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

Consolidated Financial Statements for the Year Ended 31 December 2009 in accordance with International Financial Reporting Standards

and

Independent Auditor's Report

BDO

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Reporting Standards

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Independent Auditor's Report

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated financial statements of a Joint stock telecommunications company "Telekom Srbija" a.d., Belgrade (hereinafter: the "Parent Company") and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as of 31 December 2009 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

The financial statements of the subsidiaries "Telus" a.d., Belgrade, "Mtel" d.o.o., Podgorica and "Telekomunikacije Republike Srpske" a.d., Banja Luka as of and for the year ended 31 December 2009 (hereinafter: the "Consolidated Subsidiaries") were audited by other auditors. Our opinion, as it relates to the amounts of the Consolidated Subsidiaries included in the accompanying consolidated financial statements, is based upon the reports of such other auditors.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

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

(a) As disclosed in Note 34(a) to the consolidated financial statements, as of 31 December 2009, the total estimated value of potential damage claims that the Group might suffer as a result of adverse outcome of litigations filed against the Group still in course amounts to RSD 573,246 thousand, excluding any related penalty interest that may arise thereto. At 31 December 2009, provision for the pending litigations recognized in the Group's consolidated financial statements amounts to RSD 141,471 thousand (Note 27), based on the estimate of the final outcome of these legal proceedings made by the Group's legal departments. The Group's management considers that the final outcome of litigations cannot be predicted with a high degree of certainty, and it judges that no material liabilities will arise from the contingent liabilities other than those provided for.

(b) The Consolidated Subsidiary "Mtel" d.o.o., Podgorica incurred a net loss for the year ended 31 December 2009 of RSD 724,500 thousand (EUR 7,697,632), while as of that date, the negative capital, by which the total liabilities exceeded the total assets, amounted to RSD 2,325,802 thousand (EUR 24,255,193). In addition, as disclosed in Notes 16, 17 and 28 to the consolidated financial statements, the pledge over the license and the telecommunication equipment, the cost of which amounts to RSD 8,213,407 thousand (EUR 85,655,542) as of 31 December 2009, as well as the pledge over 85% of capital of the Consolidated Subsidiary "Mtel" d.o.o., Podgorica, have been constituted as collateral provided to secure the timely repayment of long-term borrowings.

    As disclosed in Note 36(c) to the consolidated financial statements, the owners of the Consolidated Subsidiary "Mtel" d.o.o., Podgorica, i.e., the Parent Company and "Telekomunikacije Republike Srpske" a.d., Banja Luka invested additional capital in the total amount of EUR 40,000,000 by 15 March 2010, thus providing funds for further business operations of the Consolidated Subsidiary "Mtel" d.o.o., Podgorica. Accordingly, the subscribed and paid in capital of the Consolidated Subsidiary "Mtel" d.o.o., Podgorica on the above mentioned date amounts to EUR 45,000,000, and it exceeds the uncovered accumulated loss of this legal entity. Assets of the Consolidated Subsidiary "Mtel" d.o.o., Podgorica represent 3.2% of the total consolidated assets of the Group as of 31 December 2009.

INDEPENDENT AUDITOR'S REPORT

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

Emphasis of Matter (Continued)

(c) The effects of the ongoing global financial crisis that started to become felt in the Republic of Serbia and the neighbouring countries in the last quarter of 2008, and which are still present with a moderate intensity, so far have had a limited impact on the Group's operations and its performance. Despite the fact that the information-communication technology sector is not among the most affected sectors, the Group has passed a set of measures in accordance with its risk management policies for the purposes of maintaining the satisfactory level of collection of receivables, liquidity and providing appropriate sources of financing, primarily for the settlement of borrowings in the future period. Although the Group's current liabilities as of 31 December 2009 exceed its current assets by RSD 14,737,166 thousand, the Group does not have liquidity problems, or problems with settlement of its liabilities. As disclosed in Note 3.5. to the consolidated financial statements, the management cannot reliably estimate the further effects of the crisis to the economic environment in the Republic of Serbia and the neighbouring countries, or the impact on the financial position and the results of the Group's operations, but they consider that, in the given circumstances, they undertake all necessary measures in order to secure the sustainable growth and development of the Group.

Belgrade, 22 April 2010

Ksenija Ristic Kostic
Certified Auditor

BDO d.o.o.
BDO d.o.o.
Belgrade

MANAGEMENT'S REPRESENTATION

The Group's management is responsible for the preparation of the consolidated financial statements, which give a true and fair view of the financial position of the Group as of the end of the reporting period, and of its financial performance and its cash flows for the reporting period then ended in accordance with International Financial Reporting Standards. The management also have a general responsibility for implementation of processes and controls to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Group's management considers that, preparing the consolidated financial statements as of and for the year ended 31 December 2009, set out on pages 5 to 92, the Group has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates in accordance with International Financial Reporting Standards.

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

Branko Radujko
General Manager

Georgios Christodoulopoulos
Director of Economic Affairs Division

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

	Note	2009	2008 Restated
OPERATING INCOME			
Sales	6	110,435,578	103,040,863
Other operating income	7	3,507,273	2,288,974
		113,942,851	**105,329,837**
OPERATING EXPENSES			
Wages, salaries and other personnel expenses	8	(18,691,907)	(17,430,441)
Charges of other network operators	9	(14,299,967)	(13,454,740)
Costs of material and maintenance	10	(10,592,814)	(10,566,066)
Depreciation and amortization	11	(23,063,047)	(20,657,274)
Rental costs		(4,620,273)	(3,896,238)
Other operating expenses	12	(19,797,719)	(16,863,683)
		(91,065,727)	**(82,868,442)**
OPERATING PROFIT		**22,877,124**	**22,461,395**
FINANCE INCOME/(EXPENSES)			
Interest expense, net	13	(2,675,824)	(4,280,101)
Foreign exchange losses, net	14	(5,989,437)	(8,281,899)
Other financial income		84,675	188,482
		(8,580,586)	**(12,373,518)**
PROFIT BEFORE INCOME TAX		**14,296,538**	**10,087,877**
Income tax expense	15	(982,975)	(966,653)
PROFIT FOR THE YEAR		**13,313,563**	**9,121,224**
OTHER COMPREHENSIVE INCOME:			
Fair value (losses)/gains on available-for-sale financial assets, net		(370)	410
Currency translation differences		6,521,839	8,207,372
Other comprehensive income, net of tax		**6,521,469**	**8,207,782**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**19,835,032**	**17,329,006**
Profit attributable to:			
Owners of the parent		12,165,259	7,925,677
Minority interest		1,148,304	1,195,547
		13,313,563	**9,121,224**
Total comprehensive income attributable to:			
Owners of the parent		16,942,829	14,369,968
Minority interest		2,892,203	2,959,038
		19,835,032	**17,329,006**
Earnings per share for profit attributable to the owners of the parent:			
Basic earnings per share		**11.26**	**7.34**

The accompanying notes on pages 9 to 92
are an integral part of these consolidated financial statements.

The accompanying consolidated financial statements were authorised for issue by the Managing Board on 22 April 2010 and signed on behalf of the Group's management by:

Branko Radujko
General Manager

Georgios Christodoulopoulos
Director of Economic Affairs Division

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As of 31 December 2009
In RSD thousand

	Note	31 December 2009	31 December 2008 Restated
ASSETS			
Non-current assets			
Intangible assets	16	60,988,732	59,571,552
Property, plant and equipment	17	153,814,191	149,796,499
Advances for property and equipment	18	553,112	610,021
Equity investments		19	18
Other non-current financial assets	19	1,916,507	1,810,025
Deferred tax assets	15(c)	1,076,482	1,062,178
		218,349,043	**212,850,293**
Current assets			
Inventories	20	7,154,659	8,203,483
Accounts receivable	21	15,523,518	13,899,004
Receivables for overpaid income tax		88,671	-
Other current assets and prepayments	22	3,259,665	3,490,316
Accrued income	23	1,423,546	1,380,217
Cash and cash equivalents	24	14,384,798	13,202,314
		41,834,857	**40,175,334**
TOTAL ASSETS		**260,183,900**	**253,025,627**
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	25	82,512,552	82,512,552
Other capital		8,588	8,588
Reserves		1,053,745	767,151
Foreign currency translation reserve		9,740,880	4,963,070
Retained earnings		27,747,636	19,766,240
		121,063,401	**108,017,601**
Minority interest		**18,090,166**	**17,928,317**
Total equity		**139,153,567**	**125,945,918**
Non-current liabilities			
Deferred income	26	4,209,318	4,151,960
Provisions	27	2,710,570	2,534,861
Deferred tax liabilities	15(c)	2,133,774	2,099,443
Borrowings	28	55,404,648	58,487,632
		64,458,310	**67,273,896**
Current liabilities			
Current portion of non-current borrowings	28	31,530,682	35,368,334
Other current borrowings		216,205	199,086
Accounts payable	29	11,209,215	12,271,201
Other current liabilities and accruals	30	13,615,921	11,867,625
Income taxes payable		-	99,567
		56,572,023	**59,805,813**
TOTAL EQUITY AND LIABILITIES		**260,183,900**	**253,025,627**
OFF-BALANCE SHEET ITEMS	31	**17,166,121**	**28,532,909**

The accompanying notes on pages 9 to 92
are an integral part of these consolidated financial statements.

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

	Attributable to the equity holders of the parent						
	Share capital	**Other capital**	**Reserves**	**Retained earnings**	**Total**	**Minority interest**	**TOTAL EQUITY**
Balance as of 1 January 2008	**82,512,552**	**6,121**	**(879,687)**	**17,507,462**	**99,146,448**	**14,154,778**	**113,301,226**
Profit for the year ended 31 December 2008, restated	-	-	-	7,925,677	7,925,677	1,195,547	9,121,224
Other comprehensive income:							
Fair value gains on available-for-sale financial assets, net	-	-	267	-	267	143	410
Currency translation differences	-	-	6,444,024	-	6,444,024	1,763,348	8,207,372
Total comprehensive income for the year ended 31 December 2008, restated	**-**	**-**	**6,444,291**	**7,925,677**	**14,369,968**	**2,959,038**	**17,329,006**
Dividends paid	-	-	-	(4,061,895)	(4,061,895)	(614,486)	(4,676,381)
Transfer from retained earnings to legal reserves	-	-	165,617	(165,617)	-	-	-
Additional investment	-	-	-	(1,428,987)	(1,428,987)	1,428,987	-
Other movements	-	2,467	-	(10,400)	(7,933)	-	(7,933)
Balance as of 31 December 2008, restated	**82,512,552**	**8,588**	**5,730,221**	**19,766,240**	**108,017,601**	**17,928,317**	**125,945,918**
Profit for the year ended 31 December 2009	-	-	-	12,165,259	12,165,259	1,148,304	13,313,563
Other comprehensive income:							
Fair value losses on available-for-sale financial assets, net	-	-	(241)	-	(241)	(129)	(370)
Currency translation differences	-	-	4,777,811	-	4,777,811	1,744,028	6,521,839
Total comprehensive income for the year ended 31 December 2009	**-**	**-**	**4,777,570**	**12,165,259**	**16,942,829**	**2,892,203**	**19,835,032**
Dividends declared	-	-	-	(3,897,029)	(3,897,029)	(2,730,354)	(6,627,383)
Transfer from retained earnings to legal reserves	-	-	286,834	(286,834)	-	-	-
Balance as of 31 December 2009	**82,512,552**	**8,588**	**10,794,625**	**27,747,636**	**121,063,401**	**18,090,166**	**139,153,567**

The accompanying notes on pages 9 to 92
are an integral part of these consolidated financial statements.

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

	2009	2008 Restated
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	**14,296,538**	**10,087,887**
Adjustment to reconcile profit before tax to net cash provided by operating activities:		
Depreciation and amortization	23,063,047	20,657,274
Loss on disposal of property and equipment, net	509,384	499,516
Gains on disassembled equipment, net	-	(160)
Losses due to granted goods free of charge	60,632	105,860
Unrealized foreign exchange losses, net	4,106,156	8,661,125
Allowances for impairment and write-offs, net	4,035,928	1,994,442
Deferred granted assets released	(464,374)	(524,808)
Accrued expenses for employee profit-sharing	1,346,284	1,206,390
Income from write-off of liabilities	(27,680)	(11,145)
Provision for litigations, net	21,573	80,616
Other provisions	1,168,181	1,750,050
Provisions for long-term employee benefits	276,985	387,727
Net finance expenses	4,474,430	3,712,393
Changes in operating assets and liabilities:		
Increase in accounts receivable	(5,321,225)	(4,022,451)
Decrease in other current assets	189,337	118,775
Decrease in inventories	413,371	527,381
Increase/(decrease) in accounts payable and other current liabilities	3,060,271	(554,949)
	51,208,838	**44,675,923**
Income tax paid	(1,314,182)	(1,417,742)
VAT paid	(10,840,432)	(8,697,095)
Interest paid	(3,992,479)	(5,210,767)
Net cash flows from operating activities	**35,061,745**	**29,350,319**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, equipment and intangibles	(21,374,037)	(29,887,800)
Proceeds from sale of property and equipment	11,601	38,366
Interest received	871,394	596,123
Net cash flows used in investing activities	**(20,491,042)**	**(29,253,311)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Additional borrowings, net of repayments	(6,903,517)	10,702,275
Loans granted to employees, net of repayments	(3,052)	(110,538)
Financial placements – deposits	62,836	1,694,398
Dividends paid to the Parent Company's shareholders	(3,897,029)	(4,061,895)
Other dividends paid	(2,730,354)	(614,486)
Decrease in advance payments for rent, net	82,897	95,525
Net cash flows (used in)/ from financing activities	**(13,388,219)**	**7,705,279**
Net increase in cash and cash equivalents	1,182,484	7,802,287
Cash and cash equivalents, beginning of year	13,202,314	5,400,027
Cash and cash equivalents, end of year (Note 24)	**14,384,798**	**13,202,314**

The accompanying notes on pages 9 to 92
are an integral part of these consolidated financial statements.

1. CORPORATE INFORMATION

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

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

The Parent Company was registered in the Republic of Serbia on 29 May 1997 in accordance with the Federal Republic of Yugoslavia Company Law, as published in the Official Gazette of the FRY, no. 29 dated 26 June 1996.

In June 1997, 49 percent of the Parent Company's share capital was privatized in a direct sale process. As of that date, the entities, STET International Netherlands NV, Amsterdam ("STET") and Hellenic Telecommunications Organization A.E., Athens ("OTE") acquired 29 percent and 20 percent of the Parent Company's share capital, respectively. This transaction was duly registered with the Commercial Court of Belgrade on 13 June 1997 under inscription number Fi.-7276/97. On 20 February 2003, JP PTT concluded a Share Purchase Agreement ("SPA") with the seller, Stet International Netherlands NV, Amsterdam, whereby JP PTT purchased additional 29 percent of the share capital owned by STET and subsequently became owner of 80 percent of the share capital. This share purchase transaction was registered with the Commercial Court of Belgrade on 25 December 2003 under inscription number Fi. 13612/03. On 10 December 2004, the parties, JP PTT, OTE and the Parent Company executed a Shareholder Agreement numbered 128077/1, which represents the basis under which the mutual relations between the aforementioned parties are defined. The above Shareholder Agreement was approved by the Parent Company's Shareholders' Assembly at its 11th Special Session held in December 2004.

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

1. CORPORATE INFORMATION (Continued)

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

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

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

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

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

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

On 13 April 2007, during the license replacement procedure, the Parent Company was granted a new License for construction, possessing and exploitation of public fixed telecommunication network and rendering public fixed telecommunication services that replaced the previous one, and since that date all fees concerning the license are payable to RATEL.

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

1. CORPORATE INFORMATION (Continued)

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

At its session held on 22 December 2008, the Managing Board of RATEL brought the decisions on the fulfilment of conditions in order to issue approvals to the operators and providers in the Republic of Serbia for the provision of voice transmission service over the Internet (9 providers), for public telecommunication networks (3 providers) and for international interconnection of a public telecommunication network (3 providers). The list of the granted authorizations by RATEL was extended during the year ended 31 December 2009.

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

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

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

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

1. CORPORATE INFORMATION (Continued)

As part of the consortium with Ogalar B.V., Amsterdam, in February 2007 the Parent Company participated on an international tender of the Agency for Telecommunications and Postal Services of Montenegro, based on which special licenses for construction, possessing and exploitation of public mobile telecommunication network and rendering public mobile telecommunication services, as well as the special license for construction, possessing and exploitation of public telecommunication network and rendering public telecommunication services through fixed wireless access in radio frequency range of 3400-3600 MHz, were issued. Accordingly, on 4 April 2007, a subsidiary “Mtel” d.o.o., Podgorica, Republic of Montenegro (“Mtel”), in which the Parent Company’s equity investment totals 51% of capital, was founded. On 1 February 2010, the minority owner Ogalar B.V., Amsterdam signed an Agreement on the purchase of 49% equity interest in the Consolidated Subsidiary “Mtel“ with the Consolidated Subsidiay “Telekomunikacije Republike Srpske” a.d., Banja Luka (Note 36(c)).

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

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

At its 47th regular session held on 22 July 2009, the Managing Board of the Parent Company passed the Decision on founding the new legal entity “TS:NET BV” domiciled in Amsterdam, Holland (Note 36(b)).

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

At 31 December 2009, the Group had 14,179 employees (31 December 2008: 14,200 employees). Out of this number, the Parent Company had 9,655 employees (31 December 2008: 9,505 employees), while the Consolidated Subsidiaries had 4,524 employees (31 December 2008: 4,695 employees).

These consolidated financial statements were authorised for issue by the Managing Board of the Parent Company on XX April 2010.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis for Consolidation

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

The accompanying consolidated financial statements represent the consolidation of the annual financial statements of the Parent Company and the following domestic and foreign subsidiaries ("Consolidated Subsidiaries") as of 31 December 2009:

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

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

All inter-company transactions and balances between the Group companies are eliminated in full.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2. Basis of Preparation

The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), including International Accounting Standards (IAS) and Interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC), respectively.

The consolidated financial statements have been prepared under the historical cost convention and going concern principle.

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

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

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

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

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

- Revised IAS 1 "Presentation of Financial Statements". IAS 1 has been revised to upgrade the quality of the information presented in the financial statements. The revised standard introduces minor changes in presentation and titles of certain financial statements in the interest of comparability and consistency. The revised standard prohibits the presentation of items of income and expenses (that is, "non-owner changes in equity") in the statement of changes in equity, requiring "non-owner changes in equity" to be presented separately from owner changes in equity. All non-owner changes in equity are required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). The Group has elected to present one statement – a statement of comprehensive income. The accompanying consolidated financial statements have been prepared under the revised disclosure requirements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2. Basis of Preparation (Continued)

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

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2. Basis of Preparation (Continued)

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

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

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2. Basis of Preparation (Continued)

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

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 statement of comprehensive income (profit and loss).

- Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" – Eligible Hedged Items (effective for annual periods beginning on or after 1 July 2009). The amendments clarify that an entity is permitted to designate a portion of fair value changes or cash flow variability of a financial instrument as a hedged item.

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

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

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

- Amendments to various standards and interpretations (IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9 and IFRIC 16), which are part of the IASB's annual improvements project published in April 2009 (most of them effective for annual periods beginning on or after 1 January 2010). These amendments result both in accounting changes for presentation, recognition or measurement purposes, but primarily in removal of inconsistencies and terminology or editorial changes.

The Group will apply the above stated amendments to the standards and interpretations from 1 January 2010. The Group's management assesses the impact of the aforementioned amendments to existing standards and interpretations, and considers that their application is not expected to have a material impact on the Group's consolidated financial statements in the periods of their first application.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Comparative Figures

Comparative figures represent the audited consolidated financial statements for the year ended 31 December 2008, prepared in accordance with IFRS.

In accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", the Group restated the comparative figures to account for the effects of error adjustments as disclosed in Note 5 to these consolidated financial statements. The amounts of the corrections relating to periods prior to those included in the comparative information in the accompanying consolidated financial statements are adjusted against the opening balance of retained earnings in the earliest period presented (FY 2008).

2.4. Domestic Fixed and Mobile Telephony Income

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

2.4.1. Fixed Telephony Income

(a) Telephony Traffic

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

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

(b) Telecommunication Subscription

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

Subscriptions of the Consolidated Subsidiary "Telekom Srpske" are invoiced one month backwards and subscriptions of the Consolidated Subsidiary "Mtel" are invoiced monthly.

(c) New Subscribers

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

(d) Other Income from Telecommunication Services

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4. Domestic Fixed and Mobile Telephony Income (Continued)

2.4.2. Mobile Telephony Income

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

Prepaid services are recognized and recorded at the moment of sale of the prepaid cards, and at the end of the reporting period any unused amounts are included under "Deferred income".

2.4.3. Multi-Element Agreements (MEA)

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

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

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

2.5. Income and Expenses from International Settlements

2.5.1. 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.

2.5.2. Income and Expenses from Roaming

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

2.6. Interconnection Income and Expenses

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7. Operating Leases

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

Revenues based on operating leases are recognized in the consolidated statement of comprehensive income (profit and loss) 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 consolidated statement of comprehensive income at the moment in which such expenses arise in accordance with the relevant operating lease agreements.

2.8. Sales of Handsets and Cost of Goods Sold

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

2.9. Maintenance and Repairs

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

2.10. Borrowing Costs

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Foreign exchange gains or losses arising upon the translation of assets, liabilities and transactions are credited or debited as appropriate, to the consolidated statement of comprehensive income (Note 14).

Income or expenses arising upon the translation of assets and liabilities by applying contractual foreign currency clause are credited or debited as appropriate, to the consolidated statement of comprehensive income (Note 14).

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

(a) Assets and liabilities for each statement of financial position presented are translated at the closing rate at each reporting date;
(b) Income and expenses for each statement of comprehensive income presented are translated at average exchange rates for the period; and
(c) All resulting exchange differences are recognized in other comprehensive income (and as a separate component of equity).

2.12. Property, Plant and Equipment

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.13. Intangible Assets

Intangible assets consist of goodwill, customer relationship, software, licenses and other rights.

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

Software and licenses are stated at cost less accumulated amortization.

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

Research costs are recognized as an expense as incurred (Note 12).

2.14. Depreciation and Amortization

Depreciation and amortization of property and equipment and intangible assets are provided on a straight-line basis in order to fully write off the cost of the assets over their estimated useful lives. The depreciation and amortization of property and equipment and intangible assets are provided at rates based on the estimated useful life of property and equipment as estimated by the Group's management and adopted by the Managing Board. Competent departments of the Group revise the useful life of property and equipment periodically.

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

Property	1.5% – 20%
Equipment for fixed telephony	2.5% – 50%
Equipment for mobile telephony	5% – 25%
Transportation equipment	10% – 33.33%
Computer equipment	16.66% – 33.33%
Other equipment	6.67% – 50%

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.14. Depreciation and Amortization (Continued)

The calculation of the depreciation for tax purposes is determined by the Law on Corporate Income Tax of the Republic of Serbia and the Rules on the Manner of Fixed Assets Classification in Groups and Depreciation for Tax Purposes, i.e. by the Law on Corporate Income Tax of the Republic of Montenegro and the Republic of Srpska. Different depreciation methods used for the financial reporting purposes and the tax purposes give raise to deferred taxes (Note 15(c)).

2.15. Impairment of Non-financial Assets

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

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

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

2.16. Inventories

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.16. Inventories (Continued)

Valuation of Mobile Telephones on Stock

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

The sale of mobile phones within MEA is an activity which is executed with a view to stimulate and increase the sale volume of certain services (packages) to the new users. The mobile phones are sold at lower prices as a part of the Group's business strategy. The Group, in return, enters agreements with package users for a certain periods of time which ensure future economic benefits to the Group. The Group expects to compensate for the cost of a mobile telephone which is 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. 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 Group's statement of financial position on the date upon which the Group becomes counterparty to the contractual provisions of a specific financial instrument.

2.17.1. Financial Assets

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

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

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

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

(a) Other Non-Current Financial Assets

Other non-current financial assets include the long-term interest-free receivables from employees based on approved 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.17. Financial Instruments (Continued)

2.17.1. Financial Assets (Continued)

(a) Other Non-Current Financial Assets (Continued)

Employee residential loans are measured based on their amortized cost using the interest rate at which the Group could obtain long-term borrowings, which is approximately the effective interest rate. Other non-current financial assets also encompass rental payments in advance measured at amortized cost.

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

(b) Accounts Receivable

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

A provision for impairment is made on the basis of the ageing of the receivables balances and historical experience, and when the partial or full collection of an account receivable is deemed to be no longer probable. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of loss is recognised in the consolidated statement of comprehensive income within “Other operating expenses” (Note 12). When a receivable is uncollectible, it is written off against the allowance account for accounts receivable. Subsequent recoveries of amounts previously written off and reversal of the impairment are credited to “Other operating income” (Note 7).

2.17.2. Financial Liabilities

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

Financial liabilities are derecognized when the Group fulfils the obligations, or when the contractual repayment obligation has either been cancelled or has expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of the existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of comprehensive income.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.17. Financial Instruments (Continued)

2.17.2. Financial Liabilities (Continued)

(a) Loans Received from Banks and Suppliers

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

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

(b) Operating Liabilities

Obligations towards suppliers and other current liabilities are measured at the amount of the consideration received.

2.17.3. Offsetting Financial Instruments

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

2.18. Accrued Expenses and Income

Accruals are primarily comprised of the computed and unbilled income for services performed during the current 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 differed income, are recorded within accruals.

2.19. Cash and Cash Equivalents

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

2.20. Granted Assets

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21. Provisions and Contingencies

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

Provisions for retirement benefits and jubilee awards are measured at the present value of the estimated future cash outflows using interest rates of high-quality securities that are denominated in the currency in which the benefits will be paid (Note 27). Provisions for legal proceedings represent the Group management's best estimates of the expenditures required to settle such obligations.

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

2.22. Employee Benefits

(a) *Employee Taxes and Contributions for Social Security*

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.22. Employee Benefits (Continued)

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

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

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

Total Number of Service Years	Number of Salaries	
	Parent Company	Consolidated Subsidiary "Telekom Srpske"
10	½	1
20	1	2
30	2	3
35	3	-

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

(c) Termination of Employment (Voluntary Resignations)

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

The financing for the aforementioned employees' reductions was provided from the Parent Company's budget for fiscal year 2007 and the distribution of funds was made based on the declared voluntary redundancy contest conducted in 2007 and 2008, in accordance with the provisions stated under this act and in other applicable Parent Company's acts. The Parent Company has not anticipated funds for this purpose for the year 2010.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.22. Employee Benefits (Continued)

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

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

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

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

The benefit amount in Consolidated Subsidiary “Telekom Srpske” is determined based on a number of the remaining months until regular retirement, multiplied by the gross salary amount, as summarized in the table below:

Number of Years Until Retirement	Number of Maximum Gross Salaries for Men	Number of Maximum Gross Salaries for Women
< 1	13.4	13.4
1 – 2	26.6	20.6
2 – 3	38.6	26.6
3 – 5	48.2	31.4
5 – 8	55.4	42.2
8 – 10	57.8	54.2
> 10	1.93 Per employment year	1.80 Per employment year

The maximal individual amount of one-off payment, based on the sum of gross salaries, cannot exceed KM 60,000 (EUR 30,677).

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.22. Employee Benefits (Continued)

(d) Short-Term Compensated Absences

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

(e) Employee Profit-Sharing

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

2.23. Taxes and Contributions

(a) Income Taxes

Current Income Tax

Current income tax represents an amount that is calculated and paid in accordance with the effective Corporate Income Tax Law of the Republic of Serbia, Income Tax Law of the Republic of Srpska and the Corporate Income Tax Law of the Republic of Montenegro. Income tax is payable at the rate of 10% in the Republic of Serbia and the Republic of Srpska, i.e. 9% in the Republic of Montenegro on the tax base reported in the corporate income tax return.

The taxable base stated in the Tax returns includes the profit stated in the statement of comprehensive income, as adjusted for differences that are specifically defined under the effective tax regulations of the Republic of Serbia, Republic of Srpska and Republic of Montenegro.

In the Republic of Serbia, income tax in the current tax period can be reduced by the amount equal to 100% of the gross salaries of new, permanently employed workers, as increased by social contributions payable by the employer. The Law on Corporate Income Tax of the Republic of Montenegro provides for the decrease of tax base by the amount of gross salaries of new employees, employed on permanent basis, as increased by social contributions payable by the employer. This tax relief can be used within one-year period from the employment date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.23. Taxes and Contributions (Continued)

(a) Income Taxes (Continued)

Current Income Tax (Continued)

In accordance with the Law on Corporate Income Tax of the Republic of Serbia, tax credits are recognized in the amount equal to 20% of the investment in property and equipment made, and can be used for setting off against future current tax liability in the amount that cannot exceed 50% of current tax liability. The tax credits in respect of investments in property and equipment can be used in the next ten years.

Tax regulations prevailing in the Republic of Montenegro do not envisage such tax relief, while tax regulations prevailing in the Republic of Srpska envisage such tax relief only for production registered activities.

The tax regulations in the Republic of Serbia, the Republic of Srpska and the Republic of Montenegro do not envisage that any tax losses of the current period be used to recover taxes paid within a specific carry back period. However, any current year losses may be used to reduce or eliminate taxes to be paid in future periods, but only for duration of no longer than ten ensuing years in the Republic of Serbia, i.e. five years in the Republic of Srpska and the Republic of Montenegro.

Deferred Income Tax

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

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

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

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

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

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

Taxes, contributions and other duties that are not related to the Group's operating result, include property taxes, employer contributions on salaries, and various other taxes and contributions paid pursuant to republic and municipal regulations. These taxes and contributions are included within other operating expenses (Note 12).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.24. Earning per Share

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

2.25. Dividends on Ordinary Shares

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

2.26. Related Party Disclosures

For the purpose of these consolidated financial statements related legal entities are those entities when one legal entity has a possibility to control another entity or have the right to govern the financial and business operations of the entity, as defined by IAS 24 “Related Party Disclosures”.

Relations between the Group and its related parties are regulated at contractual basis and are carried out on commercial terms and conditions. Outstanding balances of receivables and liabilities at the reporting date, as well as transactions occurred during the reporting periods with related parties are separately disclosed in notes to the consolidated financial statements (Note 32).

2.27. Operating Segment Information

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

Common costs allocation is based on the Group’s management best estimation.

The segment information for the reportable operating segments, based on the Group’s organization of business activities, is disclosed in Note 35.

3. FINANCIAL RISK MANAGEMENT

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

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

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

	2009	2008 Restated
Financial assets		
Other non-current financial assets (excluding rentals)	1,515,981	1,326,602
Trade and other receivables, excluding prepayments and accrued income	17,447,506	15,993,526
Cash and cash equivalents	14,384,798	13,202,314
	33,348,285	**30,522,442**
Financial liabilities		
Borrowings	87,151,535	94,055,052
Payables and other current liabilities, including income tax payable	13,534,422	14,531,869
	100,685,957	**108,586,921**

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

3.1. Market Risk

(a) Currency Risk

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

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

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

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1. Market Risk (Continued)

(a) Currency Risk (Continued)

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

At 31 December 2009, if the local currency (RSD) has strengthened/weakened by 10% against all currencies other than functional currency (i.e. RSD/EUR exchange rate was RSD 86.2999/105.4777) with all other variables held constant, profit after tax for the year 2009 would have been RSD 6,354,357 thousand (2008: RSD 7,736,351 thousand) higher/lower, mainly as a result of foreign exchange gains/losses on translation of borrowings denominated in foreign currencies and receivables/liabilities from international settlement that mostly relate to the Parent Company. Profit is less sensitive to fluctuations in foreign currency rates during the year ended 31 December 2009 than in 2008 due to decrease in EUR denominated borrowings, influencing consequently equity at 31 December 2009.

At 31 December 2009, financial assets in the amount of RSD 11,268,243 thousand (31 December 2008: RSD 11,190,127 thousand) are denominated in EUR, which represents 59.7% (2008: 60.8%) of the total financial assets of the Group denominated in foreign currencies.

At 31 December 2009, financial liabilities denominated in EUR amount to RSD 83,257,058 thousand (31 December 2008: RSD 90,419,595 thousand), which represents 93.5% (2008: 94.6%) of the total financial liabilities of the Group denominated in foreign currencies.

(b) Interest Rate Risk

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

The Group’s interest rate risk arises mainly from long-term borrowings from banks and suppliers.

Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

During 2009 and in 2008, the majority of the Group’s borrowings (99%) were granted at variable interest rates, which are tied to Euribor. The Group’s borrowings at variable rate were mainly denominated in the foreign currency (EUR).

The Parent Company’s financial policies define that gross interest rate accrued on loans granted by suppliers cannot exceed the rate equal to Euribor increased by margin up to 1.8% per annum; while for contracts stated in domestic currency, adjustment of prices is performed on the basis of consumer price index (CPI) growth over 5% only during the grace period.

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1. Market Risk (Continued)

(b) Interest Rate Risk (Continued)

The gross interest rates of the Consolidated Subsidiaries range within the abovementioned rates, except for the loans granted to the Consolidated Subsidiary "Telekom Srpske" and "Mtel" with interest rates on long-term cash and commodity loans not exceeding Euribor increased by 2.5% per annum. In addition, a long-term loan granted by Hypo Alpe-Adria-Bank a.d., Podgorica to the the Consolidated Subsidiary "Mtel" bears interest at the rate equal to Euribor increased by margin up to 5.5% per annum. A short-term loan granted by NLB Montenegro banka a.d. Podgorica to the Consolidated Subsidiary "Mtel" bears interest at the rate of 9% per annum.

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

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

At 31 December 2009, if interest rates on currency-denominated borrowings at that date (both from banks and suppliers) had been 0.1 percentage point higher/lower on an annual basis with all other variables held constant, profit after tax for the year 2009 would have been RSD 67,967 thousand (2008: RSD 85,304 thousand) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

At 31 December 2009, if interest rates on RSD-denominated commodity loans had been 0.1 percentage point higher/lower on an annual basis with all other variables held constant, profit after tax for the year 2009 would have been RSD 9,656 thousand (2008: RSD 7,480 thousand) lower/higher, mainly as a result of higher/lower interest expense.

(c) Price Risk

The Group is not exposed to equity securities price risk because it does not have significant investments classified in the consolidated statement of financial position either as available-for-sale or at fair value through statement of comprehensive income.

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

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

3. FINANCIAL RISK MANAGEMENT (Continued)

3.2. Liquidity Risk

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

The Group has sufficient highly liquid funds (cash and cash equivalents), as well as a continuous inflow of cash from services rendered, to meet its commitments on due dates. The Group generally does not use financial derivatives.

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

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

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

Similar limits have been established in the Consolidated Subsidiaries.

Maturity structure of borrowings is presented in Note 28(b), while liabilities towards suppliers (Note 29) are payable within 12 months after the reporting period.

3. FINANCIAL RISK MANAGEMENT (Continued)

3.2. Liquidity Risk (Continued)

The following table details the Group's remaining contractual maturity for its non-derivative financial assets and liabilities as of 31 December 2009 and 2008.

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

	Up to 3 month	From 3 to 12 months	From 1 to 2 years	From 2 to 5 years	Over 5 years	Total
Financial assets						
At 31 December 2009						
Non-interest bearing	28,796,058	534,367	809,893	578,591	1,247,872	31,966,781
Fixed interest rate instruments	9,908,430	1,347,442	199,708	906	177,129	11,633,615
Total	**38,704,488**	**1,881,809**	**1,009,601**	**579,497**	**1,425,001**	**43,600,396**
At 31 December 2008, restated						
Non-interest bearing	28,263,229	495,577	101,837	326,346	1,265,868	30,452,857
Fixed interest rate instruments	5,014,214	1,432,010	5,170	-	132,372	6,583,766
Total	**33,277,443**	**1,927,587**	**107,007**	**326,346**	**1,398,240**	**37,036,623**
Financial liabilities						
At 31 December 2009						
Non-interest bearing	13,980,561	433,887	338,277	42,992	-	14,795,717
Fixed interest rate instruments	1,110,347	1,097,232	1,901,079	2,643,866	1,109,364	7,861,888
Fluctuating interest rate instruments	4,543,022	23,405,045	19,646,856	32,793,300	2,628,773	83,016,996
Total	**19,633,930**	**24,936,164**	**21,886,212**	**35,480,158**	**3,738,137**	**105,674,601**
At 31 December 2008, restated						
Non-interest bearing	13,054,970	1,476,907	49,945	4,951	-	14,586,773
Fixed interest rate instruments	999,972	1,087,684	2,000,421	2,231,962	761,385	7,081,424
Fluctuating interest rate instruments	3,290,462	33,740,914	15,852,951	40,046,081	3,602,607	96,533,015
Total	**17,345,404**	**36,305,505**	**17,903,317**	**42,282,994**	**4,363,992**	**118,201,212**

3. FINANCIAL RISK MANAGEMENT (Continued)

3.2. Liquidity Risk (Continued)

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

	Up to 3 month	From 3 to 12 months	From 1 to 2 years	From 2 to 5 years	Over 5 years	Total
At 31 December 2009						
Interest-bearing loans and borrowings	5,599,294	24,448,563	21,547,935	35,441,367	3,738,137	90,775,296
Accounts payable	10,438,149	393,998	338,277	38,791	-	11,209,215
Other current liabilities	3,596,487	93,603	-	-	-	3,690,090
Total	**19,633,930**	**24,936,164**	**21,886,212**	**35,480,158**	**3,738,137**	**105,674,601**
At 31 December 2008, restated						
Interest-bearing loans and borrowings	4,290,434	34,828,597	17,853,372	42,282,994	4,363,992	103,619,389
Accounts payable	10,855,904	1,365,352	49,945	-	-	12,271,201
Other current liabilities	2,199,066	111,556	-	-	-	2,310,622
Total	**17,345,404**	**36,305,505**	**17,903,317**	**42,282,994**	**4,363,992**	**118,201,212**

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

3.3. Credit Risk

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

The Group is exposed to credit risk to a limited degree. Credit risk is managed by taking certain measures and activities on individual basis of the Group's entities, which are appropriate to their activities. In case of default in payments, the Group's entities disable further rendering of services to the customers.

In addition, the Group has no significant concentrations of credit risk, due to its customer base being large, with individually small amounts, and unrelated. Besides disabling further rendering of services, in order to secure payments, the Group also carries out the following actions: rescheduling of debts, compensations with corporate customers, initializing lawsuit, out-of-court settlements and other.

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

3. FINANCIAL RISK MANAGEMENT (Continued)

3.4. Capital Risk Management

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

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

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital.

The gearing ratios at 31 December 2009 and 2008 were as follows:

	2009	2008 Restated
Total non-current and current borrowings	87,151,535	94,055,052
Less: Cash and cash equivalents (Note 24)	(14,384,798)	(13,202,314)
Net debt*	**72,766,737**	**80,852,738**
Capital	139,153,567	125,945,918
Total capital**	**211,920,304**	**206,798,656**
Gearing ratio	**34.3%**	**39.1%**

* *Net debt is calculated as total borrowings (including current and non-current borrowings as shown in the consolidated statement of financial position) less cash and cash equivalents.*

** *Total capital is calculated as equity as shown in the consolidated statement of financial position plus net debt.*

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

3.5. Judgements on the Effects of the Global Financial Crisis

The effects of the ongoing global financial crisis started to become felt in the Republic of Serbia the neighbouring countries in the last quarter of 2008, first impacting the banking sector through a significant withdrawal of the deposits in retail banking, which had a further impact on the general liquidity crisis, fluctuation and decrease in the exchange rate of the dinar against foreign currencies and decrease in the commercial activities and the purchasing power of the population and economy.

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

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

The Group continuously examines the economic parameters and assumptions necessary for further coordination of its activities with the situation caused by the global financial crisis. These examinations encompass the impact of the crisis on the following the most important areas:

- *The effect of the crisis to the current and future liquidity* (primarily by the end of 2010) from the standpoint of collection of receivables from debtors whose liquidity and solvency cannot be estimated at present; the Group's ability to settle liabilities toward suppliers and banks; and the possibility of obtaining favourable sources of financing for overcoming critical situations. The Group's management does not expect significant problems in collection of its receivables in the future period and in cash flows, but considers that the liquidity risk management and securing the appropriate sources of financing will be the key determination of the management and the governing bodies of the Group in future.

- *The effect of the crisis to the settlement of liabilities arising from loans extended in dinars, and, especially, in foreign currencies.* Although the Group's current liabilities as of 31 December 2009 exceed its current assets by RSD 14,737,166 thousand, the Group does not have liquidity problems, and/or problems with settlement of its liabilities. In December 2008, the Parent Company repaid the portion of debt arising from the credit Arrangement C from Citibank N.A., London in the amount of EUR 110 million before it was due. In December 2009, the Parent Company repaid the remaining outstanding debt of EUR 190 million per Arrangement C and part of the debt per Arrangement A in the amount of EUR 69.96 million. In addition, in December 2009, the Parent Company made an early repayment of long-term commodity loans from domestic suppliers of RSD 1.76 billion. Moreover, the Group has considerable equity, which can also mitigate market risks. The management expects that the Group will be able to fulfil all its contracted liabilities arising from extended loans in accordance with the contracted terms.

The effects of the global financial crisis so far have had a limited impact on the Group's operations and its performance. One of the reasons for such situation is that despite the fact that the information-communication technology sector is not among the most affected sectors, the Group has passed a set of measures in accordance with its risk management policies for the purposes of maintaining the satisfactory level of collection of receivables, liquidity and securing appropriate sources of financing, primarily for the settlement of borrowings in the future period.

3. FINANCIAL RISK MANAGEMENT (Continued)

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

The management deems that, in the given circumstances, it undertakes all necessary measures in order to secure the sustainable growth and development of the Group. Furthermore, the management cannot reliably estimate the further effects of the crisis to the economic environment in the Republic of Serbia and the neighbouring countries, or the impact on the financial position and the results of the Group's operations, but they consider that the crisis will not affect the Group's ability to continue as a going concern.

3.6. Fair Value Estimation

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

The Group does not have materially significant financial assets or financial liabilities carried at fair value in the consolidated statement of financial position. Securities available-for-sale, which comprise shares of banks listed in an active market, amounts to RSD 446 thousand as of 31 December 2009. The fair value of the financial instruments traded in active markets is based on quoted market prices at the reporting date. These instruments are included in level 1 of the fair value measurement hierarchy.

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 Group could obtain long-term loans, and which approximates the effective interest rate. The Group's management considers that the carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments. Such fair value does not significantly differ from the carrying amount of borrowings stated in the Group's consolidated financial statements.

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

Use of Estimates and Assumptions

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

Useful Lives of Intangible Assets, Property and Equipment

The determination of the useful lives of intangible assets, property and equipment is based on historical experience with similar assets as well as any anticipated technological development and changes in broad economic or industry factors. The appropriateness of the estimated useful lives is reviewed annually, or whenever there is an indication of significant changes in the underlying assumptions. The management of the Group believes that the accounting estimate related to the determination of the useful lives of intangible assets, property and equipment is a critical accounting estimate since it involves assumptions about technological development in an industry. Further, due to the significant weight of long-lived assets in the total assets, the impact of any changes in these assumptions could be material to the Group's financial position, and the results of its operations. As an example, if the Group was to shorten the average useful life for 10%, this would result in additional depreciation expense of approximately RSD 1,404,718 thousand for the twelve-month period.

Impairment of Non-Financial Assets

At each reporting date, the Group's management reviews the carrying amounts of the Group's intangible assets and property and equipment presented in the consolidated financial statements. If there is any indication that such assets have been impaired, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying value, the carrying amount of the asset is reduced to its recoverable amount. An impairment review requires Group's management to make subjective judgements concerning the cash flows, growth rates and discount rates of the cash generating units under review.

Impairment of Goodwill

The Group annually performs goodwill impairment test for the purpose of review if there is any indication of goodwill impairment in accordance with accounting policy disclosed in Note 2.13. The recoverable amount of cash generating units (CGU) has been determined based on fair value calculation, applying the income approach through Discounted Cash Flow method. IAS 36 "Impairment of Assets" defines the recoverable amount as the higher of CGU's fair value less costs to sell and its value in use. If it is determined that either fair value less costs to sell or value in use exceeds the asset's carrying amount, the asset is not impaired and it is not necessary to estimate the other amount. These calculations require the use of estimates (Note 16). If predicted discount rate before taxation applied to discounted cash flows was 1% higher than rate estimated by management (for example for fixed telephony 11.85% instead of 10.85%, for mobile telephony 13.60% instead of 12.60%, and for internet segment 14.69% instead of 13.69%), there would be no indications of goodwill impairment as of 31 December 2009.

4. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Impairment of Accounts Receivable and Other Receivables

The Group calculates impairment for doubtful receivables based on estimated losses resulting from the inability of its customers and other debtors to make required payments. The Group bases its estimate on the aging of the account receivables balance and its historical write-off experience, customer credit-worthiness and changes in its customer payment terms when evaluating the adequacy of the impairment loss for doubtful accounts. These involve assumptions about future customer behaviour and the resulting future cash collections.

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

Accounting for Provisions and Contingencies

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

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

Deferred Tax Assets

Deferred tax assets are recognized for all unused tax credits and tax losses available for carry forward to the extent to which taxable profit will be available against which the unused tax credits and tax losses can be utilized. Significant estimate of the management is necessary to determine the amount of deferred tax assets which can be recognized, based on the period of in which it was created and the amount of future taxable profits and the tax policy planning strategy (Note 15(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.

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 237,051 thousand lower or RSD 216,301 thousand higher.

5. OPENING BALANCE ADJUSTMENTS

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

	2008 Previously stated	Adjustments	2008 Restated
OPERATING INCOME			
Sales	103,043,550	(2,687)	103,040,863
Other operating income	2,288,892	82	2,288,974
	105,332,442	**(2,605)**	**105,329,837**
OPERATING EXPENSES			
Wages, salaries and other personnel expenses	(17,415,458)	(14,983)	(17,430,441)
Charges of other network operators	(13,448,586)	(6,154)	(13,454,740)
Costs of material and maintenance	(10,424,495)	(141,571)	(10,566,066)
Depreciation and amortization	(20,530,753)	(126,521)	(20,657,274)
Rental costs	(3,894,678)	(1,560)	(3,896,238)
Other operating expenses	(16,885,170)	21,487	(16,863,683)
	(82,599,140)	**(269,302)**	**(82,868,442)**
OPERATING PROFIT	**22,733,302**	**(271,907)**	**22,461,395**
FINANCE INCOME/(EXPENSES)			
Interest expense, net	(4,187,454)	(92,647)	(4,280,101)
Foreign exchange losses, net	(8,279,481)	(2,418)	(8,281,899)
Other financial income	188,482	-	188,482
	(12,278,453)	**(95,065)**	**(12,373,518)**
PROFIT BEFORE INCOME TAX	**10,454,849**	**(366,972)**	**10,087,877**
Income tax expense	(975,987)	9,334	(966,653)
PROFIT FOR THE YEAR	**9,478,862**	**(357,638)**	**9,121,224**
OTHER COMPREHENSIVE INCOME:			
Fair value gains on available-for-sale financial assets, net	410	-	410
Currency translation differences	8,207,372	-	8,207,372
Other comprehensive income, net of tax	**8,207,782**	**-**	**8,207,782**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**17,686,644**	**(357,638)**	**17,329,006**

5. OPENING BALANCE ADJUSTMENTS (Continued)

(b) Effects of Adjustments on the Consolidated Statement of Financial Position as of 31 December 2008

	2008 Previously stated	Adjustments	2008 Restated
ASSETS			
Non-current assets			
Intangible assets	59,601,015	(29,463)	59,571,552
Property, plant and equipment	149,943,688	(147,189)	149,796,499
Advances for property and equipment	610,019	2	610,021
Equity investments	18	-	18
Other non-current financial assets	1,810,061	(36)	1,810,025
Deferred tax assets	1,037,340	24,838	1,062,178
	213,002,141	**(151,848)**	**212,850,293**
Current assets			
Inventories	8,194,945	8,538	8,203,483
Accounts receivable	13,900,291	(1,287)	13,899,004
Other current assets and prepayments	3,502,919	(12,603)	3,490,316
Accrued income	1,380,443	(226)	1,380,217
Cash and cash equivalents	13,202,314	-	13,202,314
	40,180,912	**(5,578)**	**40,175,334**
TOTAL ASSETS	**253,183,053**	**(157,426)**	**253,025,627**
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	82,512,552	-	82,512,552
Other capital	8,588	-	8,588
Reserves	767,151	-	767,151
Foreign currency translation reserve	4,966,882	(3,812)	4,963,070
Retained earnings	20,636,660	(870,420)	19,766,240
	108,891,833	**(874,232)**	**108,017,601**
Minority interest	**17,978,536**	**(50,219)**	**17,928,317**
Total equity	**126,870,369**	**(924,451)**	**125,945,918**
Non-current liabilities			
Deferred income	4,151,509	451	4,151,960
Provisions	2,534,861	-	2,534,861
Deferred tax liabilities	2,084,701	14,742	2,099,443
Borrowings	58,487,632	-	58,487,632
	67,258,703	**15,193**	**67,273,896**
Current liabilities			
Current portion of non-current borrowings	35,368,334	-	35,368,334
Other current borrowings	199,086	-	199,086
Accounts payable	12,118,171	153,030	12,271,201
Other current liabilities and accruals	11,268,823	598,802	11,867,625
Income tax payable	99,567	-	99,567
	59,053,981	**751,832**	**59,805,813**
TOTAL EQUITY AND LIABILITIES	**253,183,053**	**(157,426)**	**253,025,627**

5. OPENING BALANCE ADJUSTMENTS (Continued)

(c) Reconciliation of Retained Earnings Attributable to Equity Holders of the Parent as of 31 December 2008, Before and After Adjustments

Retained earnings as of 31 December 2008 (previously reported)	**20,636,660**
Subsequent adjustments for prior periods' errors recorded as of 1 January 2009:	
- Affecting 2008	(311,212)
- Affecting periods prior to 2008	(559,208)
Total effects of adjustments	**(870,420)**
Retained earnings as of 31 December 2008, restated	**19,766,240**
Subsequent adjustments for prior periods' errors as of 1 January 2008:	
- Previously reported adjustments of errors as of 1 January 2008	(5,558,390)
- Additional correction of errors in 2009, affecting periods prior to 2008	(559,208)
Total effects of adjustments	**(6,117,598)**

6. SALES

	2009	2008 Restated
Fixed telephony services:		
Domestic market	35,140,213	34,842,423
Foreign market	13,813,511	12,773,685
Related parties	457,636	503,124
	49,411,360	**48,119,232**
Mobile telephony services:		
Domestic market	36,859,645	36,205,503
Foreign market	19,157,825	15,470,517
Related parties	85,551	94,541
	56,103,021	**51,770,561**
Sales of internet services:		
Domestic market	3,265,584	1,623,057
Foreign market	678,516	226,141
Related parties	-	1,627
	3,944,100	**1,850,825**
Multimedia services (IPTV):		
Domestic market	75,416	348
	75,416	**348**
Physical/technical security and cleaning:		
Related parties	512,820	633,695
Others	89,589	77,536
	602,409	**711,231**
Sales of handsets:		
Domestic market	299,272	588,666
	299,272	**588,666**
Total	**110,435,578**	**103,040,863**

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

6. SALES (Continued)

Structure by sales category is presented in the table below:

	2009	2008 Restated
Fixed telephony services:		
Traffic	29,418,668	32,347,110
Subscription	9,514,646	5,876,692
Leased circuit and data services	4,421,832	3,758,583
Connection and installation services	941,021	1,395,134
Interconnection	2,492,989	2,015,736
Wholesale of internet services	2,069,977	2,447,201
CDMA services	305,768	-
Other	246,459	278,776
	49,411,360	**48,119,232**
Mobile telephony services:		
Prepaid services	25,838,243	24,577,350
Postpaid services	*18,846,274*	*17,620,122*
- Traffic	11,029,964	9,974,827
- Subscription	7,816,310	7,645,295
Interconnection	5,655,098	4,720,650
National roaming – VIP Mobile d.o.o., Belgrade	2,122,672	1,681,129
Roaming	3,524,947	3,127,961
Other	115,787	43,349
	56,103,021	**51,770,561**
Retail of internet services	**3,944,100**	**1,850,825**
Multimedia services (IPTV)	**75,416**	**348**
Physical/technical security and cleaning:		
Physical/technical security	335,501	357,037
Cleaning	265,799	354,194
Other	1,109	-
	602,409	**711,231**
Sales of handsets:		
ISDN devices	2,186	61,834
Mobile phones	297,086	526,832
	299,272	**588,666**
Total	**110,435,578**	**103,040,863**

7. OTHER OPERATING INCOME

	2009	2008 Restated
Granted assets:		
- Intangible assets and equipment (Note 26)	464,374	521,612
- Inventories	-	3,196
	464,374	**524,808**
Reversal of impairment losses (Note 12(c))	1,299,096	798,350
Income arising from the Agreements entered into with the Government of the Republic of Srpska	221,584	-
Rental income	204,615	167,923
Gains on sale of material and waste material	41,030	127,128
Gains on sale of intangible assets, property and equipment	12,044	62,913
Damage compensations	46,028	58,580
Revenue from charged court dispute	66,309	56,151
Release of provision (Note 27)	71,846	25,588
Recoveries of bad debt	5,685	14,094
Other income	1,074,662	453,439
Total	**3,507,273**	**2,288,974**

8. WAGES, SALARIES AND OTHER PERSONNEL EXPENSES

	2009	2008 Restated
Gross salaries	12,115,370	10,769,976
Contributions on behalf of the employer	2,640,124	2,233,960
	14,755,494	**13,003,936**
Employee profit-sharing	1,077,027	1,161,528
Withholding tax	269,257	290,382
	1,346,284	**1,451,910**
Retirement benefits for voluntary termination	390,275	1,236,310
Other personnel expenses	2,199,854	1,738,285
Total	**18,691,907**	**17,430,441**

9. CHARGES OF OTHER NETWORK OPERATORS

	2009	2008 Restated
Interconnection:		
- Fixed telephony	3,070,471	3,182,181
- Mobile telephony	4,886,287	4,143,257
International settlement and leased circuits	3,622,264	3,517,295
Roaming	2,720,945	2,612,007
Total	**14,299,967**	**13,454,740**

10. COST OF MATERIAL AND MAINTENANCE

	2009	2008 Restated
Material for rendering services	2,854,913	3,173,713
Fuel and energy	1,200,688	1,069,988
Material consumed	260,418	429,185
SIM cards	179,293	213,018
Spare parts	258,963	153,634
ADSL modems	584,479	397,126
PCMCI cards	134,930	71,808
Tools and inventories	51,497	43,110
Other material	619,974	479,487
	6,145,155	**6,031,069**
Cost of goods sold	426,426	752,600
Maintenance expenses	3,902,814	3,682,885
Transport expenses	118,419	99,512
Total	**10,592,814**	**10,566,066**

11. DEPRECIATION AND AMORTIZATION

	2009	2008 Restated
Amortization charge (Note 16)	4,015,010	3,832,707
Depreciation charge (Note 17)	19,048,037	16,824,567
Total	**23,063,047**	**20,657,274**

12. OTHER OPERATING EXPENSES

	2009	2008 Restated
Telecommunication license fees, approvals and frequency fees:		
GSM license (a)	410,970	427,581
License for fixed telephony (b)	84,702	76,675
Radio frequency, RRL, RBS and other fees	617,781	367,376
	1,113,453	**871,632**
Marketing, advertisement and sponsorship fees	3,615,126	3,068,488
Allowances for impairment of advances paid and receivables (c)	5,218,732	3,126,076
Consignment sale fees	2,385,694	2,101,857
Postal and printing services	1,520,192	1,433,985
Indirect taxes	1,055,078	1,070,780
Hygiene and security services	90,698	95,532
Insurance premiums	545,593	576,472
Losses on sale and disposal of intangible assets, property and equipment	199,693	503,654
Losses on sale material and goods	319,967	56,555
Software license	180,772	135,976
Youth employment expenses	365,639	472,720
Provision for retirement benefits and jubilee awards (Note 27) (d)	276,985	387,727
Provision for litigations (Note 27)	31,934	97,459
Grants and donations	207,787	331,914
Bank charges	383,754	349,695
Fees and charges	397,363	256,228
Public utility services and heating	280,216	224,245
Education and professional training	193,573	274,346
Audit fee and other professional services	156,455	183,721
Fair value adjustment – employee loans	51,670	-
Data processing fees	70,660	103,200
Entertainment	97,527	115,453
Other	1,039,158	1,025,968
Total	**19,797,719**	**16,863,683**

(a) GSM/UMTS licenses fee amounting to RSD 410,970 thousand for the year ended 31 December 2009 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 Telecommunication (RATEL) to the Parent Company on 28 July 2006 in the amount of RSD 319,411 thousand, and the fee in the amount of RSD 91,559 thousand that the Consolidated Subsidiary “Mtel” accrued for the GSM/UMTS license granted by the Agency for Telecommunications and Postal Services of the Republic of Montenegro.

10. OTHER OPERATING EXPENSES (Continued)

(b) On 13 April 2007, the Parent Company was granted a new License for construction, possessing and exploitation of public fixed telecommunication network and rendering public fixed telecommunication services by RATEL that replaced the previous one, obtained in 1997. The license is issued for the period throughout 9 June 2017 and the Parent Company may, in six months notice prior to the expiration of this period, submit the request for extension of the existing license. License fee for various services is calculated starting from the issuance date and predominantly amounts to 0.1% of total revenue from services the licence was issued for. The fee for year ended 31 December 2009 amounts to RSD 42,332 thousand (2008: RSD 38,897 thousand).

The Consolidated Subsidiary "Mtel" calculates and pays a monthly fee for WiMax license in the amount equal to 1% of revenue generated in the previous month from services the license relates to. The fee for year ended 31 December 2009 amounts to RSD 4,394 thousand (2008: RSD 1,005 thousand).

The Consolidated Subsidiary "Telekom Srpske" calculates and pays "Fee for the usage of the License for public fixed telephony operator and for work in relation to management and monitoring of the license" to the Communications Regulatory Agency of Bosnia and Herzegovina. The fee for year ended 31 December 2009 amounts to RSD 37,976 thousand (2008: RSD 36,773 thousand).

(c) Movements in the allowance for impairment of advances paid and receivables during the year were as follows:

	Advances for property and equipment (Note 18)	Trade receivables (Note 21)	Advances for goods and services (Note 21)	Other current assets (Note 22)	Total
Balance as of 1 January 2008	**153,833**	**4,217,422**	**46,906**	**492,574**	**4,910,735**
Charge for the year	194,203	2,883,308	23,415	25,150	3,126,076
Reversal of impairment losses (Note 7)	(250,914)	(509,971)	(27,805)	(9,660)	(798,350)
Transfer out of the books based on the year-end count	-	(229,297)	(773)	(1,898)	(231,968)
Other movements	129	164,317	77	6,498	171,021
Transfer (from)/to	-	15,612	-	(15,612)	-
Balance as of 31 December 2008, restated	**97,251**	**6,541,391**	**41,820**	**497,052**	**7,177,514**
Charge for the period	120,013	5,012,650	50,606	35,463	5,218,732
Reversal of impairment losses (Note 7)	(130,414)	(1,092,412)	(54,423)	(21,847)	(1,299,096)
Transfer out of the books based on the year-end count	-	(374,416)	-	(1,686)	(376,102)
Other movements	100	136,954	39	6,988	144,081
Transfer (from)/to	(3,385)	14,328	3,385	(14,328)	-
Balance as of 31 December 2009	**83,565**	**10,238,495**	**41,427**	**501,642**	**10,865,129**

(d) Provision for retirement benefits and jubilee awards relate to non-current benefits made for employees of the Parent Company and the Consolidated Subsidiaries.

13. INTEREST EXPENSE, NET

	2009	2008 Restated
INTEREST INCOME		
Cash and cash equivalents	793,712	557,018
Short-term deposits	89,032	141,552
Penalty interest on receivables	486,670	498,545
Total	**1,369,414**	**1,197,115**
INTEREST EXPENSE		
Borrowings:		
- in the country	(365,271)	(489,910)
- abroad	(3,271,112)	(4,810,202)
Penalty interest on trade payables	(408,855)	(177,104)
Total	**(4,045,238)**	**(5,477,216)**
Interest expense, net	**(2,675,824)**	**(4,280,101)**

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

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

14. FOREIGN EXCHANGE LOSSES, NET

	2009	2008 Restated
FOREIGN EXCHANGE GAINS		
Foreign exchange gains	1,030,912	8,263,729
Gains from foreign currency clause application	763,386	990,474
Total	**1,794,298**	**9,254,203**
FOREIGN EXCHANGE LOSSES		
Foreign exchange losses	(6,596,835)	(15,617,275)
Losses from foreign currency clause application	(1,186,900)	(1,918,827)
Total	**(7,783,735)**	**(17,536,102)**
Foreign exchange losses, net	**(5,989,437)**	**(8,281,899)**

15. INCOME TAXES

(a) Components of Income Taxes

	2009	2008 Restated
Current tax expense	1,107,545	1,176,074
Deferred tax income	(124,570)	(209,421)
Total income tax expense	**982,975**	**966,653**

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

	2009	2008 Restated
Profit before tax	**14,296,538**	**10,087,877**
Income tax at prescribed rates	**1,435,250**	**1,015,204**
Non-deductible expenses	528,469	527,422
Income reconciliation	70,583	1,420
Utilized tax credits	(1,051,327)	(577,393)
Income tax expense	**982,975**	**966,653**
Effective tax rate	*6.9%*	*9.6%*

(c) Deferred Tax Assets/Liabilities

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

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

	2009	2008 Restated
Balance as of 1 January, restated	**1,062,178**	**900,886**
Exchange differences credited to the statement of comprehensive income	25,540	32,248
Effects of temporary differences (debited)/credited to the statement of comprehensive income	(11,236)	129,044
Balance as of 31 December	**1,076,482**	**1,062,178**

15. INCOME TAXES (Continued)

(c) Deferred Tax Assets/Liabilities (Continued)

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

	2009	2008 Restated
Balance as of 1 January, restated	**2,099,443**	**1,955,300**
Exchange differences debited to the statement of comprehensive income	170,137	224,520
Effects of temporary differences credited to the statement of comprehensive income	(135,806)	(80,377)
Balance as of 31 December	**2,133,774**	**2,099,443**

Unrecognized Deferred Tax Assets

The Group did not recognize deferred tax assets arising on not utilized tax credits carried forward amounting to RSD 9,984,952 thousand as of 31 December 2009 (31 December 2008: RSD 9,039,165 thousand) due to uncertainty whether sufficient taxable profit will be available in the future against which the unused tax credits may be utilized.

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

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

The aforementioned tax credits expire as follows:

Date of origin/ Tax credit carry forward	Expiration date	2009	2008 Restated
2003	2013	1,131,781	1,133,297
2004	2014	1,900,373	1,901,889
2005	2015	1,593,966	1,595,483
2006	2016	1,028,402	1,029,919
2007	2012	102,455	180,527
2007	2017	1,553,462	1,554,979
2008	2013	37,209	80,158
2008	2018	1,561,396	1,562,913
2009	2014	49,859	-
2009	2019	1,026,049	-
Total		**9,984,952**	**9,039,165**

16. INTANGIBLE ASSETS

	Goodwill	Customer relations	Licenses	Software	Intangible assets under develop-ment	Total
Cost as of 1 January 2008	**25,226,389**	**13,146,403**	**12,195,850**	**10,451,448**	**937,896**	**61,957,986**
Additions	-	-	-	-	6,323,017	6,323,017
Transfer from intangible assets under development	-	-	3,740,313	1,452,422	(5,192,735)	-
Grants	-	-	-	610	14,578	15,188
Disposals	-	-	(1,086)	(177,803)	-	(178,889)
Transfer (from)/to	-	-	(6,214)	6,214	-	-
Exchange differences	2,981,502	1,553,771	779,595	83,048	18	5,397,934
Balance as of 31 December 2008, restated	**28,207,891**	**14,700,174**	**16,708,458**	**11,815,939**	**2,082,774**	**73,515,236**
Additions	-	-	-	-	1,681,518	1,681,518
Transfer from intangible assets under development	-	-	1,507,100	1,054,576	(2,561,676)	-
Disposals	-	-	(2,820)	(784,640)	-	(787,460)
Transfer (from)/to	-	-	130	(74)	(277,848)	(277,792)
Exchange differences	2,320,219	1,209,152	646,139	84,441	-	4,259,951
Balance as of 31 December 2009	**30,528,110**	**15,909,326**	**18,859,007**	**12,170,242**	**924,768**	**78,391,453**
Accumulated amortization as of 1 January 2008	**-**	**370,339**	**1,711,629**	**7,987,628**	**-**	**10,069,596**
Amortization (Note 11)	-	765,668	1,541,315	1,525,724	-	3,832,707
Disposals	-	-	(741)	(166,412)	-	(167,153)
Exchange differences	-	106,323	80,358	21,853	-	208,534
Balance as of 31 December 2008, restated	**-**	**1,242,330**	**3,332,561**	**9,368,793**	**-**	**13,943,684**
Amortization (Note 11)	-	879,808	1,727,653	1,387,452	20,097	4,015,010
Disposals	-	-	(2,465)	(784,213)	-	(786,678)
Other movements	-	-	-	(5,033)	-	(5,033)
Transfer (from)/to	-	-	-	(52)	-	(52)
Exchange differences	-	118,725	90,491	26,574	-	235,790
Balance as of 31 December 2009	**-**	**2,240,863**	**5,148,240**	**9,993,521**	**20,097**	**17,402,721**
Net book value as of:						
- 31 December 2009	**30,528,110**	**13,668,463**	**13,710,767**	**2,176,721**	**904,671**	**60,988,732**
- 31 December 2008, restated	**28,207,891**	**13,457,844**	**13,375,897**	**2,447,146**	**2,082,774**	**59,571,552**

16. INTANGIBLE ASSETS (Continued)

As disclosed in Note 1 to the consolidated financial statements, following an international tender for the privatization of “Telekom Srpske”, on 19 January 2007, the Parent Company signed a Share Purchase Agreement (SPA) with the seller, the Republic of Srpska, represented by the Directorate for Privatization. Subject of the sale was ownership over 319,428,193 ordinary shares of “Telekom Srpske” at the par value of 1 KM, representing 65.005851% of total share capital of “Telekom Srpske”. With the closing of the transaction on 18 June 2007, the Parent Company effectively obtained control of “Telekom Srpske”, thus “Telekom Srpske” has been consolidated in the Group’s financial statements as of that date (acquisition date).

Goodwill amounting to RSD 30,528,110 thousand as of 31 December 2009 represents the excess of the cost of an acquisition over the fair value for the Parent Company share of the net identifiable assets of the acquired subsidiary “Telekom Srpske” at the date of acquisition. The goodwill is attributable to “Telekom Srpske’s” strong position and profitability, as well as to significant synergies emerging as a consequence of an increasing market share as well as efficiency increases resulting from utilization of common capacities.

Impairment of Goodwill Test

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

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

The CGU’s recoverable amount has been determined based on fair value calculation, applying the income approach through Discounted Cash Flow method. The analysis is based on the “Telekom Srpske” budget for 2010 and the management’s expectations related to the “Telekom Srpske” performance for the period from 2011 to 2014. The Plan of operations does not include potential negative effects of the ongoing global economic crisis. This calculation is performed on the basis of planned cash flow, before taxation, for the five-year period as adopted by management of the above Consolidated Subsidiary.

The aforementioned Plan of operations projects growth of total fixed line services revenues by 5% in 2010, while the growth rate is projected to decrease to 3% annually in 2011, and 2% in the last three years of the projected period. In addition, the mobile telephony revenues are projected to grow by 8% in 2010, by 6% in 2011 and in 2012 and by approximately 5% in the remaining years of the projections. Internet revenues are projected to grow by 71% in 2010, by 27% in 2011, by 13% in 2012, by 7% in 2013 and by 4% in 2014.

16. INTANGIBLE ASSETS (Continued)

Impairment of Goodwill Test (Continued)

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

- Determination of CGU's value in use is based on estimating the future cash inflows and outflows to be derived from continuing use of CGU and from its ultimate disposal, and discounting the resulting future net cash flows to derive their present value. Projections used to derive values in use of fixed telephony, mobile telephony and internet segment of "Telekom Srpske" as CGU cover the five-year period from 2010 to 2014.

- In determination of value in use, projections of future operations were estimated for the CGU in its current operation conditions. Cash inflows and outflows from activities related to introduction of new technology are excluded from examination.

- Fair value less costs to sell is determined by income approach based on the projection of "Telekom Srpske's" operations.

- The base rate consisting of the risk free rate and country risk premium (the Republic of Srpska) amounts to 7.9%.

- The Beta measures the volatility of the return on a specific stock in relation to the market. As of the valuation date, the unlevered beta for "Telekom Srpske" per group was set as the median Beta of companies in the same industry group without debt, i.e., by taking into account their financing structure, and then corrected by the median debt-equity ratio for the comparable companies in the same industry group in order to include influence of their financing structure. Beta calculated in such way amounts to 0.7 in fixed telephony, 0.9 in mobile telephony and 1.0 in internet segment.

- The adequate discount rate is estimated as the weighted average cost of capital (WACC) and amounts to 10.1% in fixed telephony, 11.6% in mobile telephony and 12.6% in internet segment, while the predicted long-term growth rate is set at 2%. This rate was used to discount projected net cash flows for the period 2010 – 2014, as well as the residual value, to their present value.

16. INTANGIBLE ASSETS (Continued)

Impairment of Goodwill Test (Continued)

Comparison of the carrying amount with the recoverable amount of each CGU as of 31 December 2009 is presented as follows:

FIXED TELEPHONY	**In 000 RSD**	**In 000 KM**
Fair value	41,689,530	850,335
Costs to sell	(416,895)	(8,504)
Recoverable amount of cash generating unit	**41,272,635**	**841,831**
Carrying amount of cash generating unit	37,353,838	761,900
Excess over carrying amount	**3,918,797**	**79,931**
CONCLUSION	*There is no impairment*	

MOBILE TELEPHONY	**In 000 RSD**	**In 000 KM**
Fair value	70,043,951	1,428,675
Costs to sell	(700,439)	(14,287)
Recoverable amount of cash generating unit	**69,343,512**	**1,414,388**
Carrying amount of cash generating unit	64,302,326	1,311,564
Excess over carrying amount	**5,041,186**	**102,824**
CONCLUSION	*There is no impairment*	

INTERNET	**In 000 RSD**	**In 000 KM**
Fair value	1,987,691	40,543
Costs to sell	(19,877)	(406)
Recoverable amount of cash generating unit	**1,967,814**	**40,137**
Carrying amount of cash generating unit	862,234	17,587
Excess over carrying amount	**1,105,580**	**22,550**
CONCLUSION	*There is no impairment*	

Based on the conducted impairment test, there is no indication of goodwill impairment at 31 December 2009 since each CGU's recoverable amount exceeds its carrying value.

16. INTANGIBLE ASSETS (Continued)

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

Licenses relate to the licenses for mobile telephony, CDMA licences and other licenses.

As of 31 December 2009, the carrying value of the licenses for mobile telephony amounts to RSD 12,892,309 thousand (31 December 2008: RSD 12,826,383 thousand), while the carrying value of other licenses amounts to RSD 770,264 thousand (31 December 2008: RSD 549,514 thousand). The carrying value of the licenses for CDMA amounts to RSD 48,194 thousand as of 31 December 2009.

In April 2007, the Consolidated Subsidiary "Mtel", Podgorica was granted two licenses by the Agency for Telecommunications and Postal Services of the Republic of Montenegro ("Telecommunications Agency"): the License for construction, possessing and exploitation of the combined public mobile telecommunication network and rendering public mobile telecommunication services in accordance with GSM/DCS-1800 and IMT-2000/UMTS (UMTS and GSM network) totalling EUR 16 million, and the License for providing public telecommunication services through wireless fixed access in the radio-frequency range from 3400-3600 MHz (WiMax) totalling EUR 1.05 million. The Licenses are valid in the Republic of Montenegro for a 15-year period, i.e. for a 5-year period from the date of enactment of the licenses. "Mtel" is obligated to pay an annual license fee for both licenses to the Telecommunications Agency, in the amount equal to 1% of total revenue earned in the preceding calendar year, generated from services the licenses relate to.

As collateral provided to secure the regular repayment of the loans granted by NLB banka d.d., Ljubljana, Slovenia, the License GSM-UMTS no. 01-124 issued by the Telecommunications Agency, registered under no. R-07062000034 in the Register of pledges with the Commercial Court in Podgorica, was pledged (Note 28(c)/ii/). Cost of the pledged license amounts to RSD 1,534,221 thousand, while net book value amounts to RSD 1,257,222 thousand as of 31 December 2009 (31 December 2008: RSD 1,256,225 thousand).

The Consolidated Subsidiary "Telekom Srpske" was granted a License for rendering GSM services in the territory of Bosnia and Herzegovina by the Communications Regulatory Agency of Bosnia and Herzegovina for a 15-year period from the date of granting the license, commencing from 12 October 2004. Net book value of this licence amounts to RSD 4,486,753 thousand as of 31 December 2009 (31 December 2008: RSD 4,672,303 thousand).

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

The Group's management estimates that intangible assets are not impaired at the reporting date.

17. PROPERTY, PLANT AND EQUIPMENT

	Land, telephone lines, cable sewers and flats	Switches and transmitting devices	Other equipment	Investments in PP&E not owned by the Group	Construction in progress	Total
Cost as of 1 January 2008	**79,474,587**	**87,350,985**	**9,084,850**	**7,870,737**	**22,989,645**	**206,770,804**
Additions	-	-	-	-	23,564,783	23,564,783
Transfer from construction in progress	7,946,731	13,447,709	2,200,165	1,313,544	(24,908,149)	-
Grants	135,399	103,444	-	-	150,850	389,693
Disposals	(615,855)	(2,012,535)	(596,394)	(1,399)	(9,691)	(3,235,874)
Transfer (from)/to	(1,889)	46,858	(2,120)	1,915	(196,273)	(151,509)
Transfer from inventories	-	-	-	-	1,033,537	1,033,537
Other movements	(5,771)	1,495	2,326	5,270	-	3,320
Exchange differences	1,876,549	1,779,574	337,069	47,539	400,979	4,441,710
Balance as of 31 December 2008, restated	**88,809,751**	**100,717,530**	**11,025,896**	**9,237,606**	**23,025,681**	**232,816,464**
Additions	-	-	-	-	19,692,520	19,692,520
Transfer from construction in progress	6,598,017	10,502,615	1,129,516	542,548	(18,772,696)	-
Grants	-	-	-	-	479,953	479,953
Disposals	(292,858)	(1,205,223)	(191,792)	(352)	(16,578)	(1,706,803)
Transfer (from)/to	(39,252)	53,630	(5,700)	(16,318)	1,132,961	1,125,321
Transfer from inventories	1,600	4,629	-	-	(1,230,767)	(1,224,538)
Other movements	-	(6,515)	(1,629)	-	60,088	51,944
Exchange differences	1,532,973	1,566,141	293,141	44,845	335,129	3,772,229
Balance as of 31 December 2009	**96,610,231**	**111,632,807**	**12,249,432**	**9,808,329**	**24,706,291**	**255,007,090**
Accumulated depreciation as of 1 January 2008	**22,824,009**	**35,830,569**	**4,577,506**	**4,723,324**	**124,967**	**68,080,375**
Transfer from construction in progress	10,439	73,283	6,535	12,625	(102,882)	-
Depreciation (Note 11)	4,072,070	10,181,386	1,235,940	1,202,164	133,007	16,824,567
Disposals	(342,552)	(1,502,183)	(488,840)	(1,781)	-	(2,335,356)
Transfer (from)/to	(1,992)	16,021	9,564	(4,076)	-	19,517
Exchange differences	144,369	220,069	61,495	4,865	64	430,862
Balance as of 31 December 2008, restated	**26,706,343**	**44,819,145**	**5,402,200**	**5,937,121**	**155,156**	**83,019,965**
Transfer from construction in progress	46,381	84,092	343	2,793	(133,609)	-
Depreciation (Note 11)	4,513,668	11,326,710	1,376,719	1,142,515	688,425	19,048,037
Disposals	(216,121)	(1,012,651)	(151,094)	(126)	-	(1,379,992)
Transfer (from)/to	(461)	7,424	(2,104)	226	-	5,085
Other movements	-	39	10	-	-	49
Exchange differences	162,919	263,243	66,777	6,694	122	499,755
Balance as of 31 December 2009	**31,212,729**	**55,488,002**	**6,692,851**	**7,089,223**	**710,094**	**101,192,899**
Net book value as of:						
- 31 December 2009	**65,397,502**	**56,144,805**	**5,556,581**	**2,719,106**	**23,996,197**	**153,814,191**
- 31 December 2008, restated	**62,103,408**	**55,898,385**	**5,623,696**	**3,300,485**	**22,870,525**	**149,796,499**

17. PROPERTY, PLANT AND EQUIPMENT (Continued)

Cost of fully-depreciated property and equipment still in use amounts to RSD 39,153,620 thousand as of 31 December 2009 (31 December 2008: RSD 18,637,695 thousand).

Construction in progress includes completed investments not yet transferred to property and equipment amounting to RSD 8,158,566 thousand as of 31 December 2009 (31 December 2008: RSD 5,061,700 thousand). The Group has charged depreciation for these investments.

Cost of construction in progress without any additions/investments for more than one year amounts to RSD 1,478,184 thousand.

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

Pursuant to the Agreement on the telecommunication equipment pledge dated 14 August 2008, as collateral, for regular repayment of the liabilities arising upon the long-term loan extended by Ericsson Credit AB, Sweden in the amount of RSD 569,475 thousand (Note 28(c)/iv/), the Company placed a first ranking pledge on its telecommunication equipment acquired from the foreign supplier Ericsson AB, Sweden of the total purchase value amounting to RSD 1,289,160 thousand. This first ranking pledge was inscribed in the Pledge Registry of the Commercial Court in Podgorica on 24 September 2008 under the registration number R-08092400046.

Pursuant to the Agreement on the telecommunication equipment pledge dated 15 August 2008, as collateral, for regular repayment of the liabilities arising upon the long-term loan extended by Ericsson Credit AB, Sweden in the amount of RSD 2,073,334 thousand (Note 28(c)/iv/), the Company placed a first ranking pledge on its telecommunication equipment acquired from the foreign supplier Ericsson AB, Sweden of the total purchase value amounting to RSD 2,439,217 thousand. This first ranking pledge was inscribed in the Pledge Registry of the Commercial Court in Podgorica on 24 September 2008 under the registration number R-08092400053.

As collateral, for regular repayment of the liabilities arising upon the long-term loan extended by a foreign commercial bank Nova Ljubljanska banka – NLB d.d., Ljubljana, Slovenia in the amount of RSD 2,397,220 thousand, the Company registered a second ranking pledge on its telecommunication equipment acquired during 2009 as well as on the telecommunication equipment acquired from the foreign supplier Ericsson AB, Sweden, of the total purchase value amounting RSD 2,950,809 thousand. This second ranking pledge was inscribed in the Pledge Registry of the Commercial Court in Podgorica on 24 September 2008 under the registration number R-08092400020.

17. PROPERTY, PLANT AND EQUIPMENT (Continued)

As collateral for regular repayment of the liabilities arising upon the long-term loan extended by a foreign commercial bank Hypo Alpe-Adria-Bank a.d., Podgorica in the amount of RSD 479,444 thousand the pledge no. 342/09 was registered of the total purchase value amounting RSD 559,203 thousand. The pledge on equipment, acquired from the foreign supplier Intracom S.A. Telecom Solution, Greece, was inscribed in the Pledge Registry of the Commercial Court in Podgorica on 18 May 2009 under the registration number R-09061800166.

Capital expenditure contracted for at the reporting date but not yet incurred, representing capital commitments, amount to RSD 2,997,133 thousand (Note 33).

Property and equipment lease rentals amounting to RSD 4,620,273 thousand (2008: RSD 3,896,238 thousand), mostly relating to the lease of business premises are included in the consolidated statement of comprehensive income within operating expenses.

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

18. ADVANCES FOR PROPERTY AND EQUIPMENT

	2009	2008 Restated
Payments in advance for property and equipment:		
- in RSD	163,026	278,204
- in foreign currency	393,263	325,689
Payments in advance for investments in property and equipment not owned by the Group	11,892	39,180
Payments in advance for long-term rent	68,496	64,199
	636,677	**707,272**
Less: Allowance for impairment (Note 12(c))	(83,565)	(97,251)
Balance as of 31 December	**553,112**	**610,021**

19. OTHER NON-CURRENT FINANCIAL ASSETS

	2009	2008 Restated
Loans to employees:		
- Residential	1,817,457	1,812,952
- For repurchase of apartments	15,116	16,450
- For purchase of vehicles	149	166
Other long-term loans	24,258	36,474
	1,856,980	1,866,042
Less: Fair value adjustment	(668,484)	(620,307)
Total loans	**1,188,496**	**1,245,735**
Placements to employees with respect to solidarity purposes	1,811	1,913
Non-current receivables from the state institutions	231,924	-
Non-current financial deposits	87,993	73,286
Non-current bonds and other securities	5,757	5,668
Non-current rentals	400,526	483,423
Balance as of 31 December	**1,916,507**	**1,810,025**

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

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

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

The management of the Group considers that the carrying amount of the above disclosed loans to employees reasonably approximates their fair value. The fair value of loans to employees is based on cash flows discounted using a rate based on the market interest rate at which the Parent Company could obtain long-term loans and that reflect market rate for similar financial instruments in the current reporting period – 5.05% (2008: 4.27% per annum). The Consolidated Subsidiary "Telekom Srpske" used a discount rate of 5.5%.

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.

20. INVENTORIES

	2009	2008 Restated
Material and fuel	4,722,632	4,828,455
Spare parts	1,731,385	2,687,775
Tools	2,145,632	1,341,547
Waste material	329,445	19,507
	8,929,094	8,877,284
Less: Allowance for impairment		
Material and spare parts	(7,648)	(17,517)
Tools in use	(1,646,565)	(1,009,719)
Waste material	(329,445)	(19,507)
	6,945,436	**7,830,541**
Goods in warehouses	198,981	338,835
Goods in retail	10,242	34,107
	209,223	**372,942**
Balance as of 31 December	**7,154,659**	**8,203,483**

21. ACCOUNTS RECEIVABLE

	2009	2008 Restated
Accounts receivable:		
Fixed telephony	8,584,555	7,810,449
Mobile telephony	12,826,839	8,511,198
International settlement of fixed telephony	1,432,233	1,756,684
Roaming	402,213	329,730
National roaming – VIP Mobile d.o.o., Belgrade	896,265	631,684
Interconnection	945,652	870,750
Other receivables	64,649	58,520
	25,152,406	**19,969,015**
Receivables from related parties:		
JP PTT	154,509	123,316
OTE	17,438	13,744
	171,947	**137,060**
Payments in advance for goods and services	**479,087**	**376,140**
Gross accounts receivable	**25,803,440**	**20,482,215**
Less: Allowance for impairment		
Accounts receivable (Note 12(c))	(10,238,495)	(6,541,391)
Payments in advance (Note 12(c))	(41,427)	(41,820)
	(10,279,922)	**(6,583,211)**
Balance as of 31 December	**15,523,518**	**13,899,004**

21. ACCOUNTS RECEIVABLE (Continued)

Trade receivables are predominantly non-interest bearing.

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

The average collection period during the year ended 31 December 2009 was 47 days (year ended 31 December 2008: 44 days).

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

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

	2009	2008 Restated
Up to 30 days	10,900,664	9,721,873
From 30 to 60 days	2,289,706	1,921,958
From 60 to 180 days	4,266,068	3,285,815
From 180 to 360 days	1,953,796	1,800,337
Over 360 days	6,393,206	3,752,232
Total	**25,803,440**	**20,482,215**

As of 31 December 2009, receivables of RSD 15,523,518 thousand (31 December 2008: RSD 13,899,004 thousand) were considered to be fully performing.

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

As of 31 December 2009, receivables of RSD 4,755,920 thousand (31 December 2008: RSD 1,916,132 thousand) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

As of 31 December 2009, receivables of RSD 10,279,922 thousand (31 December 2008: RSD 6,583,211 thousand) were impaired and provided for in the amount of RSD 10,279,922 thousand (31 December 2008: RSD 6,583,211 thousand). It was assessed that a part of the receivables is expected to be recovered.

21. ACCOUNTS RECEIVABLE (Continued)

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

	2009	2008 Restated
RSD – local currency	11,386,712	9,788,137
EUR	2,022,700	2,436,519
BAM (KM)	1,866,932	1,666,001
Other currencies	247,174	8,347
Total	**15,523,518**	**13,899,004**

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

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

22. OTHER CURRENT ASSETS AND PREPAYMENTS

	2009	2008 Restated
Other receivables from sales	303,898	298,804
Interest receivable	29,072	39,286
Receivables from employees	90,828	370,798
Overpaid taxes and contributions	35,106	35,631
Receivables for war damages on property and equipment and inventories	139,202	139,202
Receivables from the state institutions	84,033	76,598
Other receivables	126,553	52,538
	808,692	**1,012,857**
Deferred value added tax	600,674	629,363
Overpaid value added tax	59,383	158,027
	660,057	**787,390**
Prepaid expenses:		
Banks' commissions for a syndicated loan	471,749	536,903
Long-term loan origination fee	14,835	11,093
Rent	80,246	103,073
Insurance premiums	33,618	46,675
License and frequency fees	87,453	1,250
Other	135,773	67,437
	823,674	**766,431**
Short-term financial placements:		
Time deposits in local currency	190,000	60,000
Time deposits in foreign currency	1,277,159	1,359,030
Other placements	1,725	1,660
	1,468,884	**1,420,690**
Other current assets, gross and prepayments	**3,761,307**	**3,987,368**
Less: Allowance for impairment (Note 12(c))		
Other receivables from sales	(241,585)	(240,544)
Interest receivable	(5,116)	(5,116)
Receivables from employees	(5,402)	(8,928)
Overpaid taxes and contributions	(358)	(331)
Receivables for war damages on property and equipment and inventories	(139,202)	(139,202)
Receivables from the state institutions	(76,638)	(69,651)
Other receivables	(33,341)	(33,280)
	(501,642)	**(497,052)**
Balance as of 31 December	**3,259,665**	**3,490,316**

As of 31 December 2009, banks' commissions in respect to the withdrawal of the syndicated loan for acquisition of shares of "Telekom Srpske" as well as for refinancing the repayment of the Arrangement C of the syndicated loan, relate to arrangement fee paid to Citibank N.A., London in the amount of RSD 408,909 thousand (EUR 4,264,411) and agency fee paid to EFG EuroBank Ergasias S.A., Athens in the amount of RSD 62,840 thousand (EUR 655,341).

Other current assets are predominantly non-interest bearing. The management of the Group considers that the carrying amounts disclosed above reasonably approximate fair values at the reporting date.

23. ACCRUED INCOME

	2009	2008 Restated
Accrued income from international settlements:		
- Fixed telephony	558,140	494,920
- Mobile telephony	765,214	814,672
Other accrued income	100,192	70,625
Balance as of 31 December	**1,423,546**	**1,380,217**

As of 31 December 2009, accrued income arising on fixed telephony international settlement comprise uninvoiced revenue from international settlement for the month of December 2009 in the estimated amount of RSD 357,897 thousand and unsettled international traffic settlements for the period prior to December 2009 amounting to RSD 200,243 thousand.

As of 31 December 2009, accrued income from mobile telephony traffic comprises accrued income from roaming services for November and December of 2009 estimated to RSD 325,610 thousand and uninvoiced income arising from International GSM roaming contracts – Network operators' discounts amounting to RSD 439,604 thousand.

24. CASH AND CASH EQUIVALENTS

	2009	2008 Restated
Current accounts	1,066,561	650,228
Foreign currency accounts	13,303,403	12,530,153
Cash coupons	14,834	21,933
Balance as of 31 December	**14,384,798**	**13,202,314**

25. SHARE CAPITAL

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

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

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

The ultimate parent of the Group is the Public Enterprise for PTT communications "Srbija", Belgrade.

Weighted average amount of shares in use for the purpose of calculating earnings per share amounts to 1,080,000, since the number of shares did not change during the years ended 31 December 2009 and 2008.

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

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

Basic Earnings per Share

	2009	2008 Restated
Profit attributable to equity holders of the Parent Company (A)	12,165,259	7,925,677
Weighted average number of ordinary shares in issue (B)	1,080,000	1,080,000
Basic earnings per share (A/B)	**11.26**	**7.34**

26. DEFERRED INCOME

	2009	2008 Restated
Grants from local municipalities	2,032,337	2,217,402
Grants from mobile telephony suppliers	1,584,733	1,437,594
Grants from other suppliers	221,165	381,070
Donations	371,083	115,894
Balance as of 31 December	**4,209,318**	**4,151,960**

Movements in deferred income during the year were as follows:

	2009	2008 Restated
Balance as of 1 January	4,151,960	4,302,297
Grants received during the period (Notes 16 and 17)	479,953	404,881
Release to the consolidated statement of comprehensive income (Note 7)	(464,374)	(521,612)
Exchange differences and other movements	41,779	(33,606)
Balance as of 31 December	**4,209,318**	**4,151,960**

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

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

	2009	2008 Restated
Local municipalities	-	106,077
Nokia Siemens Networks, Finland and Austria	423,867	172,379
Huawei Technologies Co. Ltd., China	5,238	36,683
Gilat Satellite Networks Ltd., Israel	-	23,534
Ericsson, Sweden	257	26,272
Other	50,591	39,936
Total	**479,953**	**404,881**

27. PROVISIONS

	2009	2008 Restated
Provision for retirement benefits and jubilee anniversary awards	2,512,693	2,356,258
Provision for litigations (Note 34(a))	141,471	126,485
Other provisions for likely events	56,406	52,118
Balance as of 31 December	**2,710,570**	**2,534,861**

Movements in provisions during the year were as follows:

	Retirement benefits	Jubilee anniversary awards	Litigations	Other provisions	Total
Balance as of 1 January 2008	**787,468**	**1,232,533**	**73,707**	**46,610**	**2,140,318**
Charge for the year (Note 12)	128,030	259,697	97,459	-	485,186
Utilized	(6,368)	(89,398)	(30,455)	-	(126,221)
Release of provision (Note 7)	(8,557)	(188)	(16,843)	-	(25,588)
Exchange differences	20,623	32,418	2,617	5,508	61,166
Balance as of 31 December 2008, restated	**921,196**	**1,435,062**	**126,485**	**52,118**	**2,534,861**
Charge for the year (Note 12)	103,262	173,723	31,934	-	308,919
Utilized	(9,787)	(90,560)	(7,992)	-	(108,339)
Release of provision (Note 7)	(18,587)	(42,898)	(10,361)	-	(71,846)
Exchange differences	16,470	24,812	1,405	4,288	46,975
Balance as of 31 December 2009	**1,012,554**	**1,500,139**	**141,471**	**56,406**	**2,710,570**

Provision for employees' retirement benefits and anniversary awards has been recorded in the consolidated financial statements on the basis of the independent actuaries' reports as of 31 December 2009 and 2008, and it is stated in the amount of discounted present value of future payments to the Group's employees, based on the assumptions applicable in economic environment in which the Parent Company and the Consolidated Subsidiaries operate.

In the Parent Company, the discounted rate used by the actuary was 10%, corresponding to the effective interest rate realized through purchase of the bonds in respect of old foreign currency citizens' savings, the guarantor of which is the Republic of Serbia, being an appropriate rate according to the IAS 19 "Employee Benefits" in the absence of a developed market for high quality corporate bonds. Provision was determined in line with the Parent Company's Collective Agreement and the assumption of 8% nominal salary increase rate per annum, which is 2% above the projected long-term inflation rate, and employee fluctuation rate ranging from 1.5% to 4% per annum, depending on the number of the employee's years of service.

Provision for litigations was recognized based on the best estimate of probable adverse effects of charges brought against the Group. This estimate is based on the professional opinion of the competent legal departments of the Group.

28. BORROWINGS

(a) Structure of Borrowings

	2009	2008 Restated
Non-current borrowings		
Loans from:		
- Domestic banks	1,138,680	1,165,546
- Foreign banks	30,366,179	32,752,890
- Other financial institutions	95,729	469,674
	31,600,588	**34,388,110**
Commodity loans	**21,349,074**	**22,336,745**
Total non-current financial and commodity loans	*52,949,662*	*56,724,855*
Other non-current financial liabilities	2,454,986	1,762,777
Total	**55,404,648**	**58,487,632**
Current portion of non-current borrowings		
Loans from domestic banks	3,031,197	2,272,933
Loans from foreign banks	17,066,873	23,504,315
Loans from other financial institutions	412,579	703,457
Commodity loans	10,418,963	8,361,662
Other financial liabilities	601,070	525,967
Total	**31,530,682**	**35,368,334**
Balance as of 31 December	**86,935,330**	**93,855,966**

The fair value of non-current borrowings, which is based on cash flows discounted using a rate based on the interest rate of 5.05% (2008: 4.27%), amounts to RSD 50,401,076 thousand as of 31 December 2009 (31 December 2008: RSD 56,149,361 thousand).

The fair value of current borrowings equals their carrying amount.

(b) Maturity of Borrowings

	2009	2008 Restated
Up to 1 year – current portion of non-current borrowings	31,530,682	35,368,334
From 1 to 2 years	19,458,542	15,325,477
From 2 to 3 years	24,312,492	12,587,958
From 3 to 4 years	4,619,569	22,034,675
From 4 to 5 years	3,386,923	3,454,186
Over 5 years	3,627,122	5,085,336
Balance as of 31 December	**86,935,330**	**93,855,966**

28. BORROWINGS (Continued)

(c) Detailed Breakdown of Borrowings per Creditors

		31 December 2009		31 December 2008, restated	
	Currency	In foreign currency	In RSD thousand	In foreign currency	In RSD thousand
/i/ Loans from domestic banks					
Banca Intesa a.d., Belgrade	EUR	33,000,000	3,165,193	17,000,000	1,510,736
Alpha Bank Srbija a.d., Belgrade	EUR	7,000,000	673,236	17,000,000	1,510,736
Vojvodjanska banka a.d., Novi Sad	EUR	3,125,000	299,653	4,375,000	387,629
Beobanka a.d. in bankruptcy, Belgrade	EUR	331,582	31,795	331,582	29,378
		43,456,582	**4,169,877**	**38,706,582**	**3,438,479**
/ii/ Loans from foreign banks					
Citibank N.A., Great Britain	EUR	330,040,000	31,647,140	590,000,000	52,274,590
Alpha Bank A.E., Great Britain	EUR	120,000,000	11,506,656	-	-
NLB banka d.d., Slovenia	EUR	22,727,273	2,179,291	25,000,000	2,215,025
EFG New Europe Funding, Holland	EUR	16,900,000	1,620,520	19,950,000	1,767,590
Hypo Alpe- Adria- Bank a.d., Montenegro	EUR	5,000,000	479,444	-	-
		494,667,273	**47,433,051**	**634,950,000**	**56,257,205**
/iii/ Loans from other financial institutions					
EBRD	EUR	5,301,007	508,308	13,240,605	1,173,132
		5,301,007	**508,308**	**13,240,605**	**1,173,132**
/iv/ Foreign commodity loans					
BNP Paribas, London branch	EUR	43,116,986	4,134,436	54,651,034	4,842,136
KfW, Germany	EUR	13,574,954	1,301,686	21,573,317	1,911,417
Nokia Siemens, Finland, Austria and Holland	EUR	70,381,218	6,748,771	54,700,061	4,846,480
Ericsson Credit A.B., Sweden	EUR	27,228,401	2,610,899	27,190,987	2,409,149
Calyon S.A., Sweden	EUR	39,697,638	3,806,559	45,958,640	4,071,981
Huawei Technologies Co. Ltd., China	EUR	42,581,832	4,083,121	31,754,769	2,813,504
Alcatel Lucent S.A., France	EUR	4,215,801	404,248	340,662	30,183
OTP bank plc, Hungary	EUR	1,593,620	152,810	1,859,224	164,729
NEC Europe Ltd., Hungary	EUR	504,716	48,397	807,546	71,549
Sitronics, Czech Republic	EUR	2,531,667	242,759	3,156,936	279,708
Intracom S.A., Greece	EUR	4,859,134	465,937	3,354,746	297,234
Skandinaviska Enskilda Bank, Sweden	EUR	8,860,514	849,624	-	-
Commerzbank AG, Hamburg branch	EUR	5,496,722	527,074	-	-
EuroBank EFG Factors S.A., Greece	EUR	1,956,987	187,653	-	-
Government of Spain (Alcatel, Spain)	USD	1,144,300	76,529	1,144,300	71,915
Government of Spain (Amper, Spain)	USD	1,111,990	74,368	1,111,990	69,885
Alcatel Lucent Italia S.p.A., Italy	EUR	1,563,788	149,950	1,978,187	175,269
Unicredit Bank Austria A.G., Slovakia	EUR	1,923,354	184,428	-	-
Elsag Datamat S.p.A., Italy	EUR	107,091	10,266	-	-
Gilat Satellite Networks, Israel	EUR	-	-	235,875	20,901
/v/ Other commodity loans			**5,708,523**		**8,622,366**
Total commodity loans			*31,768,038*		*30,698,406*
/vi/ Other financial liabilities			**3,056,056**		**2,288,744**
Total borrowings			**86,935,330**		**93,855,966**
Less: Current portion of non-current borrowings					
Loans from domestic banks			(3,031,197)		(2,272,933)
Loans from foreign banks			(17,066,873)		(23,504,315)
Loans from other financial institutions			(412,579)		(703,457)
Commodity loans			(10,418,963)		(8,361,662)
Other financial liabilities			(601,070)		(525,967)
			(31,530,682)		**(35,368,334)**
Total non-current borrowings			**55,404,648**		**58,487,632**

28. BORROWINGS (Continued)

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

The Group pays interest on long-term foreign currency loans granted by domestic banks at rates ranging from Euribor increased by 1.3% to Euribor increased by 4.5% per annum.

Interest rates on loans granted by foreign banks and foreign suppliers range from Euribor to Euribor increased by 4.35% per annum, except for the loan granted to the Consolidated Subsidiary "Mtel" by NLB banka d.d., Ljubljana, which bears interest at rate equal to three-month Euribor increased by 2.25%, and the commodity loan granted by Ericsson Credit AB, Stockholm which bears interest at rate equal to three-month Euribor increased by 2.5%.

The long-term loan granted to the Consolidated Subsidiary "Telekom Srpske" by EBRD bears interest at rate equal to six-month Euribor increased by 2.5%. The Group pays interest at the rate of Euribor increased by 0.8% to Euribor increased by 2% per annum on the domestic suppliers' commodity loans.

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

The Group regularly fulfils its due obligations in accordance with the terms of the loans agreements and determined annuity plans. Management expects that the Group will be able to meet all contractual obligations from borrowings on a timely basis going forward.

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

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

The Loan Agreement with Banca Intesa a.d., Belgrade defines the commitment of the Parent Company to submit audited annual consolidated financial statements and audited annual financial statements, as well as semi-annual financial statements for certain six-month period. The Loan Agreement is subject to covenant clauses, whereby the Parent Company is required to meet certain key performance indicators, out of which the most important ones are Debt coverage and Interest coverage. As of 31 December 2009, the Parent Company fulfilled all required ratios.

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

Domestic banks' loans are secured with 32 blank promissory notes issued by the Group (Note 31(a)).

28. BORROWINGS (Continued)

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

/ii/ In order to provide funds for financing the purchase of 65% of shares in "Telekom Srpske", on 24 May 2007, the Parent Company entered into the "Term and Revolving Facilities Agreement" (a syndicated loan) with Citibank N.A., London (Arranger), financial institutions (original lenders – 21 banks) and EFG EuroBank Ergasias S.A., Athens (Agent). The total amount of syndicated loan totals EUR 700 million, out of which Arrangements A and C amount to EUR 300 million respectively and the Revolving Arrangement totals EUR 100 million. Repayment period for the Arrangement A and Revolving Arrangement is 60 months after the signing date of the Agreement and for the Arrangement C 24 months after the signing date of the Agreement. The Parent Company withdrew the total available funds, and in December 2008 it made an early repayment of the part of the funds per Arrangement C in the amount of EUR 110 million. In addition, in May 2009, the Parent Company repaid the remaining outstanding debt of EUR 190 million per Arrangement C and the part of debt per Arrangement A in the amount of EUR 34.98 million. In November 2009, the Parent Company repaid a part of the debt per Arrangement A in the amount of EUR 34.98 million.

The Loan Agreement with Citibank N.A., London defines the commitment of the Parent Company to submit audited annual consolidated financial statements and audited annual financial statements, as well as financial statements for certain interim periods. The credit agreements are subject to covenant clauses, whereby the Parent Company is required to meet certain key performance indicators, out of which the most important ones are Debt coverage and Interest coverage. As of 31 December 2009, the Parent Company fulfilled all required ratios.

In order to provide funds for refinancing the repayment of the Arrangement C of the syndicated loan granted by Citibank N.A., London, on 18 May 2009 the Parent Company entered into the Facility Agreement with Alpha Bank A.E., London (Coordinator), financial institutions (original lenders – 6 banks) and EFG EuroBank Ergasias S.A., Athens (Agent). The Parent Company made a withdrawal of total available funds in the amount of EUR 120 million on 26 May 2009. Repayment period of the loan is 24 months from the date of first withdrawal of funds. The Loan Agreement with Alpha Bank A.E., London defines the commitment of the Parent Company to submit audited annual consolidated financial statements and audited annual financial statements, as well as financial statements for certain interim periods. The Loan Agreement is subject to covenant clauses, whereby the Parent Company is required to meet certain key performance indicators, out of which the most important ones are Debt coverage and Interest coverage. As of 31 December 2009, the Parent Company fulfilled all required ratios.

Long-term borrowings from NLB banka d.d., Ljubljana, Slovenia, in the amount of RSD 2,179,290 thousand as of 31 December 2009, relate to the loan arrangement for the purpose of financing the purchase of the GSM/UMTS License, purchase of telecommunication equipment and financing the start up costs. As collateral provided to secure the regular repayment of the aforementioned loans, the License GSM/UMTS no. 01-124 granted by the Montenegrin Telecommunications Agency, registered under no. R-07062000034 in the Register of pledges with the Commercial Court in Podgorica, was pledged (Note 16). In addition, as collateral for repayment of the aforementioned loans, the pledge over 85% of capital of the Consolidated Subsidiary "Mtel", registered under no. R-07062000026 with the Register of pledges with the Commercial Court in Podgorica was constituted. In addition, the pledge on the telecommunication equipment acquired from the foreign supplier Ericsson AB, Sweden was inscribed in the Pledge Registry of the Commercial Court in Podgorica under the registration number R-08092400020 (Note 17) and 10 stamped bonds supported with a bond authorization clause were provided.

28. BORROWINGS (Continued)

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

/ii/ Long-term borrowings from Hypo Alpe-Adria-Bank a.d., Podgorica, in the amount of RSD 479,444 thousand as of 31 December 2009, relate to the loan arrangement for refinancing existing liabilities arising from delivery of telephones in 2007. As collateral provided to secure the regular repayment of the aforementioned loan, telecommunication equipment acquired from the foreign supplier Intracom S.A. Telecom Solution, Greece, registered under no. R-09061800166 in the Register of pledges with the Commercial Court in Podgorica, was pledged (Note 17) as well as 20 stamped bonds supported with a bond authorization clause were provided.

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

/iii/ Liabilities towards the European Bank for Reconstruction and Development (EBRD) in the total amount of RSD 508,308 thousand as of 31 December 2009, relate to two loans granted to the Consolidated Subsidiary "Telekom Srpske" in 1998 and 2002 for urgent reconstruction of telecommunications.

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

Long-term borrowings originated by Ericsson Credit A.B, Sweden are secured with assigned collateral rights on the Parent Company's equipment (Note 17). Collateral right is registered at the Register of pledges with the Agency for Commercial Registers of the Republic of Serbia, based on the Agreement and Commercial Register Agency' Decisions. In 2006 and 2007, the long-term borrowings from Ericsson Credit A.B, Sweden were transferred by Ericsson Credit A.B., Sweden to BNP Paribas, London branch. The aforementioned liability amounts of RSD 4,134,436 thousand as of 31 December 2009. The substitution of pledgee has not yet been registered in the Register of pledges. The credit agreements with Ericsson Credit A.B, Sweden and BNP Paribas are subject to covenant clauses, whereby the Parent Company is required to meet certain key performance indicators. As of 31 December 2009, the Parent Company fulfilled the required ratios.

As collateral for the timely repayment of the long-term loan extended by Ericsson Credit AB, Sweden in the amount of RSD 569,475 thousand, a first ranking pledge was inscribed on telecommunication equipment of the Consolidated Subsidiary "Mtel", acquired from the foreign supplier Ericsson AB, Sweden in the Pledge Registry of the Commercial Court in Podgorica under the registration number R-08092400046 (Note 17).

As collateral for the timely repayment of the long-term loan extended by Ericsson Credit AB, Sweden in the amount of RSD 2,073,334 thousand as of 31 December 2009, a first ranking pledge was inscribed on telecommunication equipment of the Consolidated Subsidiary "Mtel", acquired from the foreign supplier Ericsson AB, Sweden in the Pledge Registry of the Commercial Court in Podgorica under the registration number R-08092400053. The loans were partially repaid, and as of 31 December 2009, the outstanding liability amounts to RSD 1,784,067 thousand.

28. BORROWINGS (Continued)

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

/v/ Other commodity loans total RSD 5,708,523 thousand as of 31 December 2009 (31 December 2008: RSD 8,622,366 thousand). The total contract value of the work is principally financed with 15 percent advances, whereas 85 percent is financed from the loans provided by the project contractors. Repayment period of the aforementioned loans, as well as grace period, depends on contracted value of the particular loan. Commodity loans provided on this basis are primarily secured by the appropriate number of blank promissory notes issued in the name of the beneficiary, the construction contractor (Note 31(a)).

/vi/ Other financial liabilities as of 31 December 2009 mostly relate to the liabilities for GSM and UMTS licenses granted to the Consolidated Subsidiary "Telekom Srpske" by the Communications Regulatory Agency of Bosnia and Herzegovina, in the amount of RSD 1,902,415 thousand (KM 38.8 million) and RSD 1,148,908 thousand (KM 23.4 million), respectively.

/vii/ Undrawn commodity loans amount to RSD 2,997,133 thousand as of 31 December 2009 (31 December 2008: RSD 6,794,804 thousand). The majority of these loans have been granted at variable interest rates.

The facilities expiring within one year amount to RSD 93,790 thousand (31 December 2008: RSD 129,980 thousand), while the facilities expiring beyond one year up to five years amount to RSD 2,903,343 thousand (31 December 2008: RSD 6,664,824 thousand).

29. ACCOUNTS PAYABLE

	2009	2008 Restated
Trade payables for equipment and services	9,364,159	9,844,225
Trade payables for telecommunication services:		
- Fixed telephony	701,860	1,269,420
- Mobile telephony	324,704	278,807
- Interconnection	85	78,386
Related parties' trade payables	488,424	497,421
Advances received	329,983	302,942
Balance as of 31 December	**11,209,215**	**12,271,201**

As of 31 December 2009, accounts payable amounting to RSD 5,814,767 thousand (31 December 2008: RSD 6,632,391 thousand) are denominated in foreign currency, mainly EUR.

Trade payables are non-interest bearing. The Group regularly settles its due obligations to suppliers.

The average payment period during the year ended 31 December 2009 was 71 days (year ended 31 December 2008: 85 days).

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

30. OTHER CURRENT LIABILITIES AND ACCRUALS

	2009	2008 Restated
Other liabilities		
Gross salaries	466,456	890,517
Interest payable	110,175	69,576
Dividends payable	335,497	174,944
Liabilities to employees	20,440	163,810
Remuneration to the Managing Board members	352	-
Other liabilities	188,277	203,062
	1,121,197	**1,501,909**
Accruals		
Accrued expenses from international traffic:		
Fixed telephony (a)	207,347	206,005
Roaming (b)	796,556	744,531
	1,003,903	**950,536**
Accrued other expenses:		
Employee profit-sharing	1,346,284	1,206,390
Accrued vacations	346,994	342,660
Accrued interest expenses (c)	396,310	568,389
Accrued other expenses (d)	6,293,092	4,452,497
	8,382,680	**6,569,936**
Deferred income:		
Mobile phone services	971,495	1,154,180
Deferred income from national roaming	-	10,260
Chip cards	95,972	118,686
Fixed telephony subscription	589,317	575,559
Subscription for special telephone services	71,510	64,077
Other deferred income	18,219	204
	1,746,513	**1,922,966**
Deferred liabilities for value added tax	157,618	263,086
Value added tax and other tax liabilities (e)	1,204,010	659,192
Balance as of 31 December	**13,615,921**	**11,867,625**

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

(a) As of 31 December 2009, accrued expenses arising from fixed international traffic totalling RSD 207,347 thousand comprise uninvoiced expenses for the month of December 2009 in the estimated amount of RSD 157,449 thousand and unreconciled liabilities arising from international traffic settlements for the period prior to December 2009 in the amount of RSD 49,898 thousand.

(b) As of 31 December 2009, accrued roaming expenses totalling RSD 796,556 thousand relate to uninvoiced roaming services for November and December 2009, estimated to RSD 230,120 thousand and uninvoiced expenses based on the International GSM roaming contract – Network operators' discounts amounting to RSD 566,436 thousand.

30. OTHER CURRENT LIABILITIES AND ACCRUALS (Continued)

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

(d) Accrued other expenses amounting to RSD 6,293,092 thousand as of 31 December 2009 mostly relate to estimated uninvoiced expenses for services provided by suppliers during the year ended 31 December 2009.

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

(e) The Government of Republic of Serbia prepared a set of measures in order to decrease budget deficit for 2009, which included introduction of 10% additional temporary tax on mobile telephony services starting from 1 June 2009. Mobile operators are obliged to pay, by the 15th of a month, a tax on mobile phones, both for prepaid services and postpaid invoices from a previous month. As of 31 December 2009, the Group recognized the aforementioned tax liability in the amount of RSD 564,948 thousand, and recorded it within Value added tax and other tax liabilities.

31. OFF-BALANCE SHEET ITEMS

	2009	2008 Restated
Issued promissory notes (a)	11,606,023	17,960,103
Guarantees received (b)	27,843	4,193,385
Property and equipment in liquidation	1,872,328	3,357,374
Temporary imported equipment	15,171	64,177
Phone cards	12,568	6,175
Scratch cards	172,900	273,871
Other	3,459,288	2,677,824
Balance as of 31 December	**17,166,121**	**28,532,909**

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

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

	2009	2008 Restated
Issued promissory notes in favour of:		
- Banks	4,711,697	6,768,669
- State authorities	3,066,602	3,150,639
- Suppliers	3,827,724	8,040,795
Balance as of 31 December	**11,606,023**	**17,960,103**

31. OFF-BALANCE SHEET ITEMS (Continued)

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

	2009	2008 Restated
Eurobank EFG a.d., Belgrade	-	1,551,488
Piraeus banka a.d., Belgrade	-	1,224,846
Societe Generale banka Srbija a.d., Belgrade	1,301	817,430
Vojvodjanska banka a.d., Novi Sad – Belgrade branch	-	489,938
Banca Intesa a.d., Belgrade	22,002	103,334
Vojvodjanska banka a.d., Novi Sad	-	6,349
AIK banka a.d., Belgrade	756	-
NLB Montenegro banka a.d., Podgorica	3,784	-
Balance as of 31 December	**27,843**	**4,193,385**

The above stated payable guarantees comprise:

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

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

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

32. RELATED PARTY DISCLOSURES

(a) **Outstanding balances of receivables and liabilities** as of 31 December 2009 and 2008, arising from the purchase and/or sale of goods/services from/to the shareholders (Note 25) are summarized below:

	2009	2008 Restated
RECEIVABLES		
Gross accounts receivable (Note 21):		
- JP PTT	154,509	123,316
- OTE	17,438	13,744
	171,947	137,060
Less: Allowance for impairment - JP PTT	(471)	(9,916)
Total	**171,476**	**127,144**
Payments in advance:		
JP PTT	168	121
Less: Allowance for impairment	-	(26)
Total	**168**	**95**
Other receivables and accrued income:		
JP PTT:		
- other receivables	1,141	364
	1,141	364
OTE:		
- accrued income from international settlement	24,618	22,292
	24,618	22,292
Total	**25,759**	**22,656**
Total receivables and accrued income	**197,403**	**149,895**

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

32. RELATED PARTY DISCLOSURES (Continued)

(a) Receivables and Liabilities (Continued)

	2009	2008 Restated
LIABILITIES		
Accounts payable (Note 29):		
- JP PTT	484,797	486,186
- OTE	3,627	11,235
Total	**488,424**	**497,421**
Other current liabilities and accruals:		
JP PTT:		
- deferred income – TT services	2,783	2,829
- accrued expenses	-	5,584
	2,783	8,413
OTE:		
- accrued expenses from international settlement	9,488	11,957
	9,488	11,957
Total	**12,271**	**20,370**
Total liabilities and accruals	**500,695**	**517,791**

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

The above stated balances of receivables and liabilities, as well as reported amounts of income and expenses arising from transactions with the related parties are the result of ordinary business activities. The sales and purchases from related parties are made at terms equivalent to those that prevail in arm's length transactions.

32. RELATED PARTY DISCLOSURES (Continued)

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

	2009	2008 Restated
JP PTT		
Revenues:		
Income from fixed telephony, internet and other services	309,391	330,802
Income from mobile telephony	85,551	94,541
Physical/technical security and cleaning	512,821	633,696
Reversal of impairment loss	8,662	55,056
Other	127	12,506
	916,552	**1,126,601**
Expenses:		
Rents	(2,314,370)	(2,004,384)
Cost of delivery and collection of phone bills and telegrams	(1,324,017)	(1,208,864)
Printing services	(5,463)	(40,010)
Electricity	(312,098)	(249,762)
Electronic data processing	(70,660)	(103,200)
City land rental fee	(17,101)	(124,444)
Postal services	(27,413)	(59,499)
Allowance for impairment	-	(44,917)
Utilities	(38,930)	(29,679)
Maintenance	(73,255)	(36,573)
CALL centre services	(22,589)	(19,658)
Fees and commissions	(8,576)	(9,190)
Other	(6,066)	(6,814)
	(4,220,538)	**(3,936,994)**
Net expenses	**(3,303,986)**	**(2,810,393)**
OTE		
Revenues:		
International settlement	148,245	173,949
	148,245	**173,949**
Expenses:		
International settlement	(57,487)	(88,490)
	(57,487)	**(88,490)**
Net income	**90,758**	**85,459**
Total expenses, net	**(3,213,228)**	**(2,724,934)**

32. RELATED PARTY DISCLOSURES (Continued)

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

	2009	2008 Restated
Gross salaries	424,868	409,269
Compensations for business trips	26,484	20,364
Residential housing loans	181,517	167,632
Employee profit-sharing	68,600	80,816
Loans for repurchase of vehicles	29,855	31,227
Settled jubilee awards	676	712
Total	**732,000**	**710,020**

The housing loans to key management personnel are repayable monthly over at most 25 years and have been granted under the same conditions as for other Group's employees (Note 19).

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

33. COMMITMENTS

Commitments comprise the following:

	2009	2008 Restated
Operating lease commitments (a)	18,175,010	8,646,017
Construction of the mobile and fixed-line telecommunication network (b)	2,997,133	6,794,804
Balance as of 31 December	**21,172,143**	**15,440,821**

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

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

	2009	2008 Restated
Up to 1 year	9,228,736	1,380,042
From 1 to 5 years	5,899,296	4,203,420
Over 5 years	3,046,978	3,062,555
	18,175,010	**8,646,017**

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

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

34. CONTINGENT LIABILITIES

(a) Litigations

As of 31 December 2009, the total estimated value of potential damage claims arising from legal proceedings filed against the Group and still in course amounts to RSD 573,246 thousand (31 December 2008: RSD 458,080 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, as of 31 December 2009, the Group recognized the amount of RSD 141,471 thousand (31 December 2008: RSD 126,485 thousand) for potential losses that might arise as a result of the aforementioned litigations. The Group's management considers that no material liabilities will arise as a result of the legal proceedings still in course, other than those provided for.

(b) Tax Risks

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

35. OPERATING SEGMENT INFORMATION

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

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

- Mobile telephony;
- Internet;
- Multimedia services, which became a separate operating segment in 2008;
- CDMA services, which became a separate operating segment in 2009, as the Parent 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 Group's revenue in the future.

35. OPERATING SEGMENT INFORMATION (Continued)

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

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

	Mobile telephony	Internet	Multimedia services	CDMA services	Fixed telephony and other services	Total
Sales	56,400,107	3,944,100	75,416	305,773	49,710,182	110,435,578
Other operating income	1,147,279	89,000	55,777	1,949	2,213,268	3,507,273
Inter-segment settlement	9,421,363	26,149	-	-	8,444,151	17,891,663
Operating income	**66,968,749**	**4,059,249**	**131,193**	**307,722**	**60,367,601**	**131,834,514**
Wages, salaries and other personnel expenses	(3,478,077)	(1,581,395)	(980,403)	(187,975)	(12,464,057)	(18,691,907)
Charges of other network operators	(7,607,232)	-	(113,470)	-	(6,579,265)	(14,299,967)
Cost of material and maintenance	(5,753,126)	(773,792)	(110,909)	(21,403)	(3,933,584)	(10,592,814)
Depreciation and amortization	(9,129,809)	(393,263)	(299,888)	(42,342)	(13,197,745)	(23,063,047)
Rental costs	(1,843,457)	(290,884)	(192,966)	(35,784)	(2,257,182)	(4,620,273)
Other operating expenses	(12,584,800)	(454,380)	(290,574)	(36,115)	(6,431,850)	(19,797,719)
Inter-segment settlement	(6,538,905)	(1,916,061)	-	-	(9,436,697)	(17,891,663)
Operating expenses	**(46,935,406)**	**(5,409,775)**	**(1,988,210)**	**(323,619)**	**(54,300,380)**	**(108,957,390)**
Operating profit/ (loss)	**20,033,343**	**(1,350,526)**	**(1,857,017)**	**(15,897)**	**6,067,221**	**22,877,124**
Interest income	316,119	6,647	-	-	1,046,648	1,369,414
Interest expense	(2,272,348)	(7,998)	(9,761)	-	(1,755,131)	(4,045,238)
Foreign exchange losses, net	(2,206,887)	(14,827)	(8,545)	(370)	(3,758,808)	(5,989,437)
Other financial income	11,161	335	-	-	73,179	84,675
	(4,151,955)	**(15,843)**	**(18,306)**	**(370)**	**(4,394,112)**	**(8,580,586)**
Profit/(loss) before tax	**15,881,388**	**(1,366,369)**	**(1,875,323)**	**(16,267)**	**1,673,109**	**14,296,538**
Income tax expense	(889,288)	-	-	-	(93,687)	(982,975)
Profit/(loss) for the year	**14,992,100**	**(1,366,369)**	**(1,875,323)**	**(16,267)**	**1,579,422**	**13,313,563**

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 2008 are as follows:

	Mobile telephony	Internet	Multimedia services	Fixed telephony and other services	Total
Sales	52,297,393	1,850,825	348	48,892,297	103,040,863
Other operating income	717,411	2,641	850	1,568,072	2,288,974
Inter-segment settlement	9,265,606	24,198	-	9,190,051	18,479,855
Operating income	**62,280,410**	**1,877,664**	**1,198**	**59,650,420**	**123,809,692**
Wages, salaries and other personnel expenses	(2,098,434)	(196,608)	(69,418)	(15,065,981)	(17,430,441)
Charges of other network operators	(6,755,264)	-	(3,612)	(6,695,864)	(13,454,740)
Cost of material and maintenance	(6,058,971)	(419,198)	(24,274)	(4,063,623)	(10,566,066)
Depreciation and amortization	(8,160,746)	(71,676)	-	(12,424,852)	(20,657,274)
Rental costs	(1,235,992)	(7,032)	-	(2,653,214)	(3,896,238)
Other operating expenses	(9,527,633)	(230,922)	(106,397)	(6,998,731)	(16,863,683)
Inter-segment settlement	(7,191,537)	(1,899,717)	(109,218)	(9,279,383)	(18,479,855)
Operating expenses	**(41,028,577)**	**(2,825,153)**	**(312,919)**	**(57,181,648)**	**(101,348,297)**
Operating profit/(loss)	**21,251,833**	**(947,489)**	**(311,721)**	**2,468,772**	**22,461,395**
Interest income	246,458	5	1	950,651	1,197,115
Interest expense	(3,044,614)	-	(140)	(2,432,462)	(5,477,216)
Foreign exchange (losses)/gains, net	(5,102,157)	(6,575)	384	(3,173,551)	(8,281,899)
Other financial income	144,032	-	-	44,450	188,482
	(7,756,281)	**(6,570)**	**245**	**(4,610,912)**	**(12,373,518)**
Profit/(loss) before before tax	**13,495,552**	**(954,059)**	**(311,476)**	**(2,142,140)**	**10,087,877**
Income tax expense	(966,653)	-	-	-	(966,653)
Profit/(loss) for the year	**12,528,899**	**(954,059)**	**(311,476)**	**(2,142,140)**	**9,121,224**

Inter-segment revenues and expenses are eliminated on consolidation.

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

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

35. OPERATING SEGMENT INFORMATION (Continued)

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

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

	Mobile telephony	Internet	Multimedia services	CDMA services	Fixed telephony and other services	Total
Assets	87,903,278	3,129,626	1,052,831	982,581	135,422,302	**228,490,618**
Liabilities	62,233,175	789,870	465,227	883,297	54,524,990	**118,896,559**
Capital expenditure (Notes 16 and 17)	8,583,915	601,937	654,863	522,462	11,010,861	**21,374,038**

Segments' assets do not include Goodwill (RSD 30,528,110 thousand), equity investments (RSD 19 thousand), deferred tax assets (RSD 1,076,482 thousand) and receivables for overpaid income tax (RSD 88,671 thousand), while segments' liabilities do not include deferred tax liabilities (RSD 2,133,774 thousand), as these assets and liabilities are managed on the Group's level.

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

	Mobile telephony	Internet	Multimedia services	Fixed telephony and other services	Total
Assets	78,229,753	804,064	9,008	144,712,715	**223,755,540**
Liabilities	68,804,579	475,669	143,498	55,456,953	**124,880,699**
Capital expenditure (Notes 16 and 17)	13,736,041	317,740	-	15,834,019	**29,887,800**

Segments' assets do not include Goodwill (RSD 28,207,891 thousand), equity investments (RSD 18 thousand) and deferred tax assets (RSD 1,062,178 thousand), while segments' liabilities do not include deferred tax liabilities (RSD 2,099,443 thousand) and income tax payable (RSD 99,567 thousand), as these assets and liabilities are managed on the Group's level.

(b) Information about Geographical Area

The country of origin of the Group (Parent Company), which is also the main operating territory, is the Republic of Serbia. Revenues are allocated on the basis of the country in which the service is provided. The Group's revenues are predominantly generated in the Republic of Serbia (69%). Revenues generated in the Republic of Srpska amount to 17%, while revenues generated in the Republic of Montenegro amount to 3% of the total consolidated revenues. The remaining revenues (11%) relate to international settlement services, roaming and other services on foreign markets.

35. 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 and deferred tax assets (there are no employment benefit assets and right arising under insurance contracts) located in the Republic of Serbia amounts to RSD 118,805,089 thousand as of 31 December 2009, and represents 55.2% of total non-current assets (31 December 2008: RSD 121,069,444 thousand or 57.7%).

The total of these non-current assets located in other countries amounts to RSD 96,550,965 thousand or 44.8% (31 December 2008: RSD 88,908,646 thousand or 42.3%). Out of this amount, 92.0% (RSD 88,808,948 thousand) and 7.6% (RSD 7,337,760 thousand) of the non-current assets are located in the Republic of Srpska and the Republic of Montenegro, respectively, while 0.4% of the non-current assets of the Group (RSD 404,257 thousand) are located in other foreign countries.

(c) Information about Major Customers

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

36. EVENTS AFTER THE REPORTING PERIOD

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

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

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

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

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

36. EVENTS AFTER THE REPORTING PERIOD (Continued)

(b) Foundation of a New Subsidiary

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

"TS:NET BV" has been founded as a closed joint stock company with limited liability for commitments up to the amount of the founding capital and limits for transfer of shares contracted by the Statute. Principal business activities of the subsidiary are lease of telecommunication equipment and other operating activities in order to create conditions for construction and exploitation of international transport network of the Parent Company. The Parent Company is the sole shareholder in the newly founded subsidiary.

(c) Change in the Ownership Structure and Additional Capital Investment in the Consolidated Subsidiary "Mtel" d.o.o., Podgorica, Montenegro

On 1 February 2010, "Telekom Srpske" a.d., Banja Luka signed an Agreement on the purchase of 49% equity interest in "Mtel" from the minority owner Ogalar B.V., Amsterdam, Holland. During the month of February 2010, "Telekom Srpske" paid in the total purchase price agreed for the equity interest at issue. On 16 February 2010, the Central Register of the Commercial Court in Podgorica issued a Founder Change Certificate for the Consolidated Subsidiary "Mtel".

In accordance with the Parent Company' Decision on the increase of founding capital of the Consolidated Subsidiary "Mtel" dated 12 March 2010, subscribed capital of "Mtel" was increased by the amount of EUR 40,000,000. By 15 March 2010, the owners paid in the aforementioned amount in proportion to their interest in the capital of "Mtel", i.e., the Parent Company, holding 51% of interest, paid in the amount of EUR 20,400,000, while the Consolidated Subsidiary "Telekom Srpske", holding 49% of interest, paid in the amount of EUR 19,600,000.

37. EXCHANGE RATES

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

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

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