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

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

and

Independent Auditor's Report

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

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying 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 2010, and the income statement, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information. 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), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the 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 judgment, 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 2010, and 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

We draw attention to Note 35(a) to the financial statements disclosing that as of 31 December 2010, the estimated contingent liabilities arising from lawsuits filed against the Company amount to RSD 732,947 thousand, excluding any related penalty interest that may arise thereto. Based on the estimate of the final outcome of these lawsuits made by the Company’s Corporative Affairs Division, the provision for potential losses arising from pending litigations recognized in the Company’s financial statements amounts to RSD 131,577 thousand as of 31 December 2010 (Note 27). 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. Our opinion is not qualified in respect of this matter.

Belgrade, 28 February 2011

Ksenija Ristic Kostic
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 the preparation of financial statements, which present fairly the financial position of the Company and its operating results and its cash flows, and which 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 2010, set out on pages 4 to 84, 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 ("RS Official Gazette", no. 46/2006 and 111/2009) have been followed.

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

Branko Radujko
General Manager

Georgios Christodoulopoulos
Director of Economic Affairs Division

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

	Note	2010	2009
OPERATING INCOME			
Sales	5	85,280,888	84,567,392
Other operating income	6	535,798	564,376
		85,816,686	**85,131,768**
OPERATING EXPENSES			
Cost of goods sold		(39,247)	(51,156)
Cost of material	7	(5,299,621)	(4,398,891)
Wages, salaries and other personnel expenses	8	(12,659,018)	(13,010,299)
Depreciation, amortization and provisions	9	(16,961,352)	(16,857,302)
Other operating expenses	10	(29,975,542)	(29,888,995)
		(64,934,780)	**(64,206,643)**
OPERATING PROFIT		**20,881,906**	**20,925,125**
Financial income	11	8,143,194	8,025,550
Financial expenses	12	(10,324,630)	(11,077,611)
Other income	13	2,729,562	3,160,516
Other expenses	14	(5,181,389)	(5,079,153)
PROFIT FROM OPERATIONS BEFORE TAX		**16,248,643**	**15,954,427**
NET LOSS FROM DISCONTINUED OPERATIONS	15	(83,952)	-
PROFIT BEFORE TAX		**16,164,691**	**15,954,427**
INCOME TAXES	16		
Current tax expense		(633,518)	(537,607)
Deferred tax income		258,256	131,896
PROFIT FOR THE YEAR		**15,789,429**	**15,548,716**
EARNINGS PER SHARE			
Basic earnings per share	26	**14.62**	**14.40**

The accompanying notes on pages 12 to 84
are an integral part of these financial statements.

The accompanying financial statements were authorized for issue by the Managing Board of the Company on 28 February 2011 and were signed on its behalf by:

Branko Radujko
General Manager

Georgios Christodoulopoulos
Director of Economic Affairs Division

BALANCE SHEET
As of 31 December 2010
In RSD thousand

	Note	31 December 2010	31 December 2009
ASSETS			
Non-current assets			
Intangible assets	17	7,243,477	8,409,301
Advances for intangible assets		57,777	67,549
Property, plant and equipment	18	109,874,878	110,550,839
Advances for property and equipment	19	465,486	314,759
Investments in subsidiaries	20	60,211,333	58,046,388
Other long-term financial placements	21	1,239,511	1,151,217
		179,092,462	**178,540,053**
Current assets			
Inventories	22	5,920,321	5,439,097
Advances to suppliers		525,401	396,620
Accounts receivable	23	12,395,297	13,362,913
Receivables for overpaid income tax		330,190	19,264
Short-term financial placements		1,853	1,725
Cash and cash equivalents	24	7,949,392	9,461,806
Value added tax, prepayments and accrued income	25	2,644,028	2,622,452
		29,766,482	**31,303,877**
Deferred tax assets	16(c)	**1,108,440**	**850,184**
TOTAL ASSETS		**209,967,384**	**210,694,114**
EQUITY AND LIABILITIES			
Equity	26		
Share capital		82,512,552	82,512,552
Other capital		8,588	8,588
Reserves		589,634	589,634
Retained earnings		39,183,365	30,058,551
		122,294,139	**113,169,325**
Long-term provisions and non-current liabilities			
Long-term provisions	27	1,848,866	2,067,207
Long-term borrowings	28	41,715,890	49,319,642
Other long-term liabilities		3,748	4,201
		43,568,504	**51,391,050**
Current liabilities			
Short-term borrowings	28	21,369,737	23,547,419
Accounts payable	29	5,652,194	6,876,148
Other current liabilities	30	686,353	614,467
Value added tax and other tax liabilities, accruals and deferred income	31	16,396,457	15,095,705
		44,104,741	**46,133,739**
TOTAL EQUITY AND LIABILITIES		**209,967,384**	**210,694,114**
OFF-BALANCE SHEET ITEMS	32	**5,321,926**	**7,920,151**

The accompanying notes on pages 12 to 84
are an integral part of these financial statements.

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

	Share capital	Other capital	Reserves	Retained earnings	Total
Balance as of 1 January 2009	**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**
Dividends paid	-	-	-	(6,664,615)	(6,664,615)
Profit for the year 2010	-	-	-	15,789,429	15,789,429
Balance as of 31 December 2010	**82,512,552**	**8,588**	**589,634**	**39,183,365**	**122,294,139**

The accompanying notes on pages 12 to 84
are an integral part of these financial statements.

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

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and advances received	105,274,090	102,430,701
Other receipts from operating activities	703,707	939,934
Payments to suppliers and advance payments to suppliers	(46,564,141)	(46,889,977)
Payments for wages, salaries and other personnel expenses	(12,272,823)	(12,759,736)
Interest paid	(2,101,709)	(3,449,938)
Income tax paid	(944,444)	(385,486)
Other public charges paid	(11,842,385)	(10,474,964)
Net cash flows from operating activities	**32,252,295**	**29,410,534**
CASH FLOWS FROM INVESTING ACTIVITIES		
Receipts from sale of intangible assets and property and equipment	6,920	11,601
Interest received	614,668	613,913
Dividends received	4,716,916	5,094,484
Purchase of equity instruments - Mtel, Montenegro	(2,036,142)	-
Purchase of equity instruments – FiberNet, Montenegro	-	(757,106)
Purchase of equity instruments – TS:NET, the Netherlands	(6,034)	-
Purchase of intangible assets and property and equipment	(15,640,938)	(14,109,467)
Other financial placements (net outflows)	(145,446)	(4,640)
Net cash flows used in investing activities	**(12,490,056)**	**(9,151,215)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Net repayments of borrowings	(9,781,887)	(7,651,923)
Net repayments of other liabilities	(429)	(218)
Dividends paid	(6,664,615)	(3,897,029)
Net cash flows used in financing activities	**(16,446,931)**	**(11,549,170)**
Net increase in cash and cash equivalents	3,315,308	8,710,149
Cash and cash equivalents, beginning of the year	9,461,806	4,861,350
Foreign exchange losses on cash and cash equivalents' translation, net	(4,827,722)	(4,109,693)
Cash and cash equivalents, end of the year (Note 24)	**7,949,392**	**9,461,806**

The accompanying notes on pages 12 to 84
are an integral part of these financial statements.

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

I GENERAL CORPORATE INFORMATION

	2010	2009
Number of months of operations (1 to 12)	12	12
Size indication (1 to 3)	3	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)	9,472	9,594

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	21,786,134	(13,309,284)	8,476,850
Additions during the year	1,083,202	-	1,083,202
Disposals	(832,240)	-	(2,258,798)
Revaluation	-	-	-
Balance at end of year	**22,037,096**	**(14,735,842)**	**7,301,254**
2. Property, plant, equipment and biological assets			
Balance at beginning of year	201,952,568	(91,086,970)	110,865,598
Additions during the year	15,142,640	-	15,142,640
Disposals	(2,494,681)	-	(15,667,874)
Revaluation	-	-	-
Balance at end of year	**214,600,527**	**(104,260,163)**	**110,340,364**

III INVENTORY STRUCTURE

	2010	2009
Material	5,906,268	5,409,122
Work in progress	-	-
Finished goods	-	-
Merchandise	14,053	29,975
Non-current assets held for sale	-	-
Payments in advance	525,401	396,620
Total	**6,445,722**	**5,835,717**

IV CAPITAL STRUCTURE

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

V SHARE CAPITAL STRUCTURE

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

VI RECEIVABLES AND LIABILITIES

	2010	2009
Trade receivables (balance at end of year)	12,048,608	13,087,851
Accounts payable (balance at end of year)	5,528,845	6,689,034
Receivables from insurance companies for damage compensations during the year (debit turnover without opening balance)	1,653	9,164
VAT – previous tax (annual amount as per tax returns)	8,389,559	7,441,992
Accounts payable (credit turnover without opening balance)	88,521,409	85,671,604
Liabilities for net salaries and fringe benefits (credit turnover without opening balance)	6,069,538	6,577,262
Liabilities for payroll taxes born by the employee (credit turnover without opening balance)	919,423	1,018,975
Liabilities for payroll contributions born by the employee (credit turnover without opening balance)	1,494,828	1,561,673
Liabilities for dividends, profit-sharing and personal income of the employer (credit turnover without opening balance)	6,664,615	3,897,029
Liabilities to individuals for services rendered based on agreements (credit turnover without opening balance)	328,550	254,921
Liabilities for VAT (annual amount as per tax returns)	15,740,976	15,507,652
Control total	**145,708,004**	**141,717,157**

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

VII OTHER EXPENSES

	2010	2009
Fuel and energy	943,893	879,918
Gross salaries and fringe benefits	8,466,012	9,156,446
Payroll taxes and contributions born by the employer	1,511,836	1,563,832
Gross benefits of individuals for services rendered based on agreements	526,584	403,816
Gross remuneration to the Managing Board' and Supervisory Board's members	5,532	6,244
Other personal expenses	2,149,054	1,879,961
Production services	25,869,302	26,077,640
Rental expenses	4,281,029	3,665,133
Land-rental expenses	-	23,278
Research and development costs	9,470	4,521
Depreciation/amortization charge	16,937,205	16,574,030
Insurance premium costs	501,243	497,744
Bank charges and payment operations costs	265,824	271,957
Membership fees	45,902	52,940
Taxes	938,041	983,996
Contributions	-	-
Interest expenses	2,002,108	3,316,005
Interest expenses and a portion of financial expenses	2,002,108	3,316,005
Interest expenses on borrowings from banks and other financial institutions	1,856,160	2,871,210
Costs of humanitarian, cultural, health, educational, scientific and religious purposes, environmental protection and sports purposes	158,016	173,872
Control total	**68,469,319**	**71,718,548**

VIII OTHER INCOME

	2010	2009
Income from sale of goods	25,112	35,824
Premiums, subventions, subsidies, regress, compensations and recovery of tax duties	9,681	9,433
Conditional donations	427,715	404,180
Land-rental income	-	-
Membership fees	-	-
Interest income	1,092,595	1,089,225
Interest income on accounts and deposits held with banks and other financial institutions	621,110	665,806
Dividend income	4,716,916	5,094,484
Control total	**6,893,129**	**7,298,952**

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

IX OTHER INFORMATION

	2010	2009
Excise duties (as per annual calculation of excise duties)	-	-
Customs and other import duties (annual total as per calculation)	1,364,212	287,171
Capital subventions and other government grants for construction and acquisition of property, plant, equipment and intangible assets	-	-
Government grants for premiums, regress and coverage of current operating expenses	-	-
Other government grants	-	-
Foreign donations and other non-refundable funds, received either in cash or in kind from foreign legal entities and/or individuals	46,791	437,589
Entrepreneurs' personal income from net profit (to be completed only by entrepreneurs)	-	-
Control total	**1,411,003**	**724,760**

The accompanying notes on pages 12 to 84
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" or JP PTT saobracaja "Srbija") on 23 May 1997 in a company formation transaction in which JP PTT undertook to transfer and assign to the 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 "Telekom Srbija" for an initial period of twenty years, with the right to an extension for additional ten years. In consideration of such transfer and assignment rights, "Telekom Srbija" issued a certificate representing 1,080,000 fully-paid, registered ordinary voting shares with an individual par value of RSD 10 thousand and also performed a special issuance of "Golden Share" to the Government of the Republic of Serbia. The Golden Share bestows entitlements to their bearers, which include voting rights and presence to the 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 FRY Official Gazette, 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 Company's share capital. This share purchase transaction was registered with the Commercial Court of Belgrade on 25 December 2003 under inscription number Fi. 13612/03. On 10 December 2004, the parties, JP PTT, OTE and the 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.

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.

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

1. CORPORATE INFORMATION (Continued)

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. In 1998 the Company introduced GSM mobile telecommunication 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.

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

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

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

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

At its session held on 22 December 2008, the Managing Board of RATEL brought the decisions on the fulfilment of conditions for issuing approvals to the operators and providers for the provision of voice transmission service by 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 2009 and 2010.

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

In accordance with the Decision of the Managing Board of RATEL dated 25 December 2009, the Rule Book on number portability in the public mobile telecommunications networks was adopted. This Rule Book envisages the obligation of operators to provide their users with the national number portability when changing their operator, i.e., retaining the existing number. The Rule Book shall be applied from 31 March 2011.

1. CORPORATE INFORMATION (Continued)

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

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

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

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

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

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

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

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

1. CORPORATE INFORMATION (Continued)

As disclosed in Note 26 to the financial statements, for the purpose of sale of the major portion of the Company's shares owned by the Republic of Serbia, in 2010 there was a change in the Company's shareholder structure. In accordance with the Conclusion of the Government of the Republic of Serbia 05 no. 023-6816 dated 21 September 2010 and the Decision on the transfer of the shares in the Company to the Republic of Serbia, without compensation, of the Board of Directors of JP PTT saobracaja "Srbija", Belgrade dated 20 September 2010, on 24 September 2010 JP PTT saobracaja "Srbija", Belgrade and the Government of the Republic of Serbia concluded the Agreement on the transfer of the shares of Telekom Srbija a.d., Belgrade without compensation – Gift.

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

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

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

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

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

At 31 December 2010, the Company had 9,468 employees (31 December 2009: 9,655 employees).

The Company holds equity instruments of the following subsidiaries (Note 20):

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

These separate financial statements were authorized for issue by the Managing Board of the Company on 28 February 2011.

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 ("RS Official Gazette", no. 46/2006 and 111/2009) that prescribes International Accounting Standards (IAS), i.e. International Financial Reporting Standards (IFRS) as a basis of preparation and presentation of the financial statements.

The 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 are presented in the format prescribed by the "Rulebook on the Contents and Form of the Financial Statements of Enterprises, Cooperatives and Entrepreneurial Ventures" ("RS Official Gazette", no. 114/2006, 5/2007, 119/2008 and 2/2010), 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.

These financial statements include receivables, liabilities, operating results, changes in equity and cash flows of the Company as a separate entity, excluding its subsidiaries.

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 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 2009, except for the adoption of new standards and interpretations, noted below.

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

- Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" – Eligible Hedged Items (effective for annual periods beginning on or after 1 July 2009). The amendments clarify that an entity is permitted to designate a portion of fair value changes or cash flow variability of a financial instrument as a hedged item. These amendments did not have any impact on the financial position or performance of the Company.
- Amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards" - Additional Exemptions for First-time Adopters (effective for annual periods beginning on or after 1 January 2010). These amendments are not relevant to the Company, as it is an existing IFRS preparer.
- Amendments to IFRS 2 "Share-based Payment" – Group Cash-settled Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2010). In addition to incorporating IFRIC 8 "Scope of IFRS 2" and IFRIC 11 "IFRS 2 – Group and Treasury Share Transactions", the amendments expand on the guidance in IFRIC 11 to address the classification of group arrangements that were not covered by that interpretation. These amendments are not relevant to the Company, due to the absence of such arrangements.
- IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" - Amendments resulting from May 2008 Annual Improvements to International Financial Reporting Standards (effective for annual periods beginning on or after 1 July 2009). The amendments clarify when a subsidiary is classified as held for sale, all its assets and liabilities are classified as held for sale, even when the entity remains a non-controlling interest after the sale transaction. These amendments did not have any impact on the financial position or performance of the Company.
- IFRIC 17 "Distributions of Non-cash Assets to Owners" (effective for annual periods beginning on or after 1 July 2009). IFRIC 17 clarifies how an entity should measure distributions of assets other than cash made as a dividend to its owners. IFRIC 17 applies to pro rata distributions of non-cash assets, but does not apply to common control transactions. This IFRIC is not relevant to the Company, as it has not made any non-cash distributions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

- IFRIC 18 "Transfers of Assets from Customers" (applied to transfers of assets from customers received on or after 1 July 2009). This interpretation provides guidance on how to account for items of property, plant and equipment received from customers, or cash that is received and used to acquire or construct specific assets. This interpretation has no material impact on the Company's financial statements.
- Amendments to various standards and interpretations (IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9 and IFRIC 16), which are part of the IASB's annual IFRS improvements project published in April 2009, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The effective dates vary standard by standard but most are effective 1 January 2010. The adoption of these amendments has not led to significant changes in the Company's accounting policies and it did not have a material impact on the financial position or performance of the Company.

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

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

- Revised IAS 24 "Related Party Disclosures", issued in November 2009. It supersedes IAS 24 "Related Party Disclosures" issued in 2003. The revised standard is effective for annual periods beginning on or after 1 January 2011.
- Amendment to IAS 32 "Financial Instruments: Presentation" - Classification of Rights Issues, issued in October 2009. This amendment relates to the rights issues offered for a fixed amount of foreign currency which were treated as derivative liabilities by the existing standard. The amendment states that if certain criteria are met, these should be classified as equity regardless of the currency in which the exercise price is denominated. The amendment is effective for annual periods beginning on or after 1 February 2010.
- Amendment to IFRS 1 "First-time Adoption of International Financial Reporting Standards" - Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters, issued in January 2010. The amendment is effective for annual periods beginning on or after 1 July 2010.
- IFRS 9 "Financial instruments", issued in November 2009. This standard addresses the classification and measurement of financial assets. The new standard is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The Company has not yet decided when to adopt IFRS 9.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

The 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 financial statements for the year ended 31 December 2009, prepared in accordance with the accounting regulations prevailing in the Republic of Serbia.

In accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", the Company has assessed that the effects of error adjustments from the previous period are not materially significant, and therefore, no restatement of comparative figures was performed. Such adjustments were recorded in the current year.

The total negative effect of error adjustments charged to the accompanying income statement for the year ended 31 December 2010 amounts to RSD 83,952 thousand (Note 15). In addition, in order to conform the presentation of prior year figures to the current reporting period, 2009 comparative data for roaming revenues and expenses based on roaming discounts realized in roaming with foreign operators (Notes 5 and 10), as well as comparative data related to expenses allocated to reportable operating segments (Note 36), were reclassified.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. 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 (as well as tax on mobile telephony services). 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 "Deffered 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.

(c) New Subscribers

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

(d) Income from Other Telecommunication Services

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

2.3.2. 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 and tax on mobile phones, at the moment in which the services have been provided. Prepaid services (e-charges) are recognized and recorded at the moment of sale of the prepaid cards, and at the end of the accounting period any unused amounts are included under "Accrued income".

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Fixed and Mobile Telephony Income (Continued)

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.

2.4.2. 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.

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

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, computer equipment and 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.

2.10. 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 38).

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 11 and 12).

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.12. Property, Plant and Equipment

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

Cost comprises the purchase price including import duties, non-refundable taxes, and any directly-attributable costs of bringing the asset to working condition for its intended use.

Any trade discounts and/or rebates received (grants) are deducted in arriving at the purchase price. The cost of self-constructed property and equipment is its cost at the date upon which its construction or development was completed.

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

2.13. 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 and accumulated impairment losses, if any.

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

Research and development costs are recognized as an expense as incurred (Note 10).

2.14. Depreciation and Amortization

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

The depreciation and amortization of property and equipment and intangible assets are provided at rates based on the estimated useful life of property and equipment as estimated by the 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.14. Depreciation and Amortization (Continued)

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

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

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

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 ("RS Official Gazette", no. 25/2001, 80/2002, 43/2003, 84/2004 and 18/2010) and the Rules on the Manner of Fixed Assets Classification in Groups and Depreciation for Tax Purposes ("RS Official Gazette", no. 116/2004 and 99/2010). Different depreciation methods used for the financial reporting purposes and the tax purposes give raise to deferred taxes (Note 16(c)).

2.15. Impairment of Non-financial Assets

In accordance with adopted accounting policy, at 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.16. Inventories (Continued)

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 a package.

The sale of mobile phones within MEA is an activity which is executed with a view to stimulate and increase the sale volume of certain services (packages) to the new users. The mobile phones are sold at lower prices as a part of the Company's business strategy. The Company, in return, enters agreements with 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 users.

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

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.

If there is any indication that investments in subsidiaries have been impaired, the recoverable amount of the investment is estimated in order to determine the extent of an impairment loss. If the recoverable amount of an investment is estimated to be lower than its carrying value, the carrying amount of the investment is reduced to its recoverable amount, and the impairment loss is recognized as an expense of the period.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.18. Financial Instruments (Continued)

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. 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, employee loans and other long-term financial placements and trade and other receivables.

The Company has classified its financial assets into the category "loans and receivables".

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

The Company has not classified any of its financial assets upon initial recognition as at fair value through profit and loss, available for sale or held to maturity.

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 housing (residential) loans, long-term interest bearing receivables from employees for granted loans as participation in housing loans and in interest, and other long-term loans to employees. Employee housing loans are measured based on their amortized cost using the interest rate at which the 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. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's effective interest rate.

(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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.18. Financial Instruments (Continued)

2.18.1. Financial Assets **(Continued)**

(b) *Accounts Receivable (Continued)*

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 14).

When a receivable is uncollectible, it is written off against the allowance account for accounts receivable. Subsequent recoveries of amounts previously written off and reversal of the previously recognized impairment loss are credited to "Other operating income" (Note 13).

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 recognized at the amount of the loan disbursements received (i.e. fair value), and are subsequently stated at the amortized cost that is computed based on the contractual interest rate. The 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 effect 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 amortized cost, being the amount of the consideration received due to the short-term nature of these liabilities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.18. Financial Instruments (Continued)

2.18.3. Offsetting Financial Instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet 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 primarily comprise computed and unbilled income for services performed during the current reporting period, which are billed in the subsequent period, as well as prepaid expenses.

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

2.20. 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, local area networks and related equipment) received from municipalities and other entities are capitalized at invoiced, or fair (market) value. Such assets are credited to deferred income at fair value, and are released to current income as performed in the amount of the depreciation of the related assets.

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

2.22. 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 27).

Provisions for legal proceedings represent the Company management’s best estimates of the expenditures required to settle such obligations (Note 27).

Contingent liabilities are not recognized in the financial statements. They are disclosed (Note 35) unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the 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 tax and contributions to various state social security funds. These obligations involve the payment of contributions on behalf of the employee, by the employer in an amount calculated by applying the specific, legally-prescribed rates.

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

(b) Obligations for Retirement Benefits and Jubilee Anniversary Awards

Pursuant to the 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	1/2
20	1
30	2
35	3

The Company recognizes long-term liabilities for retirement benefits and employment anniversary awards by discounting expected future payments to its present value, based on the actuarial calculation. Since these are long-term employee 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. During 2009 the contest was conducted in accordance with the aforementioned Business policy adopted in 2007.

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 years 2010 and 2011. In accordance with the aforementioned plan for voluntary terminations, it has been envisaged that certain categories of employees who wish to voluntarily terminate their employment contract and at the same time do not fulfil the regular retirement requirements, could exercise their right to a specific termination benefit. In 2010, there were no voluntary resignations from the Company.

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

Benefits for voluntary employment termination are recorded as an expense during the period in which employees have entered the contest and fulfilled the contest requirements, i.e. who have left the Company at the reporting date and consequently 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 is calculated and paid in accordance with the effective Law on Corporate Income Tax ("RS Official Gazette", no. 25/2001, 80/2002, 43/2003, 84/2004 and 18/2010) and by-laws. Income tax is payable at the rate of 10% on the tax base reported in the annual corporate income tax return, and can be reduced by any applicable tax credits. The tax base includes the taxable profit, determined by adjusting the taxpayer's result (profit or loss) reported in the income statement, in the manner prescribed by this Law.

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

The tax regulations in the Republic of Serbia do not envisage that any tax losses of the current period can be used to recover taxes paid within a specific previous period. Losses of the current period may be transferred to the account of profit determined in the annual tax return from the future accounting periods, but not longer than 5 ensuing years.

Deferred Income Tax

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

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

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.24. Taxes and Contributions (Continued)

(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, and various other taxes and contributions paid pursuant to republic and municipal regulations. These taxes and contributions are included within other operating expenses (Note 10).

2.25. 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 26).

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. 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 33).

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 36 to the financial statements.

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 and financial policies as adopted by the Managing Board.

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

	2010	2009
Financial assets		
Other long-term assets (loans and placements to employees)	1,239,511	1,151,217
Trade and other receivables, excluding prepayments and accrued income	13,252,741	13,780,522
Cash and cash equivalents	7,949,392	9,461,806
	22,441,644	**24,393,545**
Financial liabilities at amortized cost		
Borrowings	63,089,375	72,871,262
Payables and other current liabilities, excluding accruals	7,684,220	8,569,238
	70,773,595	**81,440,500**

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

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.

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 financial instruments by signing agreements on forward transactions.

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1. Market Risk (Continued)

(a) Currency Risk (Continued)

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

At 31 December 2010, financial assets in the amount of RSD 8,028,908 thousand (31 December 2009: RSD 10,350,791 thousand) are denominated in EUR, which represents 96.9% (2009: 97.2%) of the total financial assets of the Company denominated in foreign currencies.

At 31 December 2010, financial liabilities denominated in EUR amount to RSD 57,933,386 thousand (31 December 2009: RSD 69,448,291 thousand), which represents 99.4% (2009: 99.6%) 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, operating results 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 2010 and 2009, 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 2% per annum; while for contracts stated in domestic currency, adjustment of prices is performed on the basis of consumer price index (CPI) growth over 5% only during the grace period.

The 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.

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1. Market Risk (Continued)

(b) Interest Rate Risk (Continued)

At 31 December 2010, if interest rates on currency-denominated borrowings at that date (both from banks and suppliers) had been 0.1 percentage point higher/lower on an annual basis with all other variables held constant, profit after tax for the year 2010 would have been RSD 61,505 thousand (2009: RSD 62,445 thousand) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

At 31 December 2010, if interest rates on RSD-denominated commodity loans had been 0.1 percentage point higher/lower on an annual basis with all other variables held constant, profit after tax for the year 2010 would have been RSD 4,467 thousand (2009: RSD 9,656 thousand) lower/higher, mainly as a result of higher/lower interest expense.

(c) Price Risk

The Company is not exposed to equity securities price risk because it does not have significant investments classified in the balance sheet 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, internet services and multimedia, as well as appearance of competitive operators in fixed telephony services. The Company strives to mitigate this risk by introducing various services to its customers. Furthermore, as stated in Note 1 to the financial statements, the Company is obliged to obtain the approval of the Republic Agency for Electronic Communications (the "Agency") for any change in service prices, for which it has been declared as the operator with the significant market power.

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

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

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.

3. FINANCIAL RISK MANAGEMENT (Continued)

3.2. Liquidity Risk (Continued)

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.

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 sections in Technical Affairs Division and Corporative Affairs Division at the territory level of organization may decide independently on purchases up to EUR 3,000; the Manager of the Function may independently decide on purchases up to EUR 30,000; the Chief Officer of the Division may independently decide on purchases up to EUR 50,000; Deputy Director General may independently decide on purchases up to EUR 80,000; Director General may independently decide on purchases up to EUR 2.5 million, while the purchases exceeding the amount of EUR 2.5 million are approved by the Managing Board.

The following table details the Company's remaining contractual maturity for its non-derivative financial assets and liabilities at 31 December 2010 and 2009. The table has been drawn up based on the undiscounted cash flows of financial assets and liabilities based on the earliest date on which the 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 2010						
Non-interest bearing	23,509,637	400,909	94,285	282,623	1,245,432	25,532,886
Fixed interest rate instruments	7,948,790	-	-	82,317	160,468	8,191,575
Total	**31,458,427**	**400,909**	**94,285**	**364,940**	**1,405,900**	**33,724,461**
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**
Financial liabilities						
At 31 December 2010						
Non-interest bearing	7,684,776	-	3,748	-	-	7,688,524
Fixed interest rate instruments	67,744	69,226	66,310	-	-	203,280
Fluctuating interest rate instruments	4,945,278	17,693,678	27,936,613	13,780,563	1,107,148	65,463,280
Total	**12,697,798**	**17,762,904**	**28,006,671**	**13,780,563**	**1,107,148**	**73,355,084**
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**

3. FINANCIAL RISK MANAGEMENT (Continued)

3.2. Liquidity Risk (Continued)

Maturity structure of borrowings is presented in Note 28(b), while liabilities towards suppliers (Note 29) 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 2010						
Interest-bearing loans and borrowings	5,013,578	17,762,904	28,006,671	13,780,563	1,107,148	65,670,864
Accounts payable	5,652,194	-	-	-	-	5,652,194
Other current liabilities	2,032,026	-	-	-	-	2,032,026
Total	**12,697,798**	**17,762,904**	**28,006,671**	**13,780,563**	**1,107,148**	**73,355,084**
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**

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. Information on credit risk exposure with respect to these receivables is disclosed in Note 23 to the financial statements.

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 entity (Note 26).

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

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's strategy in respect of capital risk management has remained unchanged from the previous year.

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 2010 and 2009 were as follows:

	2010	2009
Total non-current and current borrowings	63,089,375	72,871,262
Less: Cash and cash equivalents	(7,949,392)	(9,461,806)
Net debt*	**55,139,983**	**63,409,456**
Total equity	122,294,139	113,169,325
Total capital**	**177,434,122**	**176,578,781**
Gearing ratio	**31.1%**	**35.9%**

* *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 2010 resulted primarily from repayment of non-current borrowings, as well as increase in equity due to a net profit realized for the year ended 31 December 2010.

3.5. Judgements on the Effects of the Global Financial Crisis

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

3. FINANCIAL RISK MANAGEMENT (Continued)

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

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

The Company's management anticipates that the effects of the crisis to the economic environment in the country will still affect, but with a moderate intensity, the scope of economic activities, import prices, degree of collection of receivables, as well as the possibility of securing new loans or refinancing the existing ones.

The Company continuously examines the economic parameters and assumptions necessary for further coordination of its activities with the complex economic situation and environment in which it operates. These examinations encompass the impact of the crisis on the following most important areas:

- *The effect of the crisis to the current and future liquidity* (primarily by the end of 2011) 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 2010 exceed its current assets by RSD 14,338,259 thousand, the Company does not have liquidity problems, and/or problems with settlement of its liabilities. 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 May and November 2010, the Company repaid a part of the debt per Arrangement A in the amount of EUR 69.96 million. In addition, in 2010, the Company made a repayment of the part of loan from Alpha Bank A.E., London in the total amount of EUR 80 million. 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.

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 undertaken 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 in the future. 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 cannot jeopardize the Company's ability to continue as a going concern.

3. FINANCIAL RISK MANAGEMENT (Continued)

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

In addition, favourable effects of the sale of the major portion of the Company's shares are expected, in terms of increased investments for further capacity expansion, improvement of network and technology and introduction of new services.

3.6. Fair Value of Financial Assets and Liabilities

It is a policy of the 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.

A market price, where an active market exists, is the best evidence of the fair value of a financial instrument. However, market prices are not available for a significant number of financial assets and liabilities held by the Company. Therefore, for financial instruments where no market price is available, the fair values of financial assets and liabilities are estimated using present value or other estimation and valuation techniques based on current prevailing market conditions. In the Republic of Serbia, sufficient market experience, stability and liquidity do not exist for the purchase and sale of receivables and other financial assets or liabilities, since published market prices are presently not readily available. As a result, fair value cannot readily or reliably be determined in the absence of an active market. The 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 following methods and assumptions were used to estimate the fair values of the Company's financial instruments as of 31 December 2010 and 2009:

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 borrowings 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 fair values of financial assets and financial liabilities at the reporting date approximate their carrying amounts disclosed in Note 3 to the financial statements. The fair value of borrowings is disclosed in Note 28(a) to the financial statements.

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

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 innovative industry. Further, due to the significant weight of long-lived assets in the total assets, the impact of any changes in these assumptions could be material to the 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 1,526,704 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.

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.

4. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Income and Expenses from International Traffic

The Company has entered into numerous agreements on international traffic in fixed and mobile telephony. The respective income and expenses, as well as receivables and payables resulting from these agreements are presented in the accompanying financial statements, and are associated with revenues and expenses generated on all incoming and outgoing international calls realized with countries with which the Company has direct international settlement.

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

Accounting for Provisions and Contingencies

The 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 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 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 in which it was created and the amount of future taxable profits (Note 16(c)).

Retirement and Other Post-Employment Benefits to Employees

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

Were the discount rate used to differ by 1 percentage point from management's estimates, the provision for retirement benefits and anniversary awards would be an estimated RSD 134,390 thousand lower or RSD 153,454 thousand higher.

5. SALES

	2010	2009
Fixed telephony services:		
- Domestic market	36,639,231	35,140,213
- Foreign market	6,839,204	5,797,800
- Related parties	1,694,568	1,724,567
	45,173,003	**42,662,580**
Mobile telephony services:		
- Domestic market	33,271,618	36,859,645
- Foreign market	1,259,375	1,420,958
- Related parties	227,865	247,258
	34,758,858	**38,527,861**
Retail of internet services:		
- Domestic market	4,965,955	3,265,584
- Related parties	142	127
	4,966,097	**3,265,711**
Multimedia services (IPTV):		
- Domestic market	357,794	75,394
- Related parties	24	22
	357,818	**75,416**
Sales of handsets:		
- Domestic market	23,140	35,824
- Related parties	1,972	-
	25,112	**35,824**
Total	**85,280,888**	**84,567,392**

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

5. SALES (Continued)

Structure by sales category is presented in the table below:

	2010	2009
Fixed telephony services:		
Domestic market:	*36,910,787*	*35,456,026*
Traffic	17,534,926	20,624,440
Subscription	12,466,533	7,736,468
Leased circuit and data services	3,083,590	3,109,897
Connection and installation services	694,320	913,795
Interconnection	792,309	1,005,915
Wholesale of internet services	1,603,343	1,570,593
CDMA services	558,831	305,768
Other	176,935	189,150
Foreign market:	*8,262,216*	*7,206,554*
Traffic	6,908,383	5,825,752
Leased circuit and data services	1,041,333	1,025,394
Internet transit	312,500	355,408
	45,173,003	**42,662,580**
Mobile telephony services:		
Domestic market:	*33,388,086*	*37,015,244*
Prepaid services	14,012,016	16,468,466
Postpaid services:	*14,083,007*	*14,523,324*
- Traffic	7,666,479	8,248,115
- Subscription	6,416,528	6,275,209
Interconnection	5,053,970	3,900,782
National roaming – VIP Mobile d.o.o., Belgrade	239,093	2,122,672
Foreign market:	*1,370,772*	*1,512,617*
Roaming	1,338,254	1,481,408
Other	32,518	31,209
	34,758,858	**38,527,861**
Retail of internet services	**4,966,097**	**3,265,711**
Multimedia services (IPTV)	**357,818**	**75,416**
Sales of handsets:		
Fixed devices	85	2,186
Mobile phones	25,027	33,638
	25,112	**35,824**
Total	**85,280,888**	**84,567,392**

6. OTHER OPERATING INCOME

	2010	2009
Granted assets:		
- Intangible assets and equipment (Note 31(e))	414,352	404,180
- Donation for projects from European Union	11,225	-
- Inventories	2,138	-
	427,715	**404,180**
Rental income	85,197	150,763
Other	22,886	9,433
Total	**535,798**	**564,376**

7. COST OF MATERIAL

	2010	2009
Material for rendering services	2,285,356	1,714,127
Fuel and energy	943,893	879,918
SIM cards	83,845	127,256
Spare parts	432,224	258,827
ADSL modems	713,843	578,212
Inventories for mobile internet access	116,349	134,930
Tools and inventories	25,488	37,516
Other	698,623	668,105
Total	**5,299,621**	**4,398,891**

8. WAGES, SALARIES AND OTHER PERSONNEL EXPENSES

	2010	2009
Gross salaries	8,466,012	8,774,720
Contributions on behalf of the employer	1,511,836	1,556,918
	9,977,848	**10,331,638**
Employee profit-sharing	1,434,249	1,077,027
Withholding tax	159,361	269,257
	1,593,610	**1,346,284**
Retirement benefits for voluntary termination	-	388,640
Other personnel expenses	1,087,560	943,737
Total	**12,659,018**	**13,010,299**

9. DEPRECIATION, AMORTIZATION AND PROVISIONS

	2010	2009
Amortization charge (Note 17)	1,789,742	2,158,381
Depreciation charge (Note 18)	15,147,463	14,415,649
	16,937,205	**16,574,030**
Provision for:		
- Retirement benefits and jubilee awards (Note 27)	-	256,110
- Litigations (Note 27)	24,147	27,162
	24,147	**283,272**
Total	**16,961,352**	**16,857,302**

10. OTHER OPERATING EXPENSES

	2010	2009
Interconnection:		
- Fixed telephony	3,157,106	2,880,965
- Mobile telephony	3,245,942	3,173,741
International settlement and leased circuits	4,470,225	4,316,003
Roaming	1,369,026	1,579,602
	12,242,299	**11,950,311**
Telecommunication license fees, approvals and frequency fees:		
GSM license (a)	296,145	319,411
License for fixed telephony (b)	40,750	42,332
Radio frequency RRL, RBS and other fees	333,957	372,339
	670,852	**734,082**
Rental expenses	4,281,029	3,665,133
Maintenance	3,592,794	3,069,612
Marketing, advertisement and sponsorship fees	2,045,166	2,753,539
Consignment sale fees	469,666	1,586,903
Transport expenses	1,055,408	1,356,445
Public utility services and heating	260,927	249,802
Data processing fees	37,200	70,660
Other production services	490,643	372,121
Research and development costs	9,470	4,521
Broadcast content fee	511,696	113,470
Hygiene and security services	940,191	940,437
Indirect taxes	938,041	983,996
Youth employment expenses	128,435	261,289
Fees and charges	811,284	343,188
Education and professional training	104,185	105,584
Bank charges	265,824	271,957
Insurance premiums	501,243	497,744
Audit fee and other professional services	117,245	118,208
Entertainment	55,348	66,166
Software license	202,153	151,041
Other general expenses	244,443	222,786
Total	**29,975,542**	**29,888,995**

10. OTHER OPERATING EXPENSES (Continued)

(a) GSM license fee amounting to RSD 296,145 thousand (2009: 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.

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

(b) The license for fixed telephony amounting to RSD 40,750 thousand (2009: RSD 42,332 thousand relates to the license for construction, possessing and exploitation of public fixed telecommunication network and rendering public fixed telecommunication services that was 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.

For 2009 and 2010, the license fee was calculated in the amount of 0.1% of the total revenue earned from services the license was issued for. Pursuant to the new Rule Book on fees for the performance of electronic communications activities the license fee is to be calculated in the amount of 0.08% of the revenues earned from the sales in the commercial year for which the fee is being paid, for the public fixed telecommunications network services provided via operator's own access network (voice service, data transmission, Internet access, media content transmission, etc.).

11. FINANCIAL INCOME

	2010	2009
Interest income	1,092,595	1,089,225
Dividend income (Note 20(a))	4,716,916	5,094,484
Foreign exchange gains	1,669,364	1,005,246
Gains from foreign currency clause application	664,073	763,386
Other financial revenues	246	73,209
Total	**8,143,194**	**8,025,550**

Interest income on impaired financial assets amount to RSD 101,324 thousand (2009: RSD 69,988 thousand).

12. FINANCIAL EXPENSES

	2010	2009
Interest expenses	2,002,108	3,316,005
Foreign exchange losses	7,289,860	6,574,706
Losses from foreign currency clause application	1,032,662	1,186,900
Total	**10,324,630**	**11,077,611**

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

13. OTHER INCOME

	2010	2009
Reversal of impairment losses (Note 14)	1,599,626	2,160,708
Revenue from charged court dispute	178,516	66,309
Gains on sale of material and waste material	121,896	41,026
Provision for retirement benefits and jubilee awards (Note 27)	138,563	-
Provision for litigations (Note 27)	11,096	7,473
Damage compensations	19,264	30,240
Gains on sale of intangible assets, property and equipment	8,439	7,690
Recoveries of bad debts	464	959
Other income	651,698	846,111
Total	**2,729,562**	**3,160,516**

14. OTHER EXPENSES

	2010	2009
Allowances for impairment of receivables and advances paid	3,914,309	4,278,444
Grants and donations	158,016	173,872
Fair value adjustment – employee loans (Note 21)	57,025	51,670
Losses on sale and disposal of intangible assets, property and equipment	164,377	171,337
Scrapping of material and goods:		
- Write-down of inventories (Note 22)	15,776	7,648
- Direct write-off of material and goods	384,965	312,319
Other expenses	486,921	83,863
Total	**5,181,389**	**5,079,153**

14. OTHER EXPENSES (Continued)

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

	Advances for intangible assets	Advances for property and equipment (Note 19)	Advances for goods and services	Accounts receivable (Note 23)	Total
Balance as of 1 January 2009	**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 13)	-	(130,414)	(54,423)	(1,975,871)	(2,160,708)
Transfer out of the books based on year-end count	-	-	-	(288,066)	(288,066)
Transfer (from)/to	-	(3,385)	3,385	-	-
Other movements	-	-	-	67,628	67,628
Balance as of 31 December 2009	**265**	**81,983**	**40,908**	**8,435,717**	**8,558,873**
Charge for the year	-	17,802	69,603	3,826,904	3,914,309
Reversal of impairment losses (Note 13)	-	(55,613)	(33,436)	(1,510,577)	(1,599,626)
Transfer out of the books based on year-end count	-	-	-	(306,252)	(306,252)
Other movements	-	(463)	(1,347)	41,390	39,580
Balance as of 31 December 2010	**265**	**43,709**	**75,728**	**10,487,182**	**10,606,884**

15. NET LOSS FROM DISCONTINUED OPERATIONS

In accordance with IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”, in 2010 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 2010, and recognized within Net loss from discontinued operations, amounted to RSD 83,952 thousand.

16. INCOME TAXES

(a) Components of Income Taxes

	2010	2009
Current tax expense	633,518	537,607
Deferred tax income	(258,256)	(131,896)
Total income tax expense	**375,262**	**405,711**

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

	2010	2009
Profit before tax	**16,164,691**	**15,954,427**
Income tax at statutory rate of 10%	**1,616,469**	**1,595,443**
Non-deductible expenses	248,591	284,829
Income reconciliation	84,700	90,467
Reduction based on dividends	(470,490)	(513,711)
Utilized tax credits	(1,104,008)	(1,051,317)
Income tax expense	**375,262**	**405,711**
Effective tax rate	*2.3%*	*2.5%*

(c) Deferred Tax Assets

Deferred tax assets entirely relate to the temporary differences arising between the carrying values of property, equipment and intangible assets and their tax base, and then to unpaid accrued fees, provisions, retirement benefits and impairment of assets.

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

	2010	2009
Balance as of 1 January	**850,184**	**718,288**
Effects of temporary differences arising from different depreciation rates credited to the income statement	188,408	131,896
Effects of temporary differences arising from retirement benefits credited to the income statement	65,214	-
Effects of other temporary difference	4,634	-
Balance as of 31 December	**1,108,440**	**850,184**

16. INCOME TAXES (Continued)

(c) Deferred Tax Assets (Continued)

Unrecognized Deferred Tax Assets

The Company did not recognize deferred tax assets arising on not utilized tax credits carried forward amounting to RSD 12,090,541 thousand as of 31 December 2010 (31 December 2009: RSD 9,795,429 thousand).

This is due to uncertainty regarding utilization of credits carried forward. According to the past experience, tax credits from the current period, arising from investments in equipment, is significantly above the available amounts for utilization, and so the Company was not able to use tax credits carried forward.

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	2010	2009
2003	2013	1,130,414	1,131,781
2004	2014	1,899,006	1,900,373
2005	2015	1,592,599	1,593,966
2006	2016	1,027,036	1,028,402
2007	2017	1,552,096	1,553,462
2008	2018	1,560,029	1,561,396
2009	2019	1,024,682	1,026,049
2010	2020	2,304,679	-
Total		**12,090,541**	**9,795,429**

17. INTANGIBLE ASSETS

	Licenses	Software	Other intangible assets	Intangible assets under development	Total
Cost					
as of 1 January 2009	**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	784,716	11,258	(953,322)	-
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**	**10,851,431**	**605,409**	**943,249**	**21,718,320**
Additions	-	-	-	1,083,202	1,083,202
Transfer from intangible assets under development	21,112	697,457	3,004	(721,573)	-
Transfer (from)/to	-	-	-	(402,296)	(402,296)
Disposals	-	(408,363)	-		(408,363)
Other movements	-	(26,738)	-	14,930	(11,808)
Balance as of 31 December 2010	**9,339,343**	**11,113,787**	**608,413**	**917,512**	**21,979,055**
Accumulated amortization					
as of 1 January 2009	**2,398,814**	**9,100,338**	**379,323**	**-**	**11,878,475**
Costs of long-term rent	-	-	55,382	-	55,382
Amortization (Note 9)	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**
Costs of long-term rent	-	-	48,664	-	48,664
Amortization (Note 9)	984,621	772,261	465	32,395	1,789,742
Disposals	-	(407,650)	-	-	(407,650)
Transfer (from)/to	-	-	-	(1,235)	(1,235)
Other movements	282	15,597	21	(18,862)	(2,962)
Balance as of 31 December 2010	**4,380,722**	**9,834,616**	**487,845**	**32,395**	**14,735,578**
Net book value as of:					
- 31 December 2010	**4,958,621**	**1,279,171**	**120,568**	**885,117**	**7,243,477**
- 31 December 2009	**5,922,412**	**1,397,023**	**166,714**	**923,152**	**8,409,301**

Licenses relate to the licenses for mobile telephony (software license, license for capacity extension and other), license for CDMA and other licenses. As of 31 December 2010, the carrying value of the aforementioned licenses for mobile telephony amounts to RSD 4,752,516 thousand (31 December 2009: RSD 5,640,013 thousand), while the carrying value of other licenses amounts to RSD 162,984 thousand (31 December 2009: RSD 234,205 thousand). The carrying value of the license for CDMA amounts to RSD 43,121 thousand as of 31 December 2010 (31 December 2009: RSD 48,194 thousand).

Other intangible assets as of 31 December 2010 relate to long-term rentals in the amount of RSD 120,568 thousand (31 December 2009: RSD 166,247 thousand).

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

18. PROPERTY, PLANT AND EQUIPMENT

	Land, telephone lines, cable sewers and flats	Switches and transmitting devices	Other equipment	Investments in PP&E not owned by the Company	Construction in progress	Total
Cost						
as of 1 January 2009	**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 (Note 31)	-	-	-	-	450,200	450,200
Transfer (from)/to	(39,244)	53,550	(6,857)	(16,318)	1,132,960	1,124,091
Disposals	(281,695)	(1,052,344)	(152,186)	-	-	(1,486,225)
Balance as of 31 December 2009	**74,958,944**	**89,156,714**	**7,893,595**	**9,152,703**	**20,393,870**	**201,555,826**
Additions	-	-	-	-	14,560,211	14,560,211
Transfer from construction in progress	5,196,013	9,296,600	723,155	603,510	(15,819,278)	-
Grants (Note 31)	-	-	-	-	67,680	67,680
Transfer (from)/to	(4,235)	(2,877)	7,112	-	402,296	402,296
Disposals	(337,069)	(1,675,593)	(376,208)	(91,311)	(14,500)	(2,494,681)
Balance as of 31 December 2010	**79,813,653**	**96,774,844**	**8,247,654**	**9,664,902**	**19,590,279**	**214,091,332**
Accumulated depreciation						
as of 1 January 2009	**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 9)	3,207,305	8,647,464	816,732	1,058,490	685,658	14,415,649
Transfer (from)/to	(460)	7,382	(2,114)	(4,808)	-	-
Disposals	(214,400)	(964,838)	(137,654)	-	-	(1,316,892)
Balance as of 31 December 2009	**28,018,731**	**49,994,203**	**5,356,155**	**6,929,543**	**706,355**	**91,004,987**
Transfer from construction in progress	70,495	327,977	23,250	29,641	(451,363)	-
Depreciation (Note 9)	3,370,350	9,262,500	839,125	993,490	681,998	15,147,463
Transfer (from)/to	(2,896)	883	2,013	-	1,235	1,235
Disposals	(252,389)	(1,029,689)	(368,751)	(60,961)	-	(1,711,790)
Other movements	-	-	-	-	(225,441)	(225,441)
Balance as of 31 December 2010	**31,204,291**	**58,555,874**	**5,851,792**	**7,891,713**	**712,784**	**104,216,454**
Net book value as of:						
- 31 December 2010	**48,609,362**	**38,218,970**	**2,395,862**	**1,773,189**	**18,877,495**	**109,874,878**
- 31 December 2009	**46,940,213**	**39,162,511**	**2,537,440**	**2,223,160**	**19,687,515**	**110,550,839**

18. PROPERTY, PLANT AND EQUIPMENT (Continued)

Cost of fully-depreciated property, equipment and intangible assets still in use amounts to RSD 35,528,732 thousand as of 31 December 2010 (31 December 2009: RSD 28,493,484 thousand).

Construction in progress includes completed investments not yet transferred to property and equipment amounting to RSD 6,138,669 thousand as of 31 December 2010 (31 December 2009: RSD 8,118,156 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 1,512,152 thousand (31 December 2009: 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. 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 the Register of pledges with the Serbian Business Registers Agency. On 14 June 2010 and 3 December 2010, the requests had been submitted to the Register for the substitution of the pledge, which were rejected. Subsequently, the complaint was submitted, but it has not been resolved until the reporting date. The carrying value of pledged equipment amounts RSD 2,294,672 thousand as of 31 December 2010 (31 December 2009: RSD 2,779,431 thousand).

Capital expenditure contracted for at the reporting date but not yet incurred, representing capital commitments, amount to RSD 2,429,785 thousand (Note 34).

Property and equipment lease rentals amounting to RSD 4,281,029 thousand (2009: RSD 3,665,133 thousand), mostly relating to the lease of business premises are included in the income statement within other operating expenses (Note 10).

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

19. ADVANCES FOR PROPERTY AND EQUIPMENT

	2010	2009
Payments in advance for property and equipment:		
- in RSD	364,103	163,026
- in foreign currency	136,129	221,824
Payments in advance for investments in property and equipment not owned by the Company	8,963	11,892
	509,195	**396,742**
Less: Allowance for impairment (Note 14)	(43,709)	(81,983)
Balance as of 31 December	**465,486**	**314,759**

20. INVESTMENTS IN SUBSIDIARIES

	Interest in capital	2010	2009
Investments in subsidiaries:			
- Telekom Srpske a.d., Banja Luka (a)	65%	56,933,380	56,933,380
- Mtel d.o.o., Podgorica (b)	51%	2,255,339	219,197
- Telus a.d., Belgrade	100%	9,030	9,030
- FiberNet d.o.o., Podgorica (c)	100%	799,252	884,781
- TS:NET BV, Amsterdam (d)	100%	214,332	-
Balance as of 31 December		**60,211,333**	**58,046,388**

(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.

On 4 June 2010, the Shareholders' Assembly of the subsidiary "Telekom Srpske" passed the Decision on payment of dividends to its shareholders in the amount of KM 50 million. Dividend attributable to the Company amounted to KM 32,502,926 (RSD 1,708,591 thousand). On 29 October 2010, the Shareholders' Assembly passed the Decision no. 1-02-22249/10 on payment of dividends from retained earnings for 2009 in the amount of KM 28,616,785, and the amount attributable to the Company was KM 18,602,585 (RSD 1,021,776 thousand). On 6 December 2010, the Shareholders' Assembly of the above subsidiary passed the Decision on payment of interim dividends to its shareholders for the first half of 2010 and dividends from retained earnings in the amount of KM 55,828,875. Dividend attributable to the Company amounted to KM 36,292,035 (RSD 1,986,549 thousand). Until the reporting date, the total amount of dividends in accordance with the aforementioned Decisions of RSD 4,716,916 thousand had been collected in full.

According to the latest available data as of 31 December 2010, total assets of "Telekom Srpske" amount to KM 905,936,477 (RSD 48,866,576 thousand), equity KM 692,332,664 (RSD 37,344,701 thousand) and net profit for the year ended 31 December 2010 amounts to KM 108,630,124 (RSD 5,747,870 thousand).

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

On 1 February 2010, the subsidiary "Telekom Srpske" a.d., Banja Luka signed an Agreement on the purchase of 49% equity interest in "Mtel" from the minority founder Ogalar B.V., Amsterdam, the Netherlands. During the month of February 2010, "Telekom Srpske" paid in the total purchase price agreed for the above equity interest. On 16 February 2010, the Central Register of the Commercial Court in Podgorica issued a Founder Change Certificate, whereby the ownership transformation in the subsidiary "Mtel" was registered.

20. INVESTMENTS IN SUBSIDIARIES (Continued)

(b) In accordance with the Company's Managing Board Decision on the increase of founding capital of the subsidiary "Mtel" dated 12 March 2010, subscribed capital of "Mtel" was increased by the amount of EUR 40 million. By 15 March 2010, the owners paid in the aforementioned amount in proportion to their interest in the capital of "Mtel", i.e., the Company, holding 51% of interest, paid in the amount of EUR 20.4 million (RSD 2,036,142 thousand), while the subsidiary "Telekom Srpske", holding 49% of interest, paid in the amount 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.

Pursuant to the Agreement, 50% of ownership over the newly built optical voltage facilities will be transferred to the Railways of Montenegro, with an obligation of a two-year exclusive utilization period, without the right to commercialize them, whereas the 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 2.8 million.

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.

(d) On 5 February 2010, a new subsidiary "TS:NET" B.V. was registered with its office in Amsterdam, 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" 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.

On 1 February 2010, the Company paid in the cash contribution in the amount of EUR 6,034 thousand.

Based on the Decision of the Company's Managing Board no. 105918/16 dated 22 April 2010, a Decision was brought on the increase of founding capital of the subsidiary "TS:NET" in the amount of EUR 1.7 million (RSD 139,648 thousand). Until the end of 2010, the contribution in kind was completely made.

21. OTHER LONG-TERM FINANCIAL PLACEMENTS

	2010	2009
Loans to employees:		
- Housing (residential)	1,942,516	1,796,549
- For purchases of apartments	14,850	15,116
- For purchase of vehicles	149	149
	1,957,515	1,811,814
Less: Fair value adjustment	(719,433)	(662,408)
Total loans to employees	**1,238,082**	**1,149,406**
Placements to employees with respect to solidarity purposes	1,429	1,811
Balance as of 31 December	**1,239,511**	**1,151,217**

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

/i/ Employee housing 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 RSD/EUR foreign exchange rates. Such loans are repayable in monthly instalments, and in most instances have a 25-year maturity.

/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 – 5.36% per annum (2009: 5.05% 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.

22. INVENTORIES

	2010	2009
Material and fuel	3,403,512	3,243,573
Spare parts	1,993,282	1,706,163
Tools	2,742,523	1,916,266
Waste material	105,639	329,445
	8,244,956	7,195,447
Less: Allowance for impairment		
Material and spare parts	(15,776)	(7,648)
Tools in use	(2,217,273)	(1,449,232)
Waste material	(105,639)	(329,445)
	5,906,268	**5,409,122**
Goods in warehouses	13,195	29,345
Goods in retail	858	630
	14,053	**29,975**
Balance as of 31 December	**5,920,321**	**5,439,097**

The amount of write-down of inventories recognized as an expense and included in other expenses (Note 14) totalled RSD 15,776 thousand (2009: RSD 7,648 thousand).

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

23. ACCOUNTS RECEIVABLE

	2010	2009
Domestic accounts receivable:		
Fixed telephony, Internet and data services	8,337,391	7,255,990
Mobile telephony	10,691,440	9,927,205
National roaming – VIP Mobile d.o.o., Belgrade	-	896,265
Interconnection	654,499	530,830
Other receivables	8,767	18,707
	19,692,097	**18,628,997**
Foreign accounts receivable:		
International settlement of fixed telephony	1,706,052	1,203,227
Roaming	404,555	364,753
	2,110,607	**1,567,980**
Receivables from related parties (Note 33(a)):		
JP PTT	-	126,736
OTE	7,629	17,437
Telekom Srpske	67,736	56,885
Mtel	62,041	631,569
Telus	1,042	836
	138,448	**833,463**
Other receivables from sales	310,089	300,628
Interest receivables	35,563	29,072
Receivables from employees	159,118	61,662
Prepaid taxes and contributions	20,655	18,896
Receivables for war damages on property and equipment and inventories	139,202	139,202
Receivables from the state institutions	90,325	78,387
Other receivables	186,375	140,343
	941,327	**768,190**
Gross accounts receivable	**22,882,479**	**21,798,630**
Less: Allowance for impairment (Note 14)		
Accounts receivable	(9,892,544)	(7,942,589)
Other receivables from sales	(245,914)	(242,707)
Interest receivables	(6,157)	(5,116)
Receivables from employees	(4,117)	(5,402)
Receivables for war damages on property and equipment and inventories	(139,202)	(139,202)
Receivables from the state institutions	(85,412)	(76,638)
Other receivables	(113,836)	(24,063)
	(10,487,182)	**(8,435,717)**
Balance as of 31 December	**12,395,297**	**13,362,913**

23. 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 2010 was 54 days (year ended 31 December 2009: 53 days).

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

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

	2010	2009
Up to 30 days	8,662,411	8,585,891
From 30 to 60 days	2,522,962	2,196,695
From 60 to 180 days	2,994,278	3,989,911
From 180 to 360 days	2,800,963	1,570,331
Over 360 days	5,901,865	5,455,802
Total	**22,882,479**	**21,798,630**

As of 31 December 2010, receivables of RSD 12,395,297 thousand (31 December 2009: RSD 13,362,913 thousand) were considered to be fully performing.

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

As of 31 December 2010, receivables from domestic fixed and mobile telephony traffic in the amount of RSD 1,885,004 thousand (31 December 2009: RSD 2,644,378 thousand) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

As of 31 December 2010, receivables in the amount of RSD 10,487,182 thousand (31 December 2009: RSD 8,435,717 thousand) were impaired and provided for in the amount of RSD 10,487,182 thousand (31 December 2009: RSD 8,435,717 thousand). It was assessed that a part of the receivables is expected to be recovered.

23. ACCOUNTS RECEIVABLE (Continued)

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

	2010	2009
RSD – local currency	10,261,854	11,158,459
EUR	1,901,553	1,959,244
Other currencies	231,890	245,210
Total	**12,395,297**	**13,362,913**

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 22,882,479 thousand, representing gross outstanding balance of accounts receivable as of 31 December 2010, the amount of RSD 794,411 thousand has not been reconciled with the debtors in 2010, mainly due to Company's impossibility to perform reconciliation.

24. CASH AND CASH EQUIVALENTS

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

	2010	2009
Current accounts	1,909,913	1,033,531
Foreign currency accounts with domestic banks	6,038,877	8,416,011
Cash coupons	602	12,264
Balance as of 31 December	**7,949,392**	**9,461,806**

25. VALUE ADDED TAX, PREPAYMENTS AND ACCRUED INCOME

	2010	2009
Deferred value added tax	**550,814**	**481,154**
Prepaid expenses:		
- Banks' commissions for syndicated loan (a)	281,921	471,749
- Rental	70,280	52,592
- Insurance premiums	37,438	28,097
- Other	38,135	133,106
	427,774	**685,544**
Accrued income:		
- International settlement (b)	633,457	644,985
- Roaming (c)	992,197	714,634
Other accrued income	39,786	96,135
	1,665,440	**1,455,754**
Balance as of 31 December	**2,644,028**	**2,622,452**

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

(b) As of 31 December 2010, accrued income arising from fixed telephony international settlement comprises uninvoiced revenue from international settlement for November and December 2010 in the estimated amount of RSD 594,468 thousand and unsettled international traffic settlements for the previous period of 2010 amounting to RSD 38,989 thousand.

(c) As of 31 December 2010, accrued income from mobile telephony traffic comprises accrued income from roaming services for November and December of 2010 estimated to RSD 158,353 thousand and uninvoiced income arising from International GSM roaming contracts – Network operators' discounts amounting to RSD 833,844 thousand.

26. EQUITY

Share Capital

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

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

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

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

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

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

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

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 corresponds to the above presented structure recorded in the Company's books of account.

26. EQUITY (Continued)

Other capital

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

Reserves

Reserves amounting to RSD 589,634 thousand as of 31 December 2010 and 2009 were created in prior years as a result of the Company's obligation to allocate at least 5% of the profit after tax to reserves in accordance with the previously valid Company Law.

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

Basic Earnings per Share

	2010	2009
Profit attributable to equity holders of the Company (A)	15,789,429	15,548,716
Weighted average number of ordinary shares in issue (B)	1,080,000	1,080,000
Basic earnings per share (A/B)	**14.62**	**14.40**

27. LONG-TERM PROVISIONS

	2010	2009
Provisions for retirement benefits and jubilee anniversary awards	1,717,289	1,945,667
Provision for litigations	131,577	121,540
Balance as of 31 December	**1,848,866**	**2,067,207**

Movements in the provisions during the year were as follows:

	Retirement benefits	Jubilee anniversary awards	Litigations	Total
Balance as of 1 January 2009	**665,638**	**1,123,607**	**109,843**	**1,899,088**
Charge for the year (Note 9)	82,387	173,723	27,162	283,272
Utilized	(9,128)	(90,560)	(7,992)	(107,680)
Release of provision (Note 13)	-	-	(7,473)	(7,473)
Balance as of 31 December 2009	**738,897**	**1,206,770**	**121,540**	**2,067,207**
Charge for the year (Note 9)	-	-	24,147	24,147
Utilized	(5,141)	(84,674)	(3,014)	(92,829)
Release of provision (Note 13)	(81,616)	(56,947)	(11,096)	(149,659)
Balance as of 31 December 2010	**652,140**	**1,065,149**	**131,577**	**1,848,866**

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 2010, and they are stated in the amount of discounted present value of future payments.

When determining the present value of the expected outflow at 31 December 2010, the discounted rate of 10% has been used, representing the effective interest rate of six-month bonds of the Republic of Serbia, tied to EUR, being an appropriate rate according to the IAS 19 "Employee Benefits" in the absence of a developed market for high quality corporate bonds.

Provision was determined in line with the Company's Collective Agreement and the assumption of 6% nominal salary increase rate per annum, which reflects the projected long-term inflation rate, and employee fluctuation rate ranging from 1.5% to 4% per annum, depending on the number of the employee's years of service.

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 (Note 35(a)).

28. BORROWINGS

(a) Structure of Borrowings

	2010	2009
Long-term borrowings		
Financial loans from:		
- Domestic banks	65,936	1,138,680
- Foreign banks	20,996,252	30,011,276
	21,062,188	**31,149,956**
Commodity loans from:		
- Domestic suppliers	3,379,384	2,676,371
- Foreign suppliers	17,274,318	15,493,315
	20,653,702	**18,169,686**
Total long-term borrowings	**41,715,890**	**49,319,642**
Current portion of long-term borrowings		
Loans from domestic banks	1,221,836	3,031,197
Loans from foreign banks	12,022,575	14,763,040
Commodity loans from domestic suppliers	2,775,288	1,723,807
Commodity loans from foreign suppliers	5,349,482	4,008,921
Total	**21,369,181**	**23,526,965**
Current portion of other long-term liabilities	556	532
Other short-term borrowings in the country	-	19,922
Total short-term borrowings	**21,369,737**	**23,547,419**
Balance as of 31 December	**63,085,627**	**72,867,061**

The fair value of non-current borrowings, which is based on cash flows discounted using a rate based on the interest rate of 5.36% per annum (2009: 5.05% per annum), amounts to RSD 39,340,441 thousand as of 31 December 2010 (31 December 2009: RSD 46,558,445 thousand).

The fair value of current borrowings equals their carrying amount.

(b) Maturity of Borrowings

	2010	2009
Up to 1 year – current portion of long-term borrowings	21,369,737	23,547,419
From 1 to 2 years	27,296,602	17,306,718
From 2 to 3 years	5,653,814	22,734,349
From 3 to 4 years	4,404,016	3,974,506
From 4 to 5 years	3,265,970	2,790,512
Over 5 years	1,095,488	2,513,557
Balance as of 31 December	**63,085,627**	**72,867,061**

28. BORROWINGS (Continued)

(c) Detailed Breakdown of Borrowings per Creditors

	Currency	31 December 2010 In foreign currency	31 December 2010 In RSD thousand	31 December 2009 In foreign currency	31 December 2009 In RSD thousand
/i/ Loans from domestic banks					
Banca Intesa a.d., Belgrade	EUR	10,000,000	1,054,982	33,000,000	3,165,193
Alpha Bank Srbija a.d., Belgrade	EUR	-	-	7,000,000	673,236
Vojvodjanska banka a.d., Novi Sad – Belgrade branch	EUR	1,875,000	197,809	3,125,000	299,653
Beobanka a.d. Belgrade - in bankruptcy	EUR	331,582	34,981	331,582	31,795
		12,206,582	**1,287,772**	**43,456,582**	**4,169,877**
/ii/ Loans from foreign banks					
Citibank N.A., London	EUR	260,080,000	27,437,972	330,040,000	31,647,140
EFG New Europe Funding, the Netherlands	EUR	12,900,000	1,360,927	16,900,000	1,620,520
Deutche Bank A.G., London branch (Alpha Bank A.E., London in 2009)	EUR	40,000,000	4,219,928	120,000,000	11,506,656
		312,980,000	**33,018,827**	**466,940,000**	**44,774,316**
/iii/ Foreign commodity loans					
BNP Paribas, London branch	EUR	36,603,641	3,861,618	43,116,986	4,134,436
KfW, Germany	EUR	6,155,993	649,448	13,574,954	1,301,686
Nokia Siemens, the Netherlands and Austria	EUR	53,971,912	5,693,940	49,134,737	4,711,471
Ericsson Credit A.B., Sweden	EUR	26,100,027	2,753,506	2,683,915	257,357
Credit Agricole Cib Sverige (Calyon S.A., Sweden in 2009)	EUR	33,436,635	3,527,505	39,697,638	3,806,559
Huawei Technologies Co. Ltd., China	EUR	30,672,618	3,235,906	31,801,097	3,049,369
Huawei International Pte. Ltd., China	EUR	3,121,582	329,321	-	-
Alcatel Lucent S.A., France	EUR	5,379,712	567,550	4,215,801	404,248
OTP Bank Plc, Hungary	EUR	1,328,017	140,103	1,593,620	152,810
Sitronics, Czech Republic	EUR	1,772,548	187,001	2,531,667	242,759
Intracom S.A., Greece	EUR	6,085,017	641,958	2,182,149	209,244
EuroBank EFG Factors S.A., Greece	EUR	758,391	80,009	1,956,987	187,653
Alcatel Lucent Italia S.p.A., Italy	EUR	1,106,004	116,681	1,422,005	136,354
Skandinaviska Enskilda Bank Stockholm, Sweden	EUR	7,382,367	778,826	8,860,514	849,624
NEC Europe Ltd., Hungary	EUR	100,943	10,649	504,716	48,397
Elsag Datamat S.p.A., Italy	EUR	471,841	49,779	107,091	10,269
		214,447,248	**22,623,800**	**203,383,877**	**19,502,236**
/iv/ Domestic commodity loans	RSD		**6,154,672**		**4,400,178**
Total borrowings			**63,085,071**		**72,846,607**
Less: Current portion of long-term borrowings					
/i/ Loans from domestic banks			(1,221,836)		(3,031,197)
/ii/ Loans from foreign banks			(12,022,575)		(14,763,040)
/iii/ Foreign commodity loans			(5,349,482)		(4,008,921)
/iv/ Domestic commodity loans			(2,775,288)		(1,723,807)
			(21,369,181)		**(23,526,965)**
Total long-term borrowings			**41,715,890**		**49,319,642**

28. 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 increased by 1% 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, commodity loans from abroad until 2016, while domestic 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 has not entered into hedging arrangements in respect of its foreign currency obligations or interest rate exposures.

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

Financial liabilities towards Beobanka a.d., Belgrade in bankruptcy, ("Beobanka") in the amount of RSD 34,981 thousand as of 31 December 2010, relate to a loan settled by the former National Bank of Yugoslavia ("NBY") toward LHB bank, Frankfurt on behalf of Beobanka, as guarantor and the 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 17 blank promissory notes issued by the Company (Note 32).

/ii/ In order to provide funds for financing the purchase of 65% of shares in "Telekom Srpske" (Note 20(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. During 2009, the Company repaid the remaining outstanding debt of EUR 190 million per Arrangement C and a part of debt per Arrangement A in the amount of EUR 69.96 million. In May and November 2010, the Company repaid a part of the debt per Arrangement A in the amount of EUR 69.96 million.

28. BORROWINGS (Continued)

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

/ii/ 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 2010, 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. In 2010, the Company repaid a portion of the loan from Alpha Bank A.E., London in the total amount of EUR 80 million.

The Loan Agreement with Alpha Bank A.E., London defines the commitment of the 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 2010, the Company fulfilled the required ratios. In 2010, the loan was transferred from Alpha Bank A.E., London to the new creditor Deutsche Bank A.G., London branch, of which the Company was informed.

Foreign bank loans (EFG New Europe Funding, Holland) are also secured with 10 blank promissory notes issued by the Company (Note 32).

/iii/ As of 31 December 2010, liabilities to BNP Paribas, London branch, amount to RSD 3,861,618 thousand. The loan was initially granted by Ericsson Credit A.B., Sweden, and it has been secured with assigned collateral rights on the Company's equipment (Note 18). The collateral right is registered at the Register of pledges with the Serbian Business Registers Agency, based on the Agreement and the Agency's Decisions. In 2006 and 2007, the long-term borrowing from Ericsson Credit A.B., Sweden was transferred from Ericsson Credit A.B., Sweden to BNP Paribas, London branch. The substitution of a pledgee has not yet been registered in the Register of pledges. The credit agreements with Ericsson Credit A.B., Sweden and BNP Paribas, London branch, are subject to covenant clauses, whereby the Company is required to meet certain key performance indicators. As of 31 December 2010, the Company fulfilled the required ratios.

/iv/ Domestic commodity loans totalling RSD 6,154,672 thousand as of 31 December 2010 (31 December 2009: RSD 4,400,178 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 10 percent advances, whereas 90 percent is financed from the loans provided by the project contractors. Repayment period of the aforementioned loans, as well as grace period depends on contracted value of the particular loan. Commodity loans provided on this basis are primarily secured by the appropriate number of blank promissory notes issued in favour of the beneficiary, the construction contractor (Note 32).

28. BORROWINGS (Continued)

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

/v/ Undrawn commodity loans amount to RSD 2,429,785 thousand as of 31 December 2010 (31 December 2009: RSD 2,359,898 thousand). The majority of these loans have been granted at variable interest rates. The facilities expiring within one year amount to RSD 417,929 thousand as of 31 December 2010 (31 December 2009: RSD 93,790 thousand), while the facilities expiring beyond one year up to 5 years amount to RSD 2,011,856 thousand (31 December 2009: RSD 2,266,108 thousand).

29. ACCOUNTS PAYABLE

	2010	2009
Domestic trade payables	4,159,171	4,969,441
Foreign trade payables:		
- Fixed telephony	657,442	672,195
- Mobile telephony	240,438	301,625
Related parties' trade payables (Note 33(a))	434,902	725,003
Advances received	160,241	207,884
Balance as of 31 December	**5,652,194**	**6,876,148**

As of 31 December 2010, accounts payable amounting to RSD 1,317,335 thousand (31 December 2009: RSD 1,274,970 thousand) are denominated in foreign currency, mainly in 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 2010 was 51 days (year ended 31 December 2009: 63 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 2010, out of RSD 5,652,194 thousand and RSD 6,154,672 thousand, representing outstanding balance of accounts payable and commodity loans from domestic suppliers (Note 28), respectively, the amount of RSD 564,484 thousand has not been reconciled with the suppliers/creditors in 2010, mainly due to Company's impossibility to perform reconciliation.

30. OTHER CURRENT LIABILITIES

	2010	2009
Gross salaries	418,109	425,760
Interest payable	1,010	1,837
Liabilities to employees	13,519	14,260
Remuneration to the Managing Board members	320	352
Other liabilities	253,395	172,258
Balance as of 31 December	**686,353**	**614,467**

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

	2010	2009
Accruals		
Accrued expenses:		
International settlement (a)	263,764	188,006
Roaming (b)	953,612	771,185
	1,217,376	**959,191**
Accrued other expenses:		
Employee profit-sharing	1,678,713	1,346,284
Accumulated absences (vacation)	448,443	346,994
Accrued interest expenses (c)	271,054	258,506
Accrued other expenses (d)	6,008,156	5,910,485
	8,406,366	**7,862,269**
Deferred income:		
Mobile phone services	515,372	600,031
Chip cards	39,342	95,972
Fixed telephony subscription	1,123,221	589,350
Lease	173,931	-
Subscription for special telephone services	79,225	71,523
Other deferred income	144	153
	1,931,235	**1,357,029**
Deferred income (e):		
Donations	111,560	112,990
Grants from local municipalities	1,843,526	2,032,337
Grants from mobile telephony suppliers	1,306,991	1,461,845
Grants from other suppliers	177,505	179,203
	3,439,582	**3,786,375**
Deferred liabilities for value added tax	56,225	52,218
Value added tax and other tax liabilities (f)	1,345,673	1,078,623
Balance as of 31 December	**16,396,457**	**15,095,705**

(a) As of 31 December 2010, accrued expenses arising from fixed international traffic totalling RSD 263,764 thousand comprise uninvoiced expenses for November and December 2010 in the estimated amount of RSD 228,721 thousand and unreconciled liabilities arising from international traffic settlements for the previous period in the amount of RSD 35,043 thousand.

(b) As of 31 December 2010, accrued roaming expenses totalling RSD 953,612 thousand relate to uninvoiced roaming services for November and December 2010, estimated to RSD 126,918 thousand and uninvoiced expenses based on the International GSM roaming contract – Network operators' discounts amounting to RSD 826,694 thousand.

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

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

(d) Accrued other expenses amounting to RSD 6,008,156 thousand as of 31 December 2010 mostly relate to estimated uninvoiced expenses for services provided by suppliers during the year ended 31 December 2010.

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

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

	2010	2009
Balance as of 1 January	**3,786,375**	**3,732,505**
Grants received during the year (Note 18)	67,680	450,200
Released to the income statement (Note 6)	(414,352)	(404,180)
Other movements	(121)	7,850
Balance as of 31 December	**3,439,582**	**3,786,375**

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

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

	2010	2009
Nokia Siemens Networks, Finland and Austria	21,726	423,867
Huawei Technologies Co. Ltd., China	10,564	5,238
Huawei International Pte. Ltd., China	6,739	-
Ericsson, Sweden	7,761	257
Other	20,890	20,838
Total	**67,680**	**450,200**

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

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

32. OFF-BALANCE SHEET ITEMS

	2010	2009
Issued promissory notes	3,210,085	5,973,065
Property and equipment in liquidation	2,072,932	1,872,328
Guarantees received	-	22,002
Other	38,909	52,756
Balance as of 31 December	**5,321,926**	**7,920,151**

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:

	2010	2009
Issued promissory notes in favour of:		
- Banks	2,500,187	3,979,315
- Suppliers	709,898	1,993,750
Balance as of 31 December	**3,210,085**	**5,973,065**

33. RELATED PARTY DISCLOSURES

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

As presented in the following tables, as of 31 December 2010, the Company did not disclose receivables and payables from/to JP PTT saobracaja "Srbija", Belgrade ("JP PTT") as related party transactions, considering the fact that on 24 September 2010, subsequent to the transfer of 80% of shares to the Republic of Serbia (Note 26), JP PTT ceased to be the shareholder of the Company.

As of 31 December 2010, receivables from JP PTT and payables toward JP PTT are presented within domestic trade receivables (Note 23) and domestic trade payables (Note 29), respectively.

33. RELATED PARTY DISCLOSURES (Continued)

(a) **Outstanding balances of receivables and liabilities** as of 31 December 2010 and 2009, arising from the purchase and/or sale of goods/services from/to the Company's shareholders (Note 26) and the subsidiaries (Note 20) are summarized below:

	2010	2009
RECEIVABLES		
Gross accounts receivable (Note 23):		
- JP PTT	-	126,736
- OTE	7,629	17,437
- Telekom Srpske	67,736	56,885
- Mtel	62,041	631,569
- Telus	1,042	836
	138,448	**833,463**
Less: Allowance for impairment - JP PTT	-	(471)
Allowance for impairment - Mtel	-	(158,397)
	-	(158,868)
Total	**138,448**	**674,595**
Payments in advance:		
- JP PTT	-	168
Total	**-**	**168**
Other receivables and accrued income:		
Telekom Srpske:		
- accrued income from international settlement	58,874	54,963
- other receivables	-	719
- other accrued income	14,165	533
- accrued income from roaming	8,160	16,548
	81,199	72,763
OTE:		
- accrued income from international settlement	5,217	24,618
	5,217	24,618
JP PTT:		
- other receivables	-	1,141
	-	1,141
Mtel:		
- other receivables	62,779	55,297
- accrued income from international settlement	21,390	27,587
- other accrued income	7,756	7,756
- accrued income from roaming	3,200	5,590
	95,125	96,230
Total	**181,541**	**194,752**
Total receivables and accrued income	**319,989**	**869,515**

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.

33. RELATED PARTY DISCLOSURES (Continued)

(a) Receivables and Liabilities (Continued)

	2010	2009
LIABILITIES		
Accounts payable:		
- JP PTT	-	484,732
- OTE	3,015	3,627
- Mtel	54,383	8,998
- Telekom Srpske	181,482	131,882
- Telus	196,022	95,764
Total (Note 29)	**434,902**	**725,003**
Other current liabilities and accruals:		
JP PTT:		
- deferred income – TT services	-	2,783
	-	2,783
OTE:		
- accrued expenses from international settlement	16,576	9,488
	16,576	9,488
Telus:		
- deferred income – TT services	75	46
	75	46
Mtel:		
- accrued expenses from roaming	3,704	8,527
- accrued expenses from international settlement	302	171
- other accrued expenses	366	370
	4,372	9,068
Telekom Srpske:		
- accrued expenses from roaming	5,955	12,027
- other accrued expenses	117	-
- accrued expenses from international settlement	1,257	-
	7,329	12,027
Total	**28,352**	**33,412**
Total liabilities and accruals	**463,254**	**758,415**

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.

33. RELATED PARTY DISCLOSURES (Continued)

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

	2010	2009
JP PTT		
Revenues:		
Income from fixed telephony, internet and other services	264,812	309,391
Income from mobile telephony	61,458	85,551
Reversal of impairment loss	-	8,662
Mobile phones	1,972	-
Other	-	127
	328,242	**403,731**
Expenses:		
Rents	(2,028,129)	(2,313,930)
Cost of delivery and collection of phone bills and telegrams	(776,595)	(1,324,017)
Printing services	(2,009)	(5,463)
Electricity	(246,160)	(312,098)
Electronic data processing	(37,200)	(70,660)
City land rental fee	(992)	(17,101)
Postal services	(20,680)	(27,214)
Utilities	(28,311)	(38,930)
Maintenance	(33,025)	(73,255)
CALL centre services	(12,085)	(22,589)
Fees and commissions	(7,392)	(8,576)
Other	(9,145)	(6,066)
	(3,201,723)	**(4,219,899)**
Net expenses	**(2,873,481)**	**(3,816,168)**

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

33. RELATED PARTY DISCLOSURES (Continued)

(b) Revenues and Expenses (Continued)

	2010	2009
OTE		
Revenues:		
International settlement	96,511	148,245
	96,511	**148,245**
Expenses:		
International settlement	(30,738)	(57,487)
	(30,738)	**(57,487)**
Net revenues	**65,773**	**90,758**
Telus		
Revenues:		
Income from fixed telephony and other services	6,912	6,549
Income from mobile telephony	1,899	1,771
	8,811	**8,320**
Expenses:		
Physical and technical security	(503,376)	(509,413)
Cleaning	(436,815)	(431,024)
Other	(44,405)	(44,212)
	(984,596)	**(984,649)**
Net expenses	**(975,785)**	**(976,329)**
Mtel		
Revenues:		
International settlement, internet and other services	517,708	524,979
Roaming and other mobile telephony revenues	54,391	49,844
Reversal of impairment loss	164,793	867,753
Other	534	464
	737,426	**1,443,040**
Expenses:		
International settlement	(408,638)	(342,674)
Roaming	(175,597)	(208,176)
Consignment sales fee	(5,559)	(6,504)
	(589,794)	**(557,354)**
Net revenues	**147,632**	**885,686**

33. RELATED PARTY DISCLOSURES (Continued)

(b) Revenues and Expenses (Continued)

	2010	2009
Telekom Srpske		
Revenues:		
International settlement, internet and other services	808,793	735,530
Roaming and other mobile telephony revenues	110,115	110,092
Dividends	4,716,916	5,094,484
Revenues from software sales	13,205	-
Other	6,464	7,074
	5,655,493	**5,947,180**
Expenses:		
International settlement	(965,287)	(887,112)
Roaming	(89,341)	(101,650)
Other	(636)	(489)
	(1,055,264)	**(989,251)**
Net revenues	**4,600,229**	**4,957,929**
TS:NET		
Expenses:		
Leased capacities for international transit	(20,930)	-
	(20,930)	**-**
Total revenues, net	**943,438**	**1,141,876**

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

	2010	2009
Gross salaries	298,677	326,694
Compensations for business trips	22,485	26,163
Employee profit-sharing	87,570	80,400
Residential housing loans	149,845	181,517
Loans for repurchase of vehicles	28,791	29,855
Retirement benefits for voluntary termination	-	8,805
Regular retirement benefits	2,248	757
Settled jubilee awards	746	515
Total	**590,362**	**654,706**

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

34. COMMITMENTS

Commitments comprise the following:

	2010	2009
Operating lease commitments (a)	7,567,589	4,734,498
Construction of the mobile network and fixed-line telecommunication network (b)	2,429,785	2,359,898
Balance as of 31 December	**9,997,374**	**7,094,396**

(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:

	2010	2009
Up to 1 year	1,339,762	960,754
From 1 to 5 years	3,658,903	2,381,946
Over 5 years	2,568,924	1,391,798
	7,567,589	**4,734,498**

Operating lease commitments disclosed above do not include commitments arising from lease of property from 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.

35. CONTINGENT LIABILITIES

(a) Litigations

As of 31 December 2010, the total estimated value of potential damage claims arising from legal proceedings filed against the Company and still in course amounts to RSD 732,947 thousand (31 December 2009: RSD 290,340 thousand), excluding penalty interest that may arise thereto.

The final outcome of the legal proceedings still in course is uncertain. As disclosed in Note 27 to the financial statements, as of 31 December 2010, the Company recognized the amount of RSD 131,577 thousand (31 December 2009: RSD 121,540 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 issues, 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.

36. OPERATING SEGMENT INFORMATION

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

At 31 December 2010, 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;
- 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.

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

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

36. OPERATING SEGMENT INFORMATION (Continued)

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

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

	Mobile telephony	Internet	Multimedia services	CDMA services	Fixed telephony and other services	Total
Sales	34,783,885	4,966,097	357,818	558,831	44,614,257	85,280,888
Other operating income	1,255,326	48,280	21,966	5,935	1,933,853	3,265,360
Inter-segment settlement	4,079,884	-	-	106,700	5,437,391	9,623,975
Operating income	**40,119,095**	**5,014,377**	**379,784**	**671,466**	**51,985,501**	**98,170,223**
Wages, salaries and other personnel expenses	(2,168,595)	(1,001,697)	(657,211)	(127,883)	(8,703,632)	(12,659,018)
Charges of other network operators	(4,614,968)	-	-	-	(7,627,331)	(12,242,299)
Cost of material and maintenance	(4,583,703)	(844,926)	(174,439)	(31,389)	(4,352,613)	(9,987,070)
Depreciation and amortization	(5,478,462)	(131,773)	(447,481)	(189,230)	(10,690,259)	(16,937,205)
Rental costs	(1,548,052)	(195,574)	(135,883)	(68,830)	(2,332,690)	(4,281,029)
Other operating expenses	(7,942,077)	(381,756)	(817,382)	(80,245)	(4,872,040)	(14,093,500)
Inter-segment settlement	(2,969,750)	(2,324,840)	-	(177,542)	(4,151,843)	(9,623,975)
Operating expenses	**(29,305,607)**	**(4,880,566)**	**(2,232,396)**	**(675,119)**	**(42,730,408)**	**(79,824,096)**
Operating profit/ (loss)	**10,813,488**	**133,811**	**(1,852,612)**	**(3,653)**	**9,255,093**	**18,346,127**
Interest income	363,048	32,748	2,480	3,688	690,631	1,092,595
Interest expense	(854,023)	(25,209)	(28,621)	(5,157)	(1,089,098)	(2,002,108)
Foreign exchange losses, net	(2,681,970)	(29,275)	(44,045)	2,524	(3,236,319)	(5,989,085)
Dividends	2,485,815	-	-	-	2,231,101	4,716,916
Other financial income	-	-	-	-	246	246
	(687,130)	**(21,736)**	**(70,186)**	**1,055**	**(1,403,439)**	**(2,181,436)**
Profit/(loss) before tax	**10,126,358**	**112,075**	**(1,922,798)**	**(2,598)**	**7,851,654**	**16,164,691**
Income tax expense	(210,062)	(2,325)	-	-	(162,875)	(375,262)
Profit/(loss) for the year	**9,916,296**	**109,750**	**(1,922,798)**	**(2,598)**	**7,688,779**	**15,789,429**

36. OPERATING SEGMENT INFORMATION (Continued)

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

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

	Mobile telephony	Internet	Multimedia services	CDMA services	Fixed telephony and other services	Total
Sales	38,561,499	3,265,711	75,416	305,773	42,358,993	84,567,392
Other operating income	1,201,984	78,878	51,040	2,981	2,390,009	3,724,892
Inter-segment settlement	5,042,674	-	-	-	4,372,506	9,415,180
Operating income	**44,806,157**	**3,344,589**	**126,456**	**308,754**	**49,121,508**	**97,707,464**
Wages, salaries and other personnel expenses	(2,585,885)	(633,633)	(319,347)	(173,687)	(9,297,747)	(13,010,299)
Charges of other network operators	(4,753,343)	-	-	-	(7,196,968)	(11,950,311)
Cost of material and maintenance	(3,751,971)	(629,781)	(78,080)	(21,403)	(4,394,869)	(8,876,104)
Depreciation and amortization	(5,679,150)	(110,381)	(205,471)	(42,342)	(10,536,686)	(16,574,030)
Rental costs	(1,321,850)	(133,953)	(71,128)	(35,784)	(2,102,418)	(3,665,133)
Other operating expenses	(9,240,330)	(279,551)	(322,526)	(64,082)	(5,303,430)	(15,209,919)
Inter-segment settlement	(2,911,996)	(1,461,008)	-	-	(5,042,176)	(9,415,180)
Operating expenses	**(30,244,525)**	**(3,248,307)**	**(996,552)**	**(337,298)**	**(43,874,294)**	**(78,700,976)**
Operating profit/ (loss)	**14,561,632**	**96,282**	**(870,096)**	**(28,544)**	**5,247,214**	**19,006,488**
Interest income	461,977	23,091	873	2,132	601,152	1,089,225
Interest expense	(1,672,783)	(1,634)	(9,761)	-	(1,631,827)	(3,316,005)
Foreign exchange losses, net	(2,212,919)	(14,886)	(8,545)	(370)	(3,756,254)	(5,992,974)
Dividends	2,684,793	-	-	-	2,409,691	5,094,484
Other financial income	4,496	-	-	-	68,713	73,209
	(734,436)	**6,571**	**(17,433)**	**1,762**	**(2,308,525)**	**(3,052,061)**
Profit/(loss) before tax	**13,827,196**	**102,853**	**(887,529)**	**(26,782)**	**2,938,689**	**15,954,427**
Income tax expense	(332,559)	(2,474)	-	-	(70,678)	(405,711)
Profit/(loss) for the year	**13,494,637**	**100,379**	**(887,529)**	**(26,782)**	**2,868,011**	**15,548,716**

Inter-segment revenues and expenses are eliminated on consolidation.

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

36. OPERATING SEGMENT INFORMATION (Continued)

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

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

	Mobile telephony	Internet	Multimedia services	CDMA services	Fixed telephony and other services	Total
Assets	45,608,885	2,658,847	1,436,346	786,741	97,826,602	**148,317,421**
Liabilities	44,969,620	1,714,214	1,782,368	514,739	38,692,304	**87,673,245**
Capital expenditure (Notes 17 and 18)	5,231,876	2,225,878	1,117,345	445,071	6,623,243	**15,643,413**

Segments' assets do not include investments in subsidiaries (RSD 60,211,333 thousand), deferred tax assets (RSD 1,108,440 thousand), and receivables for prepaid income tax (RSD 330,190 thousand) as these assets are managed on the Company's level.

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

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

	Mobile telephony	Internet	Multimedia services	CDMA services	Fixed telephony and other services	Total
Assets	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 17 and 18)	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.

(b) Information about Geographical Areas

The country of origin of the Company, which is also the main operating territory, is the Republic of Serbia. Sale revenues are allocated on the basis of the country in which the service is provided. The Company's sale revenues are predominantly generated in Serbia (89%).

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

36. 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 117,278,697 thousand as of 31 December 2010 and represents 65.9% of total non-current assets (31 December 2009: RSD 118,947,221 thousand or 67.1%).

The total of these non-current assets located in other countries amounts to RSD 60,574,254 thousand or 34.1% (31 December 2009: RSD 58,441,615 thousand or 32.9%).

(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 during the year.

37. EVENT AFTER THE REPORTING PERIOD

Tax on Mobile Phones Discharge

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

38. EXCHANGE RATES

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

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

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