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. The Government of the Republic of Serbia adopted the "Program of measures for mitigating the adverse effects of the global economic crisis". The main goals of this Program are: maintaining the competitiveness of the Serbian economy, maintaining the employment and stimulating domestic demand.

The Company's management anticipates that the aforementioned general 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 Company continuously examines the economic parameters and assumptions necessary for further coordination of its activities with the situation caused by the global financial crisis. 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 2010) from the standpoint of collection of receivables from debtors whose liquidity and solvency cannot be estimated at present; the Company's ability to settle liabilities toward suppliers and banks; and the possibility of obtaining favourable sources of financing for overcoming critical situations. The Company'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 Company 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 Company's current liabilities as of 31 December 2009 exceed its current assets by RSD 14,829,862 thousand, the Company does not have liquidity problems, and/or problems with settlement of its liabilities. In December 2008, the Company repaid the portion of debt arising from the credit Arrangement C from Citibank N.A., London in the amount of EUR 110 million before it was due. In December 2009, the 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 addition, in December 2009, the Company made an early repayment of long-term commodity loans from domestic suppliers of RSD 1.76 billion. Moreover, the Company has considerable equity, which can also mitigate market risks. The management expects that the Company will be able to fulfil all its contracted liabilities arising from extended loans in accordance with the contracted terms.

3. FINANCIAL RISK MANAGEMENT (Continued)

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

The effects of the global financial crisis so far have had a limited impact on the Company'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 Company has passed a set of measures in accordance with its 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 Company. Furthermore, the management cannot reliably estimate the further effects of the crisis to the economic environment in the Republic of Serbia, or the impact on the financial position and the results of the Company's operations, but they consider that the crisis will not affect the Company's ability to continue as a going concern.

3.6. Fair Value Estimation

It is a policy of the Company 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. In the Republic of Serbia, sufficient market experience, stability and liquidity do not exist for the purchase and sale of receivables and other financial assets or liabilities, for which 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 Company'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 Company does not have financial assets or financial liabilities carried at fair value in the balance sheet. 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 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 Company could obtain long-term loans, and which approximates the effective interest rate. The Company's management considers that the carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company for similar financial instruments. Such fair value does not significantly differ from the carrying amount of borrowings stated in the Company's books of account.

The Company'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

Use of Estimates and Assumptions

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

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

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

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 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 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 Company's financial position, and the results of its operations. As an example, if the Company was to shorten the average useful life for 10%, this would result in additional depreciation expense of approximately RSD 821,715 thousand for the twelve-month period.

Impairment of Non-Financial Assets

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

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Impairment of Accounts Receivable and Other Receivables

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

Accounting for Provisions and Contingencies

The Company 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 Company 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 to the extent to which taxable profit will be available against which the unused tax credits 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 and the tax policy planning strategy (Note 17(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 28.

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 198,418 thousand lower or RSD 171,787 thousand higher.

5. OPENING BALANCE ADJUSTMENTS

(a) Effects of Adjustments on the Income Statement for the Year Ended 31 December 2008

	2008 Previously reported	Adjustments	2008 Restated
OPERATING INCOME			
Sales	82,537,293	(2,687)	82,534,606
Other operating income	960,209	(545)	959,664
	83,497,502	**(3,232)**	**83,494,270**
OPERATING EXPENSES			
Cost of goods sold	(435,143)	-	(435,143)
Cost of material	(4,167,254)	(3,731)	(4,170,985)
Wages, salaries and other personnel expenses	(12,580,150)	(14,983)	(12,595,133)
Depreciation, amortization and provisions	(16,038,478)	(106,578)	(16,145,056)
Other operating expenses	(29,583,216)	(83,651)	(29,666,867)
	(62,804,241)	**(208,943)**	**(63,013,184)**
OPERATING PROFIT	**20,693,261**	**(212,175)**	**20,481,086**
Financial income	10,770,127	201	10,770,328
Financial expenses	(22,216,154)	(95,266)	(22,311,420)
Other income	1,397,798	627	1,398,425
Other expenses	(4,349,482)	43,728	(4,305,754)
PROFIT FROM OPERATIONS BEFORE TAX	**6,295,550**	**(262,885)**	**6,032,665**
Net loss from discontinued operations	(156,340)	-	(156,340)
PROFIT BEFORE TAX	**6,139,210**	**(262,885)**	**5,876,325**
INCOME TAXES			
Current tax expense	(575,987)	-	(575,987)
Deferred tax income	3,961	-	3,961
PROFIT FOR THE YEAR	**5,567,184**	**(262,885)**	**5,304,299**

5. OPENING BALANCE ADJUSTMENTS (Continued)

(b) Effects of Adjustments on the Balance sheet as of 31 December 2008

	2008 Previously reported	Adjustments	2008 Restated
ASSETS			
Non-current assets			
Intangible assets	11,234,512	(25,537)	11,208,975
Advances for intangible assets	63,934	-	63,934
Property, plant and equipment	110,107,925	(129,552)	109,978,373
Advances for property, plant and equipment	402,534	2	402,536
Investments in subsidiaries	57,289,282	-	57,289,282
Other long-term placements	1,198,340	(26)	1,198,314
	180,296,527	**(155,113)**	**180,141,414**
Current assets			
Inventories	6,595,045	8,538	6,603,583
Advances to suppliers	249,272	-	249,272
Accounts receivable	12,411,089	(13,624)	12,397,465
Receivables for overpaid income tax	171,386	-	171,386
Short-term financial placements	1,448	212	1,660
Cash and cash equivalents	4,861,350	-	4,861,350
Value added tax, prepayments and accrued income	2,475,769	(840)	2,474,929
	26,765,359	**(5,714)**	**26,759,645**
Deferred tax assets	**718,288**	**-**	**718,288**
TOTAL ASSETS	**207,780,174**	**(160,827)**	**207,619,347**
EQUITY AND LIABILITIES			
Equity			
Share capital	82,512,552	-	82,512,552
Other capital	8,588	-	8,588
Reserves	589,634	-	589,634
Retained earnings	19,228,957	(822,093)	18,406,864
	102,339,731	**(822,093)**	**101,517,638**
Long-term provisions and liabilities			
Long-term provisions	1,899,088	-	1,899,088
Long-term borrowings	49,750,462	-	49,750,462
Other long-term liabilities	4,951	-	4,951
	51,654,501	**-**	**51,654,501**
Current liabilities			
Current portion of long-term borrowings	30,767,772	-	30,767,772
Accounts payable	9,692,456	63,891	9,756,347
Other current liabilities	1,033,204	383	1,033,587
Value added tax and other tax liabilities, accruals and deferred income	12,292,510	596,992	12,889,502
	53,785,942	**661,266**	**54,447,208**
TOTAL EQUITY AND LIABILITIES	**207,780,174**	**(160,827)**	**207,619,347**

5. OPENING BALANCE ADJUSTMENTS (Continued)

(c) Reconciliation of Retained Earnings as of 31 December 2008 Before and After Adjustments

Retained earnings as of 31 December 2008 (previously reported)	**19,228,957**
Subsequent adjustments for prior periods' errors recorded as of 1 January 2009:	
- Affecting 2008	(262,885)
- Affecting periods prior to 2008	(559,208)
Total effects of adjustments	**(822,093)**
Retained earnings as of 31 December 2008, restated	**18,406,864**
Subsequent adjustments for prior periods' errors as of 1 January 2008:	
- Previously reported adjustments of errors as of 1 January 2008	(5,558,390)
- Additional correction of errors in 2009, affecting periods prior to 2008	(559,208)
Total effects of adjustments	**(6,117,598)**

(d) Effects of Error Correction on 2008 Retained Earnings and Profit for the Year

	Retained earnings as of 1 January 2008	Profit for the year 2008
Property, equipment and intangible assets	(45,669)	(109,407)
Receivables from related parties	-	(1,722)
Income from international settlement	(15)	713
Income from domestic traffic	-	(399)
Expenses from international settlement	(1,620)	(7,130)
Interest expenses	(2)	(129)
Domestic trade payables	(10,681)	(42,230)
Trade payables - related parties	(290)	(1,940)
Accrued property tax expense	(466,576)	(102,000)
Other adjustments	(34,355)	1,359
Total	**(559,208)**	**(262,885)**

6. SALES

	2009	2008 Restated
Fixed telephony services:		
- Domestic market	35,140,213	34,842,423
- Foreign market	5,797,800	5,496,409
- Related parties	1,724,567	1,706,460
	42,662,580	**42,045,292**
Mobile telephony services:		
- Domestic market	36,859,645	36,205,501
- Foreign market	2,326,693	2,160,820
- Related parties	247,258	223,106
	39,433,596	**38,589,427**
Retail of internet services:		
- Domestic market	3,265,584	1,623,057
- Related parties	127	1,847
	3,265,711	**1,624,904**
Multimedia services (IPTV):		
- Domestic market	75,416	348
	75,416	**348**
Sales of handsets:		
- Domestic market	35,824	274,635
	35,824	**274,635**
Total	**85,473,127**	**82,534,606**

Pursuant to the RATEL Board of Directors' Decision dated 14 October 2008, fixed telephony subscription fee increased by 161% starting from 1 November 2008. Subscriptions are invoiced a month in advance, and, consequently, the increased subscription fee was introduced starting from October 2008.

6. SALES (Continued)

Structure by sales category is presented in the table below:

	2009	2008 Restated
Fixed telephony services:		
Domestic market:	*35,456,026*	*35,180,353*
Traffic	20,624,440	23,482,272
Subscription	7,736,468	4,351,090
Leased circuit and data services	3,109,897	2,921,225
Connection and installation services	913,795	1,349,436
Interconnection	1,005,915	796,343
Wholesale of internet services	1,570,593	2,036,840
CDMA services	305,768	-
Other	189,150	243,147
Foreign market:	*7,206,554*	*6,864,939*
Traffic	5,825,752	5,945,986
Leased circuit and data services	1,025,394	619,044
Internet transit	355,408	299,909
	42,662,580	**42,045,292**
Mobile telephony services:		
Domestic market:	*37,015,244*	*36,351,655*
Prepaid services	16,468,466	17,298,987
Postpaid services:	*14,523,324*	*13,860,210*
- Traffic	8,248,115	7,612,798
- Subscription	6,275,209	6,247,412
Interconnection	3,900,782	3,511,329
National roaming – VIP Mobile d.o.o., Belgrade	2,122,672	1,681,129
Foreign market:	*2,418,352*	*2,237,772*
Roaming	2,387,143	2,217,715
Other	31,209	20,057
	39,433,596	**38,589,427**
Retail of internet services	**3,265,711**	**1,624,904**
Multimedia services (IPTV)	**75,416**	**348**
Sales of handsets:		
ISDN devices	2,186	61,778
Mobile phones	33,638	212,857
	35,824	**274,635**
Total	**85,473,127**	**82,534,606**

7. OTHER OPERATING INCOME

	2009	2008 Restated
Granted assets:		
- Intangible assets and equipment (Note 32(e))	404,180	404,420
- Inventories	-	3,196
	404,180	**407,616**
Rental income	150,763	129,421
Revenues from sale of software to Telekom Srpske	-	422,627
Other	9,433	-
Total	**564,376**	**959,664**

8. COST OF MATERIAL

	2009	2008 Restated
Material for rendering services	1,714,127	1,893,296
Fuel and energy	879,918	797,506
Material consumed	232,284	382,619
SIM cards	127,256	141,147
Spare parts	258,827	153,334
ADSL modems	578,212	394,012
PCMCI cards	134,930	71,808
Tools and inventories	37,516	26,712
Other	435,821	310,551
Total	**4,398,891**	**4,170,985**

9. WAGES, SALARIES AND OTHER PERSONNEL EXPENSES

	2009	2008 Restated
Gross salaries	8,774,720	7,841,136
Contributions on behalf of the employer	1,556,918	1,403,786
	10,331,638	**9,244,922**
Employee profit-sharing	1,077,027	1,161,528
Withholding tax	269,257	290,382
	1,346,284	**1,451,910**
Retirement benefits for voluntary termination	388,640	1,072,362
Other personnel expenses	943,737	825,939
Total	**13,010,299**	**12,595,133**

10. DEPRECIATION, AMORTIZATION AND PROVISIONS

	2009	2008 Restated
Amortization charge (Note 18)	2,158,381	2,319,355
Depreciation charge (Note 19)	14,415,649	13,393,889
	16,574,030	**15,713,244**
Provision for:		
- Retirement benefits and jubilee awards	256,110	341,725
- Litigations	27,162	90,087
(Note 28)	**283,272**	**431,812**
Total	**16,857,302**	**16,145,056**

11. OTHER OPERATING EXPENSES

	2009	2008 Restated
Interconnection:		
- fixed telephony	2,880,965	2,992,287
- mobile telephony	3,173,741	2,888,778
International settlement and leased circuits	4,429,473	4,792,925
Roaming	2,485,337	2,482,628
	12,969,516	**13,156,618**
Telecommunication license fees, approvals and frequency fees:		
GSM license (a)	319,411	388,378
License for fixed telephony (b)	42,332	38,897
Radio frequency RRL, RBS and other fees	372,339	193,888
	734,082	**621,163**
Rental expenses	3,665,133	3,187,170
Maintenance	3,069,612	3,065,186
Marketing, advertisement and sponsorship fees	2,753,539	2,272,077
Consignment sale fees	1,586,903	1,484,315
Postal and printing services	1,329,481	1,248,874
Public utility services and heating	249,802	201,621
Data processing fees	70,660	103,200
Other production services	403,606	370,181
Hygiene and security services	940,437	897,734
Indirect taxes	983,996	983,012
Youth employment expenses	261,289	406,722
Fees and charges	343,188	219,381
Education and professional training	105,584	172,828
Bank charges	271,957	250,951
Insurance premiums	497,744	477,471
Audit fee and other professional services	118,208	133,410
Entertainment	66,166	57,811
Software license	151,041	108,305
Other general expenses	222,786	248,837
Total	**30,794,730**	**29,666,867**

(a) GSM license fee amounting to RSD 319,411 thousand relates to the license for public mobile telecommunication network and services for public mobile telecommunication network in accordance with GSM/GSM1800 and UMTS/IMT-2000 standards, granted by the Republic Agency for Telecommunications (RATEL) on 28 July 2006. The license fee includes the amount of RSD 10,212 thousand which relates to the remaining portion of the total amount of license fee determined by the final calculation of the annual fee for 2008.

(b) In accordance with the Law on Telecommunications of the Republic of Serbia ("Official Gazette of the Republic of Serbia ", no. 44/03 and 36/06), on 13 April 2007, the Company was granted a new License for construction, possessing and exploitation of public fixed telecommunication network and rendering public fixed telecommunication services by RATEL, that replaced the previous one, obtained in 1997.

11. OTHER OPERATING EXPENSES (Continued)

(b) The license is issued for the period throughout 9 June 2017, and the Company may, in six months notice prior to the expiration of this period, submit the request for extension of the existing license. License fee for various services is calculated starting from the issuance date and predominantly amounts to 0.1% of total revenue from services the license was issued for.

The license fee totalling RSD 42,332 thousand for 2009 includes the amount of RSD 1,718 thousand which relates to the remaining portion of the total amount of license fee determined by the final calculation of the annual fee for 2008.

12. FINANCIAL INCOME

	2009	2008 Restated
Interest income	1,089,225	1,041,387
Dividend income (Note 21(a))	5,094,484	318,316
Other financial revenues	73,209	171,421
Foreign exchange gains	1,005,246	8,248,730
Gains from foreign currency clause application	763,386	990,474
Total	**8,025,550**	**10,770,328**

Interest income on impaired financial assets amount to RSD 69,988 thousand (2008: RSD 164,863 thousand).

13. FINANCIAL EXPENSES

	2009	2008 Restated
Interest expenses	3,316,005	4,795,779
Foreign exchange losses	6,574,706	15,596,814
Losses from foreign currency clause application	1,186,900	1,918,827
Total	**11,077,611**	**22,311,420**

Interest expenses on borrowings abroad, incurred during the year ended 31 December 2009, include the amount of RSD 1,690,583 thousand, representing interest expense for the current reporting period, arising from the syndicated loan granted by Citibank N.A., London (2008: RSD 3,237,780 thousand).

14. OTHER INCOME

	2009	2008 Restated
Reversal of impairment losses (Note 15(a))	2,160,708	796,347
Gains on sale of material and waste material	41,026	121,997
Damage compensations	30,240	43,296
Release of provision (Note 28)	7,473	4,411
Gains on sale of intangible assets, property and equipment	7,690	61,053
Recoveries of bad debts previously written-off	959	3,594
Revenue from charged court dispute	66,309	56,151
Other income	846,111	311,576
Total	**3,160,516**	**1,398,425**

15. OTHER EXPENSES

	2009	2008 Restated
Allowances for impairment of receivables (a)	4,278,444	3,478,750
Grants and donations	173,872	291,829
Fair value adjustment – employee loans (Note 22)	51,670	-
Losses on sale and disposal of intangible assets, property and equipment	171,337	380,190
Scrapping of material and goods	319,967	56,555
Other expenses	83,863	98,430
Total	**5,079,153**	**4,305,754**

15. OTHER EXPENSES (Continued)

(a) Movements in the allowance for impairment of advances paid and receivables during the years ended 31 December 2009 and 2008 were as follows:

	Advances for intangibles	Advances for property and equipment (Note 20)	Advances for goods and services	Accounts receivable (Note 24)	Total
Balance as of 1 January 2008	**265**	**152,480**	**45,734**	**3,844,672**	**4,043,151**
Charge for the year	-	194,203	23,415	3,261,132	3,478,750
Reversal of impairment losses (Note 14)	-	(250,914)	(27,804)	(517,629)	(796,347)
Transfer out of the books based on year-end count	-	-	(5)	(149,187)	(149,192)
Other movements	-	-	-	85,213	85,213
Balance as of 31 December 2008, restated	**265**	**95,769**	**41,340**	**6,524,201**	**6,661,575**
Charge for the year	-	120,013	50,606	4,107,825	4,278,444
Reversal of impairment losses (Note 14)	-	(130,414)	(54,423)	(1,975,871)	(2,160,708)
Transfer out of the books based on year-end count	-	-	-	(288,066)	(288,066)
Other movements	-	-	-	67,628	67,628
Transfer (from)/to	-	(3,385)	3,385	-	-
Balance as of 31 December 2009	**265**	**81,983**	**40,908**	**8,435,717**	**8,558,873**

16. NET LOSS FROM DISCONTINUED OPERATIONS

In accordance with IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”, in 2008 the Company 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 income statement for the year ended 31 December 2008, and recognized within Net loss from discontinued operations, amounted to RSD 156,340 thousand.

17. INCOME TAXES

(a) Components of Income Taxes

	2009	2008 Restated
Current tax expense	537,607	575,987
Deferred tax income	(131,896)	(3,961)
Total income tax expense	**405,711**	**572,026**

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

	2009	2008 Restated
Profit before tax	**15,954,427**	**5,876,325**
Income tax at statutory rate of 10%	**1,595,443**	**587,633**
Non-deductible expenses	284,829	580,966
Income reconciliation	90,467	10,923
Reduction based on dividends	(513,711)	(31,509)
Utilized tax credits	(1,051,317)	(575,987)
Income tax expense	**405,711**	**572,026**
Effective tax rate	*2.5%*	*9.7%*

(c) Deferred Tax Assets

Deferred tax assets entirely relate to the temporary differences arising between carrying value of property, equipment and intangible assets and their tax base.

Movement in deferred tax assets during the year was as follows:

	2009	2008 Restated
Balance as of 1 January	**718,288**	**714,327**
Effects of temporary differences credited to the income statement	131,896	3,961
Balance as of 31 December	**850,184**	**718,288**

17. INCOME TAXES (Continued)

(c) Deferred Tax Assets (Continued)

The Company did not recognize deferred tax assets arising on not utilized tax credits carried forward amounting to RSD 9,795,429 thousand as of 31 December 2009 (31 December 2008: RSD 8,778,480 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 Company was not using tax credits carry forwards.

The Company 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 forwards	Expiration date	2009	2008 Restated
2003	2013	1,131,781	1,133,297
2004	2014	1,900,373	1,901,889
2005	2015	1,593,966	1,595,483
2006	2016	1,028,402	1,029,919
2007	2017	1,553,462	1,554,979
2008	2018	1,561,396	1,562,913
2009	2019	1,026,049	-
Total		**9,795,429**	**8,778,480**

18. INTANGIBLE ASSETS

	Licenses	Software	Other intangible assets	Intangible assets under development	Total
Cost					
as of 1 January 2008	**5,984,397**	**10,149,430**	**572,137**	**976,167**	**17,682,131**
Additions	-	-	-	5,577,095	5,577,095
Transfer from intangible assets under development	3,183,445	863,452	29,592	(4,076,489)	-
Grants	-	610	-	14,578	15,188
Disposals	(745)	(173,233)	(12,986)	-	(186,964)
Transfer (from)/to	(6,214)	6,214	-	-	-
Balance as of 31 December 2008, restated	**9,160,883**	**10,846,473**	**588,743**	**2,491,351**	**23,087,450**
Additions	-	-	-	538,180	538,180
Transfer from intangible assets under development	157,348	784,714	11,258	(953,320)	-
Transfer (from)/to	-	-	8,869	(1,132,960)	(1,124,091)
Disposals	-	(779,758)	(3,461)	-	(783,219)
Balance as of 31 December 2009	**9,318,231**	**10,851,429**	**605,409**	**943,251**	**21,718,320**
Accumulated amortization					
as of 1 January 2008	**1,420,108**	**7,938,318**	**311,223**	**-**	**9,669,649**
Costs of long-term rent	-	-	62,400	-	62,400
Amortization (Note 10)	979,291	1,332,237	7,827	-	2,319,355
Disposals	(585)	(170,217)	(2,127)	-	(172,929)
Balance as of 31 December 2008, restated	**2,398,814**	**9,100,338**	**379,323**	**-**	**11,878,475**
Costs of long-term rent	-	-	55,382	-	55,382
Amortization (Note 10)	997,005	1,133,828	7,451	20,097	2,158,381
Disposals	-	(779,758)	(3,461)	-	(783,219)
Balance as of 31 December 2009	**3,395,819**	**9,454,408**	**438,695**	**20,097**	**13,309,019**
Net book value as of:					
- 31 December 2009	**5,922,412**	**1,397,021**	**166,714**	**923,154**	**8,409,301**
- 31 December 2008, restated	**6,762,069**	**1,746,135**	**209,420**	**2,491,351**	**11,208,975**

Licenses relate to the licenses for mobile telephony (software license, license for capacity extension and other), licenses for CDMA and other licenses. As of 31 December 2009, the carrying value of the mentioned licenses for mobile telephony amounts to RSD 5,640,013 thousand (31 December 2008: RSD 6,499,298 thousand), while the carrying value of other licenses amounts to RSD 234,205 thousand (31 December 2008: RSD 262,771 thousand). The carrying value of the licenses for CDMA amounts to RSD 48,194 thousand as of 31 December 2009.

Other intangible assets as of 31 December 2009 mostly relate to long-term rentals in the amount of RSD 166,247 thousand (31 December 2008: RSD 201,503 thousand).

The Company's management considers that intangible assets are not impaired at the reporting date.

19. 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 Company	Construction in progress	Total
Cost						
as of 1 January 2008	**64,597,865**	**75,987,986**	**6,722,782**	**7,636,739**	**20,262,601**	**175,207,973**
Additions	-	-	-	-	14,905,019	14,905,019
Transfer from construction in progress	6,402,176	7,618,398	1,256,043	1,067,180	(16,343,797)	-
Grants	135,399	103,444	-	-	75,746	314,589
Disposals	(573,132)	(1,500,940)	(467,507)	(1,399)	-	(2,542,978)
Transfer (from)/to	(15,767)	22,181	(8,329)	1,915	-	-
Balance as of 31 December 2008, restated	**70,546,541**	**82,231,069**	**7,502,989**	**8,704,435**	**18,899,569**	**187,884,603**
Additions	-	-	-	-	13,583,157	13,583,157
Transfer from construction in progress	4,733,342	7,924,439	549,649	464,586	(13,672,016)	-
Grants	-	-	-	-	450,200	450,200
Disposals	(281,695)	(1,052,344)	(152,186)	-	-	(1,486,225)
Transfer (from)/to	(39,244)	53,550	(6,857)	(16,318)	1,132,960	1,124,091
Balance as of 31 December 2009	**74,958,944**	**89,156,714**	**7,893,595**	**9,152,703**	**20,393,870**	**201,555,826**
Accumulated depreciation as of 1 January 2008	**22,288,690**	**35,126,029**	**4,282,621**	**4,714,818**	**124,967**	**66,537,125**
Transfer from construction in progress	10,439	73,283	6,535	12,625	(102,882)	-
Depreciation (Note 10)	3,026,642	8,257,682	825,862	1,151,482	132,221	13,393,889
Disposals	(343,873)	(1,252,896)	(426,234)	(1,781)	-	(2,024,784)
Transfer (from)/to	(1,993)	16,005	(9,936)	(4,076)	-	-
Balance as of 31 December 2008, restated	**24,979,905**	**42,220,103**	**4,678,848**	**5,873,068**	**154,306**	**77,906,230**
Transfer from construction in progress	46,381	84,092	343	2,793	(133,609)	-
Depreciation (Note 10)	3,207,305	8,647,464	816,732	1,058,490	685,658	14,415,649
Disposals	(214,400)	(964,838)	(137,654)	-	-	(1,316,892)
Transfer (from)/to	(460)	7,382	(2,114)	(4,808)	-	-
Balance as of 31 December 2009	**28,018,731**	**49,994,203**	**5,356,155**	**6,929,543**	**706,355**	**91,004,987**
Net book value as of:						
- 31 December 2009	**46,940,213**	**39,162,511**	**2,537,440**	**2,223,160**	**19,687,515**	**110,550,839**
- 31 December 2008, restated	**45,566,636**	**40,010,966**	**2,824,141**	**2,831,367**	**18,745,263**	**109,978,373**

Cost of fully-depreciated property, equipment and intangible assets still in use amounts to RSD 28,493,484 thousand as of 31 December 2009 (31 December 2008: RSD 18,582,624 thousand).

19. PROPERTY, PLANT AND EQUIPMENT (Continued)

Construction in progress includes completed investments not yet transferred to property and equipment amounting to RSD 8,118,156 thousand as of 31 December 2009 (31 December 2008: RSD 4,940,945 thousand). The Company has charged depreciation for these investments.

Cost of construction in progress without any additions/investments for more than one year amounts to RSD 1,179,269 thousand.

Pursuant to the Decision of the Serbian Business Registers Agency no. 6969/06 dated 21 November 2006, telecommunication equipment was pledged in favour of Ericsson Credit A.B., Sweden as collateral for the new loan. In December 2007, the aforementioned loan passed from Ericsson Credit A.B., Sweden to BNP Paribas, branch London, and the Company was informed. The substitution of pledgee has not yet been registered in Register of pledges with the Serbian Business Registers Agency. Carrying value of pledged equipment amounts RSD 2,209,247 thousand as of 31 December 2009 (31 December 2008: RSD 2,941,931 thousand).

Capital expenditure contracted for at the reporting date but not yet incurred, representing capital commitments, amount to RSD 2,359,898 thousand (Note 35).

Property and equipment lease rentals amounting to RSD 3,665,133 thousand (2008: RSD 3,187,170 thousand), mostly relating to the lease of business premises are included in the Income statement within other operating expenses (Note 11).

The Company's management estimates that property and equipment are not impaired at the reporting date.

20. ADVANCES FOR PROPERTY AND EQUIPMENT

	2009	2008 Restated
Payments in advance for property and equipment:		
- in RSD	163,026	278,204
- in foreign currency	221,824	180,921
Payments in advance for investments in property and equipment not owned by the Company	11,892	39,180
	396,742	**498,305**
Less: Allowance for impairment (Note 15(a))	(81,983)	(95,769)
Balance as of 31 December	**314,759**	**402,536**

21. INVESTMENTS IN SUBSIDIARIES

	Interest in capital	2009	2008 Restated
Investments in subsidiaries:			
- Telekom Srpske a.d., Banja Luka (a)	65%	56,933,380	56,933,380
- Mtel d.o.o., Podgorica (b)	51%	219,197	219,197
- Telus a.d., Belgrade	100%	9,030	9,030
- FiberNet d.o.o., Podgorica (c)	100%	884,781	127,675
Balance as of 31 December		**58,046,388**	**57,289,282**

(a) On 19 January 2007, the Company signed a Share Purchase Agreement (SPA) with the seller, the Republic of Srpska, represented by the Directorate for Privatization. Subject of the sale was 65.005851% of total share capital of "Telekom Srpske". The agreed sales price amounting to EUR 646 million was paid in total through escrow account 3 days prior to the closing date of the transaction, i.e. 18 June 2007. According to the provisions of the SPA, the Company has committed, among other things, to invest at least EUR 50 million within one year starting from the closing date, in cash or tangible assets (including licenses and software in case of investments of tangible and intangible assets). By the end of 2008, the Company settled the above investment liability in cash. In order to provide funds for financing the purchase of 65% of shares in "Telekom Srpske", the Company entered into a syndicated loan agreement with Citibank N.A., London totalling EUR 700 million (Note 29(c)/ii/).

On 3 April 2009, the Shareholders' Assembly of the subsidiary "Telekom Srpske" passed the Decision on payment of dividends from the profit earned in 2008 to its shareholders. Dividend attributable to the Company amounts to KM 73,618,494.21 (RSD 3,552,541 thousand), and as of the reporting date, it was fully collected.

On 8 May 2009, the Shareholders' Assembly of the subsidiary "Telekom Srpske" passed the Decision on payment of preliminary dividends to its shareholders for the first quarter of 2009 and dividends from the profit earned in previous years. Dividend attributable to the Company amounts to KM 31,777,959.21 (RSD 1,541,943 thousand), and as of the reporting date, it was fully collected.

According to the latest available data as of 31 December 2009, total assets of "Telekom Srpske" amount to KM 993,179,002 (RSD 48,692,786 thousand), equity KM 719,271,896 (RSD 35,263,887 thousand), and net profit for year then ended amounts to KM 103,757,355 (RSD 4,993,083 thousand).

(b) In the consortium with Ogalar B.V., Amsterdam, during 2007 the Company was granted the special licence for construction, possessing and exploitation of public mobile telecommunication network and rendering public mobile telecommunication services as well as licence for building, possessing and exploitation of public telecommunication network and rendering public telecommunication service through fixed wireless access (WiMax) in Montenegro. Consequently, a new entity "Mtel", in which the Company's equity investment totals 51% of capital, was founded. The subsidiary was registered with the Central register of the Commercial Court in Podgorica on 4 April 2007, pursuant to the Montenegrin Corporate Law.

21. INVESTMENTS IN SUBSIDIARIES (Continued)

(b) At its 49th regular session, held on 22 December 2009, the Company's Managing Board approved an increase of the Company's founding capital in the subsidiary "Mtel" in the amount of EUR 20.4 million. In accordance with this Decision, an annex to the Contract on founding the new entity no. 38603/1 dated 30 March 2007 will be concluded with the minority owner of the subsidiary "Mtel", whereby an obligation to increase the capital of the legal entity "Mtel" by a maximum amount of EUR 40 million will be determined, so that the obligation of the minority owner amounts to a maximum of EUR 19.6 million.

(c) On 8 July 2008, the 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 Company's Managing Board passed the Decision on founding the subsidiary "FiberNet" d.o.o., Podgorica. "FiberNet" has been founded as a limited liability company and the Company is the sole founder and owner. Pursuant to the Agreement, 50% of ownerships 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 Company owns 50% with an obligation of regular maintenance of the total investment.

Pursuant to the Company's Managing Board Decision on founding the subsidiary "FiberNet" no. 197543/1 dated 3 December 2008, on 10 February 2009 the Company paid in the additional founding capital in the amount of RSD 259,436 thousand, being the counter value of EUR 2,817,000.

Based on Decisions of the Company's Managing Board no. 196519/1 dated 1 December 2008 and 183176/18 dated 22 July 2009, on 24 August 2009, the General Manager of the Company brought a Decision no. 50/1 on the increase of the founding capital of the subsidiary "FiberNet" by EUR 3.4 million, and accordingly, the payment in the amount of RSD 316,591 thousand was made on 25 August 2009. In addition, based on the above Decisions, on 24 August 2009, the General Manager passed a Decision no. 21690/1 on the increase of the aforesaid subsidiary's capital in the amount of EUR 1.9 million (RSD 181,079 thousand). The payment was made on 18 December 2009.

22. OTHER LONG-TERM FINANCIAL PLACEMENTS

	2009	2008 Restated
Loans to employees:		
- Residential	1,796,549	1,790,523
- For purchases of apartments	15,116	16,450
- For purchase of vehicles	149	166
	1,811,814	1,807,139
Less: Fair value adjustment	(662,408)	(610,738)
Total loans to employees	**1,149,406**	**1,196,401**
Placements to employees with respect to solidarity purposes	1,811	1,913
Balance as of 31 December	**1,151,217**	**1,198,314**

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

/i/ Employee residential loans are associated with the non-interest-bearing loans granted to the Company's employees to address housing needs. The principal amount of the loans is expressed in EUR and is adjusted bi-annually to account for the changes in the dinar-euro foreign exchange rates. Such loans are repayable in monthly instalments, and in most instances have 25-year maturities.

/ii/ At its meetings held on 28 and 29 September 2006, the Managing Board of the 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 Company 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 Company could obtain long-term loans and that reflect market rate for similar financial instruments in the current reporting period – 5.05% (2008: 4.27% per annum).

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

23. INVENTORIES

	2009	2008 Restated
Material and fuel	3,243,573	3,645,242
Spare parts	1,706,163	2,662,588
Tools	1,916,266	1,130,915
Waste material	329,445	19,507
	7,195,447	7,458,252
Less: Allowance for impairment		
Material and spare parts	(7,648)	(17,517)
Tools in use	(1,449,232)	(834,573)
Waste material	(329,445)	(19,507)
	5,409,122	**6,586,655**
Goods in warehouses	29,345	10,670
Goods in retail	630	6,258
	29,975	**16,928**
Balance as of 31 December	**5,439,097**	**6,603,583**

24. ACCOUNTS RECEIVABLE

	2009	2008 Restated
Domestic accounts receivable:		
Fixed telephony	7,255,990	6,561,223
Mobile telephony	9,927,205	6,605,622
National roaming – VIP Mobile	896,265	631,684
Interconnection	530,830	464,401
Other receivables	18,707	24,463
	18,628,997	**14,287,393**
Foreign accounts receivable:		
International settlements	1,203,227	1,526,822
Roaming	364,753	307,492
	1,567,980	**1,834,314**
Receivables from related parties (Note 34(a)):		
JP PTT	126,736	88,934
Telekom Srpske	56,885	528,938
Mtel	631,569	1,191,296
Telus	836	965
OTE	17,437	13,744
	833,463	**1,823,877**
Other receivables from sales	300,628	293,523
Interest receivables	29,072	39,286
Receivables from employees	61,662	330,580
Prepaid taxes and contributions	18,896	24,343
Receivables for war damages on property and equipment and inventories	139,202	139,202
Receivables from the state institutions	78,387	70,901
Other receivables	140,343	78,247
	768,190	**976,082**
Gross receivables	**21,798,630**	**18,921,666**
Less: Allowance for impairment (Note 15(a))		
Accounts receivable	(7,942,589)	(6,031,442)
Other receivables from sales	(242,707)	(241,666)
Interest receivables	(5,116)	(5,116)
Receivables from employees	(5,402)	(8,928)
Receivables for war damages on property and equipment and inventories	(139,202)	(139,202)
Receivables from the state institutions	(76,638)	(69,651)
Other receivables	(24,063)	(28,196)
	(8,435,717)	**(6,524,201)**
Balance as of 31 December	**13,362,913**	**12,397,465**

24. ACCOUNTS RECEIVABLE (Continued)

Trade receivables are predominantly non-interest bearing.

The Company 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 2009 was 53 days (year ended 31 December 2008: 49 days).

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

The ageing structure of gross accounts receivable as of 31 December 2009 and 2008 was as follows:

	2009	2008 Restated
Up to 30 days	8,585,891	8,150,773
From 30 to 60 days	2,196,695	1,811,053
From 60 to 180 days	3,989,911	3,342,554
From 180 to 360 days	1,570,331	1,781,543
Over 360 days	5,455,802	3,835,743
Total	**21,798,630**	**18,921,666**

As of 31 December 2009, receivables of RSD 13,180,920 thousand (31 December 2008: RSD 12,397,465 thousand) were considered to be fully performing.

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

As of 31 December 2009, receivables from domestic fixed and mobile telephony traffic in the amount of RSD 2,644,378 thousand (31 December 2008: RSD 1,734,078 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 2009, receivables in the amount of RSD 8,435,717 thousand (31 December 2008: RSD 6,524,201 thousand) were impaired and provided for in the amount of RSD 8,435,717 thousand (31 December 2008: RSD 6,524,201 thousand). It was assessed that a part of the receivables is expected to be recovered.

24. ACCOUNTS RECEIVABLE (Continued)

As of 31 December 2009 and 2008, the carrying amounts of the Company's accounts receivables are denominated in the following currencies:

	2009	2008 Restated
RSD – local currency	11,158,459	9,961,529
EUR	1,959,244	2,428,548
Other currencies	245,210	7,388
Total	**13,362,913**	**12,397,465**

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

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

Out of RSD 21,798,630 thousand, representing gross outstanding balance of accounts receivable as of 31 December 2009, the amount of RSD 1,163,276 thousand has not been reconciled with the debtors in 2009.

25. CASH AND CASH EQUIVALENTS

	2009	2008 Restated
Current accounts	1,033,531	612,620
Foreign currency accounts with domestic banks	8,416,011	4,229,996
Cash coupons	12,264	18,734
Balance as of 31 December	**9,461,806**	**4,861,350**

26. VALUE ADDED TAX, PREPAYMENTS AND ACCRUED INCOME

	2009	2008 Restated
Deferred value added tax	**481,154**	**457,607**
Prepaid expenses:		
- Banks' commissions for syndicated loan (a)	471,749	536,903
- Rental	52,592	72,809
- Insurance premiums	28,097	34,650
- License fee and frequency fee	87,453	1,250
- Other	45,653	32,531
	685,544	**678,143**
Accrued income from international settlements:		
- Fixed telephony (b)	644,985	575,142
- Mobile telephony (c)	714,634	692,931
Other accrued income	96,135	71,106
	1,455,754	**1,339,179**
Balance as of 31 December	**2,622,452**	**2,474,929**

(a) As of 31 December 2009, 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 408,909 thousand (EUR 4,264,411) and agency fee paid to EFG EuroBank Ergasias S.A., Athens in the amount of RSD 62,840 thousand (EUR 655,341).

(b) As of 31 December 2009, accrued income arising on fixed telephony international settlement comprise uninvoiced revenue for the month of December 2009 in the estimated amount of RSD 444,742 thousand and unsettled international traffic settlements for the period prior to December 2009 amounting to RSD 200,243 thousand.

(c) As of 31 December 2009, accrued income from mobile telephony traffic comprises accrued income from roaming services for November and December 2009 estimated to RSD 275,030 thousand and uninvoiced income arising from International GSM roaming contracts – Network operators' discounts amounting to RSD 439,604 thousand.

27. SHARE CAPITAL

The Company is a closed joins 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.

The Company's shareholders and the share capital structure at 31 December 2009 and 2008 are as follows:

	Number of shares	In %
JP PTT Saobracaja "Srbija", Belgrade	864,000	80.0%
Hellenic Telecommunications Organisation A.E. ("OTE"), Athens	216,000	20.0%
Total	**1,080,000**	**100.0%**

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 2009 and 2008.

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

The 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 coincides with the above presented structure recorded in the Company's books of account.

Basic Earnings per Share

	2009	2008 Restated
Profit attributable to equity holders of the Company (A)	15,548,716	5,304,299
Weighted average number of ordinary shares in issue (B)	1,080,000	1,080,000
Basic earnings per share (A/B)	**14.40**	**4.91**

28. LONG-TERM PROVISIONS

	2009	2008 Restated
Provisions for retirement benefits and jubilee anniversary awards	1,945,667	1,789,245
Provision for litigations (Note 36(a))	121,540	109,843
Balance as of 31 December	**2,067,207**	**1,899,088**

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

	Retirement benefits	Jubilee anniversary awards	Litigations	Total
Balance as of 1 January 2008	**574,442**	**968,863**	**33,405**	**1,576,710**
Charge for the year (Note 10)	97,564	244,161	90,087	431,812
Utilized	(6,368)	(89,398)	(9,257)	(105,023)
Release of provision (Note 14)	-	(19)	(4,392)	(4,411)
Balance as of 31 December 2008, restated	**665,638**	**1,123,607**	**109,843**	**1,899,088**
Charge for the year (Note 10)	82,387	173,723	27,162	283,272
Utilized	(9,128)	(90,560)	(7,992)	(107,680)
Release of provision (Note 14)	-	-	(7,473)	(7,473)
Balance as of 31 December 2009	**738,897**	**1,206,770**	**121,540**	**2,067,207**

Provisions for employees' retirement benefits and anniversary awards have been recorded on the basis of the Report of an independent actuary "Research Institute of the Economics Faculty", Belgrade ("NICEF") as of 31 December 2009 and 2008, and they are stated in the amount of discounted present value of future payments.

When determining the present value of the expected outflow, the discounted rate of 10% has been used, representing the effective interest rate realized through purchase of the bonds in respect of old foreign currency citizens' savings, the guarantor of which is the Republic of Serbia, being an appropriate rate according to the IAS 19 "Employee Benefits" in the absence of a developed market for high quality corporate bonds. Provision was determined in line with the Company's Collective Agreement and the assumption of 8% nominal salary increase rate per annum, which is 2% above 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.

Provision for litigations was recognized based on the best estimate of probable adverse effects of charges brought against the Company. This estimate is based on the professional opinion of the Company's Corporative Affairs Division.

29. BORROWINGS

(a) Structure of Borrowings

	2009	2008 Restated
Long-term borrowings		
Financial loans from:		
- Domestic banks	1,138,680	1,165,546
- Foreign banks	30,011,277	30,739,231
	31,149,957	**31,904,777**
Commodity loans from:		
- Domestic suppliers	2,676,370	3,886,138
- Foreign suppliers	15,493,315	13,959,547
	18,169,685	**17,845,685**
Total long-term borrowings	**49,319,642**	**49,750,462**
Current portion of long-term borrowings		
Loans from domestic banks	3,031,197	2,272,933
Loans from foreign banks	14,763,040	23,302,949
Commodity loans from domestic suppliers	1,723,807	2,008,348
Commodity loans from foreign suppliers	4,008,921	3,183,542
Total	**23,526,965**	**30,767,772**
Current portion of other long-term liabilities	532	-
Other short-term borrowings in the country	19,922	-
Total short-term borrowings	**23,547,419**	**30,767,772**
Balance as of 31 December	**72,867,061**	**80,518,234**

The fair value of non-current borrowings, which is based on cash flows discounted using a rate based on the interest rate of 5.05% (2008: 4.27%), amounts to RSD 44,320,271 thousand as of 31 December 2009 (31 December 2008: RSD 47,417,142 thousand).

The fair value of current borrowings equals their carrying amount.

(b) Maturity of Borrowings

	2009	2008 Restated
Up to 1 year – current portion of long-term borrowings	23,547,419	30,767,772
From 1 to 2 years	17,306,718	12,432,923
From 2 to 3 years	22,734,349	10,666,832
From 3 to 4 years	3,974,506	20,357,232
From 4 to 5 years	2,790,512	2,871,320
Over 5 years	2,513,557	3,422,155
Balance as of 31 December	**72,867,061**	**80,518,234**

29. BORROWINGS (Continued)

(c) Detailed Breakdown of Borrowings per Creditors

		31 December 2009		31 December 2008, Restated	
	Currency	In foreign currency	In RSD thousand	In foreign currency	In RSD thousand
/i/ Loans from domestic banks					
Banca Intesa a.d., Belgrade	EUR	33,000,000	3,165,193	17,000,000	1,510,736
Alpha Bank Srbija a.d., Belgrade	EUR	7,000,000	673,236	17,000,000	1,510,736
Vojvodjanska banka a.d., Novi Sad – Belgrade branch	EUR	3,125,000	299,653	4,375,000	387,629
Beobanka a.d. Belgrade - in bankruptcy	EUR	331,582	31,795	331,582	29,378
		43,456,582	**4,169,877**	**38,706,582**	**3,438,479**
/ii/ Loans from foreign banks					
Citibank N.A., London	EUR	330,040,000	31,647,140	590,000,000	52,274,590
EFG New Europe Funding, Holland	EUR	16,900,000	1,620,520	19,950,000	1,767,590
Alpha Bank A.E., London	EUR	120,000,000	11,506,656	-	-
		466,940,000	**44,774,316**	**609,950,000**	**54,042,180**
/iii/ Foreign commodity loans					
BNP Paribas, London branch	EUR	43,116,986	4,134,436	54,651,034	4,842,136
KfW, Germany	EUR	13,574,954	1,301,686	21,573,317	1,911,417
Nokia Siemens, Holland and Austria	EUR	49,134,737	4,711,471	34,787,131	3,082,175
Ericsson Credit A.B., Sweden	EUR	2,683,915	257,357	1,938,590	171,761
Calyon S.A., Sweden	EUR	39,697,638	3,806,559	45,958,640	4,071,981
Huawei technologies Co. Ltd., China	EUR	31,801,097	3,049,369	24,822,710	2,199,317
Alcatel Lucent S.A., France	EUR	4,215,801	404,248	340,662	30,183
OTP Bank Plc, Hungary	EUR	1,593,620	152,810	1,859,224	164,729
Sitronics, Czech Republic	EUR	2,531,667	242,759	3,156,936	279,708
Intracom S.A., Greece	EUR	2,182,149	209,244	3,354,746	297,234
EuroBank EFG Factors S.A., Greece (Intracom S.A., Greece in 2008)	EUR	1,956,987	187,653	-	-
Alcatel Lucent Italia S.p.A., Italy	EUR	1,422,005	136,354	-	-
Skandinaviska Enskilda Bank Stockholm, Sweden	EUR	8,860,514	849,624	-	-
NEC Europe Ltd., Hungary	EUR	504,716	48,397	807,546	71,549
Elsag Datamat S.p.A., Italy	EUR	107,091	10,269	-	-
Gilat Satellite Networks, Israel	EUR	-	-	235,875	20,899
		203,383,877	**19,502,236**	**193,486,411**	**17,143,089**
/iv/ Domestic commodity loans	RSD		**4,400,178**		**5,894,486**
Total borrowings			**72,846,607**		**80,518,234**
Less: Current portion of long-term borrowings					
/i/ Loans from domestic banks			(3,031,197)		(2,272,933)
/ii/ Loans from foreign banks			(14,763,040)		(23,302,949)
/iii/ Foreign commodity loans			(4,008,921)		(3,183,542)
/iv/ Domestic commodity loans			(1,723,807)		(2,008,348)
			(23,526,965)		**(30,767,772)**
Total long-term borrowings			**49,319,642**		**49,750,462**

29. BORROWINGS (Continued)

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

The Company pays interest on long-term foreign currency loans granted by domestic banks at rates ranging from to Euribor increased by 1.3% to Euribor increased by 4.5% per annum. Interest rates on loans granted by foreign banks and foreign suppliers range from Euribor to Euribor increased by 4.35% per annum.

Commodity loans from domestic suppliers earn interest at rates ranging from Euribor increased by 0.8% to Euribor increased by 2% per annum.

Bank borrowings mature until 2017, while commodity loans mature until 2015.

The Company regularly fulfils its due obligations in accordance with the terms of the loans agreements and determined annuity plans.

Management expects that the Company will be able to meet all contractual obligations from borrowings on a timely basis going forward.

The Company does not apply hedge accounting and has not entered into any hedging arrangements in respect of its foreign currency obligations or interest rate exposures.

/i/ As of 31 December 2009, financial liabilities towards Banca Intesa a.d., Belgrade (RSD 3,165,193 thousand) primarily relate to the Loan Arrangement in the amount of RSD 2,876,664 thousand, in order to provide funds for refinancing the repayment of the Arrangement C of the syndicated loan granted by Citibank N.A., London. The Company withdrew the total available funds in amount of EUR 30 million on 20 May 2009. The loan repayment period is 2 years from the date of withdrawal of the funds.

The Loan Agreement with Banca Intesa a.d., Belgrade defines the commitment of the Company to submit audited annual consolidated financial statements and audited annual financial statements, as well as semi-annual financial statements for certain six-month period. The Loan Agreement is subject to covenant clauses, whereby the 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 2009, the Company fulfilled all required ratios.

Financial liabilities towards Beobanka a.d., Belgrade in bankruptcy, ("Beobanka") in the amount of RSD 31,795 thousand as of 31 December 2009, relate to a loan settled by the former National Bank of Yugoslavia ("NBY") toward LHB bank, Frankfurt on behalf of Beobanka, as guarantor and the Company, as ultimate debtor. The NBY offset the aforesaid loan with the amount held at its account with LHB bank. Since the NBY deposits are subject to succession and due to the fact that repayment pattern of the outstanding balance of the loan has not yet been agreed, the Company cannot settle its liabilities even though it requested the settlement permission from Beobanka.

Domestic banks' loans are secured with 32 blank promissory notes issued by the Company (Note 33(a)).

29. BORROWINGS (Continued)

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

/ii/ In order to provide funds for financing the purchase of 65% of shares in "Telekom Srpske" (Note 21(a)), on 24 May 2007, the 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 Company withdrew the total available funds, and in December 2008 it made an early repayment of the part of the funds per Arrangement C in the amount of EUR 110 million. In addition, in May 2009, the Company repaid the remaining outstanding debt of EUR 190 million per Arrangement C and the part of debt per Arrangement A in the amount of EUR 34.98 million. In November 2009, the Company repaid a part of the debt per Arrangement A in the amount of EUR 34.98 million.

The Loan Agreement with Citibank N.A., London defines the commitment of the 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 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 2009, the 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 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 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.

The Loan Agreement with Alpha Bank A.E., London defines the commitment of the 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 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 2009, the Company fulfilled all required ratios.

Foreign bank loans (EFG New Europe Funding, Holland) are also secured with 10 blank promissory notes issued by the Company (Note 33(a)).

/iii/ As of 31 December 2009, certain long-term borrowings originated by KfW, Germany (RSD 22,002 thousand), are secured by irrevocable and unconditional payable guarantees, issued by Banca Intesa a.d., Belgrade, in favour of the aforesaid creditors and payable at first demand (Note 33(b)). The aforementioned payable guarantees are issued for securing regular and timely repayment of borrowings in the full amount of the contracted value, and are in effect until the loans repayment date.

29. BORROWINGS (Continued)

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

/iii/ Long-term borrowings originated by Ericsson Credit A.B, Sweden are secured with assigned collateral rights on the Company’s movable telecommunication equipment (Note 19). Collateral right is registered at the Register of pledges with the Agency for Commercial Registers of the Republic of Serbia, based on the Agreement and Commercial Register Agency’ Decisions. In 2006 and 2007, the long-term borrowings from Ericsson Credit A.B, Sweden were transferred by Ericsson Credit A.B., Sweden to BNP Paribas, London branch. The aforementioned liability amounts of RSD 4,134,436 thousand as of 31 December 2009. The substitution of pledgee has not yet been registered in the Register of pledges.

The credit agreements with Ericsson Credit A.B, Sweden and BNP Paribas, London branch are subject to covenant clauses, whereby the Company is required to meet certain key performance indicators. As of 31 December 2009, the Company fulfilled the required ratios.

/iv/ Domestic commodity loans totalling RSD 4,400,178 thousand as of 31 December 2009 (31 December 2008: RSD 5,894,486 thousand) mostly relate to the financing of work on the construction and purchase of equipment and have been approved by domestic suppliers. The total contract value of the work is principally financed with 15 percent advances, whereas 85 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 the name of the beneficiary, the construction contractor (Note 33(a)).

/v/ Undrawn commodity loans amount to RSD 2,359,898 thousand as of 31 December 2009 (31 December 2008: RSD 3,738,245 thousand). The majority of these loans have been granted at variable interest rates.

The facilities expiring within one year amount to RSD 93,790 thousand (31 December 2008: RSD 129,980 thousand), while the facilities expiring beyond one year up to 5 years amount to RSD 2,266,108 thousand (31 December 2008: RSD 3,608,265 thousand).

30. ACCOUNTS PAYABLE

	2009	2008 Restated
Domestic trade payables	4,969,441	4,949,282
Foreign trade payables:		
- Fixed telephony	672,195	2,645,255
- Mobile telephony	301,625	307,905
Related parties' trade payables (Note 34(a))	725,003	1,692,290
Advances received	207,884	161,615
Balance as of 31 December	**6,876,148**	**9,756,347**

As of 31 December 2009, accounts payable amounting to RSD 1,274,970 thousand (31 December 2008: RSD 4,051,310 thousand) are denominated in foreign currency, mainly EUR.

Trade payables are non-interest bearing. The Company regularly settles its due obligations to suppliers. The average payment period during the year ended 31 December 2009 was 63 days (year ended 31 December 2008: 84 days).

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

As of 31 December 2009, out of RSD 6,876,148 thousand and RSD 4,400,178 thousand, representing outstanding balance of accounts payable and commodity loans from domestic suppliers (Note 29), respectively, the amount of RSD 298,185 thousand has not been reconciled with the suppliers/creditors in 2009.

31. OTHER CURRENT LIABILITIES

	2009	2008 Restated
Gross salaries	425,760	830,666
Interest payable	1,837	6,122
Liabilities to employees	14,260	12,639
Remuneration to the Managing Board members	352	-
Other liabilities	172,258	184,160
Balance as of 31 December	**614,467**	**1,033,587**

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

	2009	2008 Restated
Accruals		
Accrued expenses from international traffic:		
Fixed telephony (a)	188,006	182,772
Roaming (b)	771,185	714,996
	959,191	**897,768**
Accrued other expenses:		
Employee profit-sharing	1,346,284	1,206,390
Accumulated absences (vacation)	346,994	342,660
Accrued interest expenses (c)	258,506	506,966
Accrued other expenses (d)	5,910,485	4,100,678
	7,862,269	**6,156,694**
Deferred income:		
Mobile phone services	600,031	759,414
Chip cards	95,972	118,686
Fixed telephony subscription	589,350	575,592
Subscription for special telephone services	71,523	64,090
Other deferred income	153	10,464
	1,357,029	**1,528,246**
Deferred income (e):		
Donations	112,990	115,894
Grants from local municipalities	2,032,337	2,217,402
Grants from mobile telephony suppliers	1,461,845	1,222,327
Grants from other suppliers	179,203	176,882
	3,786,375	**3,732,505**
Deferred liabilities for value added tax	52,218	67,980
Value added tax and other tax liabilities (f)	1,078,623	506,309
Balance as of 31 December	**15,095,705**	**12,889,502**

(a) As of 31 December 2009, accrued expenses arising from fixed international traffic totalling RSD 188,006 thousand comprise uninvoiced expenses for the month of December 2009 in the estimated amount of RSD 138,108 thousand and unreconciled liabilities arising from international traffic settlements for the period prior to December 2009 in the amount of RSD 49,898 thousand.

(b) As of 31 December 2009, accrued roaming expenses totalling RSD 771,185 thousand relate to uninvoiced roaming services for November and December 2009, estimated to RSD 204,749 thousand and uninvoiced expenses based on the International GSM roaming contract – Network operators' discounts amounting to RSD 566,436 thousand.

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

(c) Accrued interest expenses as of 31 December 2009 include the amount of RSD 103,931 thousand, representing interest expense arising from the syndicated loan granted by Citibank N.A., London.

(d) Accrued other expenses amounting to RSD 5,910,485 thousand as of 31 December 2009 mostly relate to estimated uninvoiced expenses for services provided by suppliers during the year ended 31 December 2009.

Accrued other expenses as of 31 December 2009 also include a liability for property tax on telecommunication cable network and cable infrastructure for the period from 2005 to 2009 in the amount of RSD 985,812, including related penalty interest.

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

	2009	2008 Restated
Balance as of 1 January	3,732,505	3,889,056
Grants received during the year (Note 18 and 19)	450,200	329,777
Release to the income statement (Note 14)	(404,180)	(404,420)
Other movements	7,850	(81,908)
Balance as of 31 December	**3,786,375**	**3,732,505**

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

	2009	2008 Restated
Nokia Siemens Networks, Finland and Austria	423,867	101,966
Local municipalities	-	106,077
Huawei technologies Co. ltd., China	5,238	36,683
Gilat Satellite Networks ltd., Israel	-	23,534
Ericsson, Sweden	257	22,475
Other	20,838	39,042
Total	**450,200**	**329,777**

(f) The Government of 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 for prepaid services and postpaid invoices from a previous month.

As of 31 December 2009, the Company recognized the aforementioned tax liability in the amount of RSD 564,948 thousand, and recorded it within Value added tax and other tax liabilities.

33. OFF-BALANCE SHEET ITEMS

	2009	2008 Restated
Issued promissory notes (a)	5,973,065	14,453,285
Guarantees received (b)	22,002	4,192,519
Property and equipment in liquidation	1,872,328	3,357,374
Temporary imported equipment	4,929	4,554
Phone cards	12,568	6,175
Scratch cards	14,686	16,272
Other	20,573	70,091
Balance as of 31 December	**7,920,151**	**22,100,270**

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

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

	2009	2008 Restated
Issued promissory notes in favour of:		
- Banks	3,979,315	6,412,490
- Suppliers	1,993,750	8,040,795
Balance as of 31 December	**5,973,065**	**14,453,285**

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

	2009	2008 Restated
Eurobank EFG a.d., Belgrade	-	1,551,488
Piraeus banka a.d., Belgrade	-	1,224,846
Societe Generale banka Srbija a.d., Belgrade	-	816,564
Vojvodjanska banka a.d., Novi Sad – Belgrade branch	-	489,938
Banca Intesa a.d., Belgrade	22,002	103,334
Vojvodjanska banka a.d., Novi Sad	-	6,349
Balance as of 31 December	**22,002**	**4,192,519**

33. OFF-BALANCE SHEET ITEMS (Continued)

(b) The above stated payable guarantees comprise:

- Guarantees issued by Banca Intesa a.d., Belgrade in favour of KfW, Germany, based on the agreements for acquiring equipment through borrowings. Guarantees were issued with a validity period up to the final repayment date of the related borrowings.

- Guarantees issued in favour of the Directorate for Privatization of the Republic of Srpska (guarantees issued by Eurobank EFG a.d., Belgrade, Piraeus banka a.d., Belgrade, Societe Generale banka Srbija a.d., Belgrade and Vojvodjanska banka a.d., Novi Sad – Belgrade branch), as collateral for fulfilment of the investment commitment and dividend payment of "Telekom Srpske", were issued with validity period until 19 September 2008. Pursuant to the approval to prolong the deadline for fulfilment of the investment liability in respect of the SPA by the Government of Republic of Srpska (Note 21(a)), the Company has been obliged to extend the validity period of the existing guarantees until 19 April 2009. Although the Company settled the aforementioned investment liability by the end of 2008, the guarantees were effective until the verification of the liability fulfilment by independent auditors.

  On 9 April 2009, the representatives of the Investment and Development Bank of the Republic of Srpska reviewed the realisation of the Company's investment liability. On 15 April 2009, the representatives prepared a Note no. 10/01-12-18/09 on the control of fulfilment of the investment liability defined by the SPA no. 124-01/07 dated 19 January 2007 and the related Annex no. 1 dated 22 July 2008, for the period starting 18 June 2007 until 18 March 2009 ("Control period"), wherein they stated that the Company fulfilled its investment liability during the control period, and therefore the aforementioned guarantees are no longer effective. Accordingly, the guarantees totalling RSD 4,082,820 thousand, being the counter value of EUR 50 million, were transferred out from the Company' books of account.

34. RELATED PARTY DISCLOSURES

(a) **Outstanding balances of receivables and liabilities** as of 31 December 2009 and 2008, arising from the purchase and/or sale of goods/services from/to the Company's shareholders (Note 27) and the subsidiaries (Note 21) are summarized below:

	2009	2008 Restated
RECEIVABLES		
Gross accounts receivable (Note 24):		
- JP PTT	126,736	88,934
- OTE	17,437	13,744
- Mtel	631,569	1,191,296
- Telekom Srpske	56,885	528,938
- Telus	836	965
	833,463	1,823,877
Less: Allowance for impairment - JP PTT	(471)	(9,916)
Allowance for impairment - Mtel	(158,397)	(965,004)
	(158,868)	(974,920)
Total	**674,595**	**848,957**
Payments in advance:		
- JP PTT	168	121
Less: Allowance for impairment of payments in advance	-	(26)
Total	**168**	**95**
Other receivables and accrued income:		
Telekom Srpske:		
- accrued income from international settlement	54,963	45,840
- other receivables	719	-
- other accrued income	533	-
- accrued income from roaming	16,548	14,762
	72,763	60,602
OTE:		
- accrued income from international settlement	24,618	22,292
	24,618	22,292
JP PTT:		
- other receivables	1,141	364
	1,141	364
Mtel:		
- other receivables	55,297	51,094
- accrued income from international settlement	27,587	34,863
- other accrued income	7,756	-
- accrued income from roaming	5,590	6,205
	96,230	92,162
Total	**194,752**	**175,420**
Total receivables and accrued income	**869,515**	**1,024,472**

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.

34. RELATED PARTY DISCLOSURES (Continued)

(a) Receivables and Liabilities (Continued)

	2009	2008 Restated
LIABILITIES		
Accounts payable:		
- JP PTT	484,732	488,002
- OTE	3,627	11,235
- Mtel	8,998	846,597
- Telekom Srpske	131,882	248,145
- Telus	95,764	98,311
Total (Note 30)	**725,003**	**1,692,290**
Other current liabilities and accruals:		
JP PTT:		
- deferred income – TT services	2,783	2,829
- accrued expenses	-	5,584
	2,783	8,413
OTE:		
- accrued expenses from international settlement	9,488	11,957
	9,488	11,957
Telus:		
- deferred income – TT services	46	46
	46	46
Mtel:		
- accrued expenses from roaming	8,527	12,249
- accrued expenses from international settlement	171	725
- other accrued expenses	370	-
	9,068	12,974
Telekom Srpske:		
- accrued expenses from roaming	12,027	15,326
	12,027	15,326
Total	**33,412**	**48,716**
Total liabilities and accruals	**758,415**	**1,741,006**

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. The sales and purchases from related parties are made at terms equivalent to those that prevail in arm’s length transactions.

34. RELATED PARTY DISCLOSURES (Continued)

(b) Transactions with the shareholders and the subsidiaries, i.e. **revenues and expenses** for the years ended 31 December 2009 and 2008, respectively, are summarized below:

	2009	2008 Restated
JP PTT		
Revenues:		
Income from fixed telephony, internet and other services	309,391	330,802
Income from mobile telephony	85,551	94,541
Reversal of impairment loss	8,662	55,056
Other	127	12,506
	403,731	**492,905**
Expenses:		
Rents	(2,313,930)	(2,004,001)
Cost of delivery and collection of phone bills and telegrams	(1,324,017)	(1,208,864)
Printing services	(5,463)	(40,010)
Electricity	(312,098)	(249,762)
Electronic data processing	(70,660)	(103,200)
City land rental fee	(17,101)	(124,444)
Postal services	(27,214)	(59,325)
Allowance for impairment of receivables	-	(44,917)
Utilities	(38,930)	(29,679)
Maintenance	(73,255)	(36,573)
CALL centre services	(22,589)	(19,658)
Fees and commissions	(8,576)	(9,190)
Other	(6,066)	(6,814)
	(4,219,899)	**(3,936,437)**
Net expenses	**(3,816,168)**	**(3,443,532)**

34. RELATED PARTY DISCLOSURES (Continued)

(b) Revenues and Expenses (Continued)

	2009	2008 Restated
OTE		
Revenues:		
International settlement	148,245	173,949
	148,245	**173,949**
Expenses:		
International settlement	(57,487)	(88,490)
	(57,487)	**(88,490)**
Net revenues	**90,758**	**85,459**
Telus		
Revenues:		
Income from fixed telephony and other services	6,549	8,976
Income from mobile telephony	1,771	1,620
	8,320	**10,596**
Expenses:		
Physical and technical security	(509,413)	(480,721)
Cleaning	(431,024)	(417,013)
Other	(44,212)	(42,371)
	(984,649)	**(940,105)**
Net expenses	**(976,329)**	**(929,509)**
Mtel		
Revenues:		
International settlement, internet and other services	524,979	635,948
Roaming and other mobile telephony revenues	49,844	52,357
Reversal of impairment loss	867,753	-
Other	464	48,016
	1,443,040	**736,321**
Expenses:		
International settlement	(342,674)	(493,888)
Roaming	(208,176)	(212,696)
Allowance for impairment of receivables	-	(909,366)
Other	-	(10,009)
Consignment sales fee	(6,504)	(5,130)
	(557,354)	**(1,631,089)**
Net revenues/(expenses)	**885,686**	**(894,768)**

34. RELATED PARTY DISCLOSURES (Continued)

(b) Revenues and Expenses (Continued)

	2009	2008 Restated
Telekom Srpske		
Revenues:		
International settlement, internet and other services	735,530	558,631
Roaming and other mobile telephony revenues	110,092	74,589
Dividends	5,094,484	318,316
Revenues from software sales	-	422,627
Other	7,074	5,319
	5,947,180	**1,379,482**
Expenses:		
International settlement	(887,112)	(1,210,000)
Roaming	(101,650)	(105,371)
Other	(489)	-
	(989,251)	**(1,315,371)**
Net revenues	**4,957,929**	**64,111**
Total revenues/(expenses), net	**1,141,876**	**(5,118,239)**

(c) **Salaries and other benefits** of directors and other key management personnel of the Company (Director General, Deputy Director General, Chief Officers, Function and Department Managers), for the years ended 31 December 2009 and 2008 were as follows:

	2009	2008 Restated
Gross salaries	326,694	323,311
Compensations for business trips	26,163	20,364
Employee profit-sharing	80,400	78,121
Residential housing loans	181,517	167,632
Loans for repurchase of vehicles	29,855	31,227
Settled jubilee awards	515	712
Total	**645,144**	**621,367**

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 Company's employees (see Note 22). No provision has been required for the loans made to key management personnel.

35. COMMITMENTS

Commitments comprise the following:

	2009	2008 Restated
Operating lease commitments (a)	4,734,498	5,426,422
Construction of the mobile network and fixed-line telecommunication network (b)	2,359,898	3,738,245
Balance as of 31 December	**7,094,396**	**9,164,667**

(a) The Company 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:

	2009	2008 Restated
Up to 1 year	960,754	964,628
From 1 to 5 years	2,381,946	2,954,990
Over 5 years	1,391,798	1,506,804
	4,734,498	**5,426,422**

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 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.

36. CONTINGENT LIABILITIES

(a) Litigations

As of 31 December 2009, the total estimated value of potential damage claims arising from legal proceedings filed against the Company and still in course amounts to RSD 290,340 thousand (31 December 2008: RSD 185,886 thousand), excluding penalty interest that may arise thereto.

The final outcome of the legal proceedings still in course is uncertain. As disclosed in Note 28, as of 31 December 2009, the Company recognized the amount of RSD 121,540 thousand (31 December 2008: RSD 109,843 thousand) for potential losses that might arise as a result of the aforementioned litigations. The Company's management considers that no material liabilities will arise as a result of the remaining legal proceedings still in course, other than those provided for.

(b) Tax Risks

Tax system in the Republic of Serbia is undergoing continuous amendments. Tax period in the Republic of Serbia 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 Company's management believes that tax liabilities recognized in the accompanying financial statements are fairly presented.

37. OPERATING SEGMENT INFORMATION

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

At 31 December 2009, for management purposes, the Company's activities are organized into five reportable operating segments based on their products and services as follows:

- Mobile telephony;
- Internet;
- Multimedia services, which became a separate operating segment in 2008;
- CDMA services, which became a separate operating segment in 2009, as the Company was granted the license for fixed wireless access to public telecommunication network and services (CDMA license) by RATEL in June 2009; 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 Company's revenue in the future.

37. 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	39,467,234	3,265,711	75,416	305,773	42,358,993	85,473,127
Other operating income	1,160,099	83,967	56,304	2,049	2,422,473	3,724,892
Inter-segment settlement	5,042,674	-	-	-	4,372,506	9,415,180
Operating income	**45,670,007**	**3,349,678**	**131,720**	**307,822**	**49,153,972**	**98,613,199**
Wages, salaries and other personnel expenses	(2,109,342)	(1,473,071)	(980,403)	(187,975)	(8,259,508)	(13,010,299)
Charges of other network operators	(5,659,078)	-	(113,470)	-	(7,196,968)	(12,969,516)
Cost of material and maintenance	(3,480,436)	(669,719)	(110,909)	(21,403)	(3,269,620)	(7,552,087)
Depreciation and amortization	(5,606,953)	(225,244)	(299,888)	(42,342)	(10,399,603)	(16,574,030)
Rental costs	(1,228,687)	(282,176)	(192,966)	(35,784)	(1,925,520)	(3,665,133)
Other operating expenses	(9,416,022)	(426,791)	(356,120)	(48,164)	(6,173,369)	(16,420,466)
Inter-segment settlement	(2,911,996)	(1,461,008)	-	-	(5,042,176)	(9,415,180)
Operating expenses	**(30,412,514)**	**(4,538,009)**	**(2,053,756)**	**(335,668)**	**(42,266,764)**	**(79,606,711)**
Operating profit/ (loss)	**15,257,493**	**(1,188,331)**	**(1,922,036)**	**(27,846)**	**6,887,208**	**19,006,488**
Interest income	187,448	-	-	-	901,777	1,089,225
Interest expense	(1,672,783)	(1,634)	(9,761)	-	(1,631,827)	(3,316,005)
Foreign exchange losses, net	(2,209,527)	(14,886)	(8,545)	(370)	(3,759,646)	(5,992,974)
Dividends	2,684,793	-	-	-	2,409,691	5,094,484
Other financial income	4,496	-	-	-	68,713	73,209
	(1,005,573)	**(16,520)**	**(18,306)**	**(370)**	**(2,011,292)**	**(3,052,061)**
Profit/(loss) before tax	**14,251,920**	**(1,204,851)**	**(1,940,342)**	**(28,216)**	**4,875,916**	**15,954,427**
Income tax expense	(302,290)	-	-	-	(103,421)	(405,711)
Profit/(loss) for the year	**13,949,630**	**(1,204,851)**	**(1,940,342)**	**(28,216)**	**4,772,495**	**15,548,716**

37. OPERATING SEGMENT INFORMATION (Continued)

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

The reportable segments' results for the year ended 31 December 2008 are as follows:

	Mobile telephony	Internet	Multimedia services	Fixed telephony and other services	Total
Sales	38,802,284	1,624,904	348	42,107,070	82,534,606
Other operating income	551,115	549	850	1,805,575	2,358,089
Inter-segment settlement	5,110,500	-	-	6,110,021	11,220,521
Operating income	**44,463,899**	**1,625,453**	**1,198**	**50,022,666**	**96,113,216**
Wages, salaries and other personnel expenses	(1,125,540)	(138,181)	(69,418)	(11,261,994)	(12,595,133)
Charges of other network operators	(5,371,407)	-	(3,612)	(7,781,599)	(13,156,618)
Cost of material and maintenance	(3,759,600)	(412,103)	(24,274)	(3,546,757)	(7,742,734)
Depreciation and amortization	(5,224,253)	-	-	(10,488,991)	(15,713,244)
Rental costs	(789,882)	(942)	-	(2,396,346)	(3,187,170)
Other operating expenses	(7,901,774)	(185,924)	(106,397)	(6,886,284)	(15,080,379)
Inter-segment settlement	(4,317,034)	(1,684,140)	(109,218)	(5,110,129)	(11,220,521)
Operating expenses	**(28,489,490)**	**(2,421,290)**	**(312,919)**	**(47,472,100)**	**(78,695,799)**
Operating profit/(loss)	**15,974,409**	**(795,837)**	**(311,721)**	**2,550,566**	**17,417,417**
Interest income	183,253	-	1	858,133	1,041,387
Interest expense	(2,432,169)	-	(140)	(2,363,470)	(4,795,779)
Foreign exchange (losses)/gains, net	(5,099,405)	(6,575)	384	(3,170,841)	(8,276,437)
Dividends	167,753	-	-	150,563	318,316
Other financial income	128,284	-	-	43,137	171,421
	(7,052,284)	**(6,575)**	**245**	**(4,482,478)**	**(11,541,092)**
Profit/(loss) before tax	**8,922,125**	**(802,412)**	**(311,476)**	**(1,931,912)**	**5,876,325**
Income tax expense	(572,026)	-	-	-	(572,026)
Profit/(loss) for the year	**8,350,099**	**(802,412)**	**(311,476)**	**(1,931,912)**	**5,304,299**

Inter-segment revenues and expenses are eliminated on consolidation.

The reportable operating segments derive their revenue from sales of fixed and mobile telephony services, sales of other services and handsets to external customers. A detailed breakdown of the sales by category, i.e. from all services is disclosed in Note 6.

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

37. OPERATING SEGMENT INFORMATION (Continued)

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

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	49,072,768	2,054,564	1,052,831	982,581	98,615,534	**151,778,278**
Liabilities	46,849,188	561,777	465,227	883,297	48,765,300	**97,524,789**
Capital expenditure (Notes 18 and 19)	4,065,227	105,572	654,863	522,462	8,773,213	**14,121,337**

Segments' assets do not include investments in subsidiaries (RSD 58,046,388 thousand), deferred tax assets (RSD 850,184 thousand) and receivables for prepaid income tax (RSD 19,264 thousand), as these assets are managed on the Company's level.

The reportable segments' assets and liabilities at 31 December 2008 and capital expenditure for the year then ended are as follows:

	Mobile telephony	Internet	Multimedia services	Fixed telephony and other services	Total
Assets	39,896,238	386,082	9,008	109,149,063	**149,440,391**
Liabilities	52,743,047	308,798	143,498	52,906,366	**106,101,709**
Capital expenditure (Notes 18 and 19)	8,744,693	-	-	11,737,421	**20,482,114**

Segments' assets do not include investments in subsidiaries (RSD 57,289,282 thousand), deferred tax assets (RSD 718,288 thousand) and receivables for prepaid income tax (RSD 171,386 thousand), as these assets are managed on the Company's level.

(b) Information about Geographical Areas

The country of origin of the 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 Company's revenues are predominantly generated in Serbia (89%).

The remaining revenues relate to international settlement services, roaming and other services on foreign markets.

37. OPERATING SEGMENT INFORMATION (Continued)

(b) Information about Geographical Areas (Continued)

Total assets are allocated based on where the assets are located. The total of non-current assets other than financial instruments (other long-term financial placements) 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 118,947,221 thousand as of 31 December 2009, and represents 67.1% of total non-current assets (31 December 2008: RSD 121,224,006 thousand or 67.7%).

The total of these non-current assets located in other countries amounts to RSD 58,441,615 thousand or 32.9% (31 December 2008: RSD 57,719,094 thousand or 32.3%).

(c) Information about Major Customers

The Company 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 Company's sales.

38. EVENTS AFTER THE REPORTING PERIOD

(a) Issuance of a License for Public Fixed Telecommunications Networks and Services

On 22 January 2010, the Managing Board of the Republic Telecommunication Agency ("RATEL") brought a decision to issue a License for public fixed telecommunications networks and services for the territory of the Republic of Serbia to "Telenor" d.o.o., Belgrade. By mid of February 2010, Telenor d.o.o., Belgrade will be granted the license which is valid through a 10-year period, while the provision of commercial services should commence within one year after the license issuing date.

In accordance with its competences and conditions specified in the Rules on the number and the period for which the license for public fixed telecommunications networks and services is to be issued, as well as the minimum conditions for the license issuance passed by the Ministry of Telecommunications and Information Society, RATEL instituted a public bidding procedure on 20 November 2009 for the license issuance, and published an invitation to bid. The following four companies purchased the tender documents: Telenor d.o.o., Belgrade, VIP Mobile d.o.o., Belgrade, Kerseyco Trading Limited, Cyprus, and Konsing Group d.o.o., Belgrade.

The deadline for submission of bids was 12 January 2010, and on the same date, the first phase of the public bidding – public opening of bids was conducted. The Commission in charge of the bidding procedure stated that only Telenor d.o.o., Belgrade timely submitted the required documents. The opening of the financial offer was conducted on 15 January 2010. Telenor d.o.o., Belgrade offered the amount of EUR 1.05 million for the one-off license issuance fee for the second fixed telephony operator.

At its session held on 21 January 2010, the Government of the Republic of Serbia adopted the above offer by Telenor d.o.o., Belgrade, and consequently, on 22 January 2010, the Managing Board of RATEL passed a Decision on issuing the license to the second fixed telephony operator.

38. EVENTS AFTER THE REPORTING PERIOD (Continued)

(b) Foundation of a New Subsidiary

On 4 February 2010, a new subsidiary "TS:NET BV" was founded with its registered office in Amsterdam, the Kingdom of the Netherlands. The founding capital amounts to EUR 1,228,388, and it consists of contribution in cash in the amount of EUR 61,274 and contribution in kind in the amount of EUR 1,167,114.

"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 Company. The Company is the sole shareholder in the newly founded subsidiary.

39. EXCHANGE RATES

The official exchange rates for major currencies used in the translation of balance sheet items denominated in foreign currencies as of 31 December 2009 and 2008 into the functional currency (RSD) were as follows:

		In RSD
	2009	2008
EUR	95.8888	88.6010
USD	66.7285	62.9000
BAM (KM)	49.0272	45.3010
SDR	104.3481	98.0592

BDO d.o.o. Beograd
Knez Mihailova 10
11000 Belgrade
Republic of Serbia
Tel: +381 11 3281 399
Fax: +381 11 3281 808

www.bdo.co.rs