

Consolidated Annual
Business Report for 2015



mts
Tvoj svet

Telekom Srbija

CONSOLIDATED ANNUAL
BUSINESS REPORT
OF TELEKOM SRBIJA A.D.
BEOGRAD
FOR 2015

Telekom Srbija

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01

Summary

report



TELECOMMUNICATIONS COMPANY "TELEKOM SRBIJA" a.d., BEOGRAD AND RELATED LEGAL ENTITIES

TELECOMMUNICATIONS COMPANY "TELEKOM SRBIJA" a.d., BEOGRAD

On 23 May 1997, the Public Enterprise of PTT Traffic "Srbija", Beograd (PE PTT or PE of PTT Traffic "Srbija") established the Telecommunications Company "Telekom Srbija" a.d., Beograd (hereinafter: Telekom Srbija or the Company or the Parent Company) when it assigned to the Company all telecommunications assets, including real estate and some other assets and liabilities. The Company was registered on 29 May 1997 as a joint stock company, incorporated for an indefinite period of time.

In accordance with the Law on Business Companies (Official Gazette of RS, no. 36 of 27 May 2011 and no. 99 of 27 December 2011), the Company's General Meeting adopted the Articles of Association in 2012, defining the following management bodies in the Company: the General Meeting, the Supervisory Board and the Executive Board.

The Company's core activity is the provision of telecommunications services, the most important being the services of local and international telephone traffic, fixed telephone services, traffic transit, data transfer, lease of lines, services in the entire network area, add-on services in the field of mobile telephony, fixed services, the Internet and multimedia services. The Company's predominant activity, according to the applicable activity classification, is the cable telecommunications activity.

The Company also provides services in the area of lease, construction, management and protection of telecommunications infrastructure, it issues telephone directories, provides operator-assisted call services and e-directory services in the field of fixed telephone services.

The Company has had the mobile telephony licence (GSM/GSM1800 and UMTS/IMT-2000) since 2006. In 2007, the Company renewed the fixed telephony licence. Since 2009, the Company has been in possession of a fixed wireless access licence (CDMA).

Beside the above mentioned Licences, the Company has been entered into the Register of Operators maintained by the Regulatory Agency for Electronic Communications and Postal Services (Ratel) and for the services of access to the broadband network, Internet services, services of distribution of media content and, since March 2015, for the 4G network.

In keeping with the Law on Electronic Communications (Official Gazette of RS no. 44, of 30 June 2010, No. 60 of 10 July 2013 – Decision of the Constitutional Court and No. 62 of 13 June 2014), and within the activities on encouraging competition in the telecommunications market of the Republic of Serbia, applying the instruments of market regulation, on 7 July 2011, Ratel passed the Decision on designating the markets that are subject to prior regulation, whereunder it defined nine markets subject to prior regulation (PRM). Based on the analyses of these PRM, Ratel rendered some resolutions in late 2011 whereunder the Company was declared as an operator with significant market power (SPM) in 8, out of 9 PRM, as follows: I – retail market for access to the public telephone network on a fixed location, II – wholesale market for call origination in the public telephone network on a fixed location, III – wholesale market for call termination in the public fixed network, IV – wholesale market for (physical) access to the network elements and the accompanying facilities (including the shared and full unbundled access to local loop, V – wholesale market for broadband access, VI – wholesale market for leased lines, VII – wholesale market for call termination in mobile network and VIII – retail market of the publicly available telephone service from a fixed location. For each of the above TPM, Telekom Srbija assumed the relevant regulatory obligations, such as: publishing the relevant data in the form of a standard offer, non-discriminatory actions, enabling access and using the network elements and associated facilities, price control, application of cost-based accounting, prohibition on excessive pricing, tariff control, etc. Telekom Srbija is a joint stock company whose registered, authorised, issued and paid-in capital consists of 1,000,000,000 ordinary shares.

As at 31 December 2015, Telekom Srbija had a share in capital in the following related legal entities:

- *Telekomunikacije Republike Srpske* a.d. Banja Luka, Republika Srpska, i.e. Mtel a.d. Banja Luka (65% share capital);
- Telecommunications Company mtel DOO, Podgorica, Montenegro (51% capital);
- Business Company for Providing Maintenance and Security of Facilities, Property and Other Services Telus a.d., Beograd, Republic of Serbia (100% share capital);
- TS:NET B.V., Amsterdam, the Netherlands (100% share capital);
- mts d.o.o., Kosovska Mitrovica (100% share capital);
- Telecommunications Company HD-WIN d.o.o., Beograd, Republic of Serbia (51% capital);
- mts banka a.d. Beograd, Republic of Serbia (76.05% share capital);
- Dimedia Group SA, Geneve (Switzerland) (50% share capital);
- GO4YU D.O.O. Belgrade, Republic of Serbia (50% stake in the initial capital);
- FiberNet DOO, Podgorica, Montenegro ceased to operate on 30 September 2015 due to the status change merger by absorption, when this company merged with mtel d.o.o. Podgorica, Montenegro.

RELATED LEGAL ENTITIES

TELECOMMUNICATIONS OF REPUBLIC OF SRPSKA a.d. Banja Luka

Joint Stock Company Telekomunikacije Republike Srpske, Banja Luka (hereafter: Mtel) has a seat in Banja Luka, Republika Srpska. The company's full name is Telekomunikacije Republike Srpske akcionarsko društvo Banja Luka, and two additional short commercial names are also used: *Mtel a.d. Banja Luka* and *Telekom Srpske a.d. Banja Luka*.

Mtel's core activity is the provision of telecommunications services, the most important

being the services of national and international telephone traffic. Besides, Mtel offers a wide portfolio of other telecommunications services, including other fixed and mobile telephony services, data transfer, lease of lines, private lines, services in the entire network area, add-on services in mobile telephony, the Internet and multimedia services. Mtel also provides services in the field of lease, construction, management and protection of telecommunications infrastructure.

TELECOMMUNICATIONS COMPANY mtel DOO., Podgorica

In 2007, in a consortium with Ogalar B.V., Amsterdam, Telekom Srbija a.d. was granted a special licence for the construction, possession and operation of the public mobile telecommunications network and provision of public mobile telecommunications services and licence for the provision of public telecommunications services via fixed wireless access (*WIMAX*) in Montenegro.

For the purpose of creating conditions for the provision of services subject to the licence granted, on 4 April 2007, a new legal entity was incorporated under the name: "*Društvo za telekomunikacije "mtel" DOO, Podgorica*" (hereafter: mtel)

After the operating licence had been obtained, the mobile telephony network was constructed within 77 days.

The core activity of mtel is provision of telecommunications services in the field of the mobile and fixed wireless telephony and Internet services.

The core activity of telecommunications company **FiberNet DOO, Podgorica** is construction, possession, operation and maintenance of the transport and telecommunications network and provision of telecommunications services. The purpose of the constructed communications network is the provision of transport capacities for the providers of communications services in the territory of Montenegro and connection with foreign telecommunications networks.

FiberNet DOO, Podgorica, Montenegro ceased to operate on 30 September 2015 due to the status change: merger by absorption, when it merged with **mtel**.

BUSINESS COMPANY FOR THE MAINTENANCE AND SECURITY OF FACILITIES, PROPERTY AND OTHER SERVICES "TELUS" A.D., BEOGRAD

Within its registered activity, the Business Company for the Maintenance and Security of Facilities, Property and Other Services "Telus" a.d. (hereafter: Telus), is engaged in the provision of the following services:

- security of facilities and property (FTO-physical and technical security, PPZ- fire protection and money escort services),
- maintenance of hygiene in business premises and buildings, and
- hiring staff to perform auxiliary and physical jobs.

TS:NET, B.V., AMSTERDAM (the Netherlands)

The core activity of Business Company TS:NET, B.V., with the seat in Amsterdam, the Netherlands (hereinafter: TS:NET, B.V. or the company) is the lease of telecommunications equipment and performance of other related activities for the purpose of creating conditions for the construction and operation of the international transport network of the Parent Company.

mts d.o.o. Kosovska Mitrovica, Republic of Serbia

Business Company mts d.o.o. Kosovska Mitrovica (hereafter: mts d.o.o.) was founded in October 2015 to conduct the telecommunications activity in the territory of Kosovo and Metohija.

Telekom Srbija is the founder and the only member of said business company with a 100% stake.

TELECOMMUNICATIONS COMPANY HD-WIN d.o.o., BEOGRAD

Telecommunications Company HD-WIN d.o.o. (hereafter: HD-WIN or the company or Arenasport) is engaged in production and broadcasting of TV channel Arena Sport and production of sports events in the region.

mts banka a.d., BEOGRAD, Republika Srbija

mts banka a.d. Beograd, formerly: Dunav banka a.d. Beograd (hereafter: mts banka) s engaged in banking operations– other monetary intermediation.

Having finished the procedure for simultaneous decrease and increase in the share capital of mts banka by the bank's General Meeting, based on the Subscription Agreement entered into on December 2014 with Dunav osiguranje and Dunav RE and after the payment effected within the procedure of increase of share capital, acquired ownership over 55.79% of shares in mts banka.

The corporate bodies of the Company approved additional acquisition of 1,190,700 shares formerly owned by Dunav osiguranje a.d.o. Beograd, whereby Telekom Srbija acquired ownership of 76.05% of the total number of shares of mts banka.

In February 2015, the additional 137.947 i.e. 2.1% shares were acquired.

In this way, conditions were created for commencing the provision of mobile banking services to the user of the Company's telecommunications services.

DIMEDIA GROUP SA, GENEVE, SWITZERLAND

Dimedia Group SA, Geneve, Switzerland (hereafter: Dimedia) is engaged in various activities in the field of telecommunications and multimedia, including software sale and production, investments and holding interests in various other companies, Swiss and foreign, that operate in the same field.

Having entered into the share sale agreement in March 2014, the Company acquired 50% of ownership shares in Dimedia for the purpose of enabling an efficient access to potential markets and increasing the number of users of advanced telecommunications services.

GO4YU D.O.O., BEOGRAD

GO4YU D.O.O. Beograd (hereafter: GO4YU) was founded during 2014 by Dimedia Group SA, Geneva.

Telekom Srbija acquired in August 2015 the ownership over 50% of the share capital of GO4YU.

The prevailing activity of GO4YU is: wireless communications.

INTRODUCTORY NOTE BY THE DIRECTOR GENERAL

Dear Sirs/Madams,

In the dynamic and challenging market and microeconomic environment in which we operated in 2015, we continued to accomplish ambitious business goals. The process of privatization definitely marked the previous year setting new challenges before the employees and the management, but that process did not prevent us from working and achieving the set goals. Looking at the results that we achieved, we can be moderately satisfied and encouraged to continue to work in the forthcoming period aimed at increasing the satisfaction of the customers, the employees and the shareholders.

During 2015, we continued the implementation of the Strategic Business Plan that we had adopted in 2014 setting the business strategy and goals in all fields of operation for the purpose of strengthening the market position, improving the organizational effectiveness and upgrading the operating performances. We launched the initiative for the optimization of office premises and concentration of employees on a less number of locations in Belgrade thus creating the conditions for reducing the rental costs of business premises. We continued with the initiatives that refer to the transformation of the OSS/BSS system by implementing ERP, CRM, billing and other advanced application solutions. We actively implemented the initiatives for transformation of human resources management and other processes of key importance for a more efficient operation. We introduced ISO 20000 and ISO 9001 standards in the IT organization, launched a new mts brand and a corporate portal. After creating the necessary technical preconditions and frequency bands, in April 2015 we commenced the commercial provision of services via the LTE network. We recorded a high growth in the number of IPTV users after introducing the advanced mts TV service and started up the promotional provision of multiscreen services in response to the highly competitive OTT market. After the acquisition of mts bank, we entered a new sphere of business and we worked hard to create the conditions for building a synergy between the banking and telecommunications services. The first results are expected during 2016. We also improved the ICT service offer and worked on developing new business models on this challenging and complex market.



Owing to the voluntary employee layoff program, we reduced the number of employees by more than 500 and thus created conditions for rationalization of operating costs in the next period.

In 2015, we commenced provision of mobile telephony services in Austria through the related entity "Mtel Austria" with the aim of using the potentials for expansion to other markets and other fields of business.

We carried out the acquisition of the cable operators in Montenegro and, by capital increase we enabled integration of these operators in mtel, whereby conditions were created for consolidating the operation and strengthening the market position of mtel owing to the provision of convergent services on the Montenegrin market.

We maintained a continued growth in operating revenues, but the higher growth in business expenses resulted in the lower overall operating results. At the same time, we significantly reduced the indebtedness, increased the investments by more than 50%, timely settled all the liabilities towards creditors, paid out the dividends to the shareholders and ensured financial stability of the company.

As for the mobile telephony, we maintained the revenue growth, achieved a mild growth in the number of customers and recorded the same changing trend in terms of customer structure in favour of postpaid customers thanks to the service offer and offer of

mobile hand sets and devices with the improvement of the network and service quality.

As for the fixed telephony, we faced the global declining trend in the number of customers, traffic and revenues, and number portability effects, but we managed to overcome this trend to a great extent by introducing a new tariff system and enriching the offer of integrated service packages (BOX) designed for various customer needs.

We maintained the stable growth in the number of broadband customers while the number of IPTV users significantly increased owing to the improved IPTV and add-on service offer and acquisition of the cable providers in Montenegro.

We are particularly satisfied with the results of sale of BOX packages where we reached nearly half a million users and thus managed to make the most of the potentials in having a single offer and a single brand named BOX, which makes us different from the competitor companies.

We notably increased the level of investments in 2015 with the aim of enhancing the quality of the network and IT system, improving the existing services and creating conditions for introducing new services, as well as for transforming the business processes so as to offer a better experience to the users of our services, reducing the costs and increasing the operating efficiency. We provided the technological prerequisites for implementing the 4G mobile telephony, obtained all licences and frequencies necessary for the provision of broadband services via mobile access and expanded the LTE network. We made significant investments to enable provision of the state-of-the-art multimedia and ICT services. In the course of 2015, we made a notable progress with respect to expansion to other markets and entry in new fields of operation. We began to offer different services to our Diaspora by using different business models.

After the acquisition of mts banka, we launched a project for developing a spectrum of new services based on the synergy between the banking and telecommunications services and the first results are expected during 2016.

The fierce market competition in all segments of operations and the general macroeconomic environment impose new and bigger challenges in front of us. We are ready to face these challenges by investing maximum efforts in implementing the

projects designed and consistently achieving the set strategic goals. We are going to increase the volume of investments for the purpose of further improving the quality of the network and business processes and continually increasing the experience of the users of our services. Of great importance is to provide continuity in the development employees as the most valuable asset of the company, particularly in view of performing more complex operating tasks.

It would be necessary to invest additional efforts to improve corporate management at the level of the Group for the purpose of building a higher synergy with our subsidiaries in the key segments of operation. We expect to have synergic benefits from the rationalization in the fields of joint operation, unification of business processes and practices, and reduction of costs and operating risks for improving the overall business results and, consequently, maintaining the investors' trust and increasing the values of the companies in the interest of the shareholders and the organization.

As in the previous period, the ambitious goals that we have also set in all the segments of operation will require high commitment of employees and particularly the management skills to provide the optimal use of available resources and efficiency in decision making on all levels of management. We are confident that only such approach, commitment and consistency in work can help us keep the position of the leading regional telecommunications operator.

We are going to maintain the continuity in the activities related to corporate social responsibility on all the markets on which we operate through active cooperation and community support.

I would like to take this opportunity to say that I appreciate the trust of our customers who are the most important part of our success and ambition. I also thank all our employees, shareholders, business partners and all those who share our vision to be the first choice of the customers on all the markets on which we operate providing the top quality services in keeping with the latest technological trends.

I believe that we are going to share the same goals and values in the period to come.

Sincerely,

Predrag Ćulibrk
Director General of Telekom Srbija a.d. Beograd

02

Development and business environment



BACKGROUND

Telekom Srbija a.d., Beograd

May 1997 – PE PTT founded Telekom Srbija as a single-member joint-stock company.

June 1997 - Within the privatization of a part of the capital, 49% of shares were sold to STET INTERNATIONAL NETHERLANDS N.V., affiliation of the Italian Telecommunications Company Telecom Italia in the Netherlands (29% of shares) and to Greek Telecommunications Company HELLENIC TELECOMMUNICATIONS ORGANIZATION S.A. (OTE) (20% of shares).

February 2003 - An agreement was concluded whereunder PE PTT bought back the full package of Telekom Srbija's shares owned by Telecom Italia, and thus acquired a total of 80% shares in Telekom Srbija, while the remaining 20% of shares stayed in the ownership of OTE.

September 2010 – Based on the Conclusion of the Serbian Government 05 number 023-6816 of 21 September 2010 and Decision of the Managing Board of PE PTT of 20 September 2010 on the free transfer of shares in Telekom Srbija to the Republic of Serbia, the PE PTT and the Serbian Government concluded the Agreement on the Free Transfer of Telekom Srbija's Shares – Gift on 24 September 2010. By virtue of this agreement, the Republic of Serbia became the majority owner of Telekom Srbija and acquired the ownership right to 80% of the shares in Telekom Srbija, while 20% of the shares remained in the ownership of OTE.

December 2011 – On 16 December 2011, the General Meeting of Telekom Srbija passed the Decision on the Acquisition of Own Shares, previously owned by OTE, as the Company's minority shareholder, whereunder the General Meeting approved the conclusion of the Share Sale Agreement between Telekom Srbija and OTE, Greece, which was eventually signed on 30 December 2011.

January 2012 – On 25 January 2012, Telekom Srbija paid in full the funds against the stake of the minority shareholder OTE in the capital of Telekom Srbija. Since that day, Telekom Srbija has been the owner of 20% of company shares (treasury shares).

May 2012 - Under the Decision of the Serbian

Government on the Free Transfer of Shares to the Citizens – Right Holders and Employees and Former Employees of Telecommunications Company Telekom Srbija a.d. Beograd of 27 April 2012, and in accordance with the Law on the Right to Free Shares and a Monetary Compensation Exercised by Citizens in the Privatization Procedure (the Official Gazette of RS, No. 123/07 and 30/10), the procedure for and the manner of the transfer of free shares of Telekom Srbija to the citizens as the holders of such right and employees and former employees of Telekom Srbija, including the employees and former employees of PE PTT and their legal predecessors was defined, and based on such procedure the distribution of free shares was carried out. After the distribution of free shares, the structure of Telekom Srbija's equity changed, so that the stake of the Republic of Serbia was 58.11%, the stake of Telekom Srbija was 20%, the Serbian citizens acquired 14.95% and the employees and former employees acquired 6.94% of shares in Telekom Srbija.

January 2015 – The Law amending the Law on Business Companies entered into force (Off. Gazette of RS, No. 5/2015) stipulating the obligation of a company to have its treasury shares disposed of / cancelled. In compliance therewith, the Company may dispose of treasury shares after the expiry of the period set forth by the Law on Business Companies (three years after the acquisition of treasury shares).

February 2015 – The Company announced an invitation to bid for the provision of management consulting services related to the professional assistance in establishing the privatization model.

March–December 2015 – In this period, the activities were carried out in connection with the procedure for sale of the Company's share capital through the disposal of shares owned by the Republic of Serbia through public invitation to bid. The Privatization Agency passed Decision on 11 December 2015 number 10-3945/15-124/04 on cancellation of said procedure.

Telecommunications of Republic of Srpska a.d. Banja Luka

The Basic Public Telecommunications Company of Republika Srpska, Banja Luka – Mtel was registered on 20 December 1996, and it operated by 12 December 2002 as a fully state-owned company,

whereafter, following the ownership transformation, it was set up as a joint stock company and its name changed to *Telekomunikacije Republike Srpske, a.d. Banja Luka*.

By the end of 1996, the postal, telegraph and telephone services in Republika Srpska were rendered by a single enterprise – Single Public Enterprise of PTT traffic of Republika Srpska.

On 1 January 1997, in keeping with the provisions of the Law on communications, radio-traffic and postal, telegraph and telephone traffic, the enterprise was divided into two separate enterprises: JODP Telekom Srpske and JODP Srpske Pošte.

During 2002, based on the Privatization Law of Republika Srpska and Decision of the Government of Republika Srpska, 20.0% of the state-owned capital in the Company was privatized by way of a voucher privatization scheme, where the Privatization and Investment Funds took over 10.5%, and individuals took over 9.5%. The remaining 80.0% (the state-owned capital - 65.0%, Pension and Disability Fund – 10.0% and Restitution Fund – 5.0%) were privatized under the Special Privatization Program of the Government of Republika Srpska, in accordance with the Law on the privatization of state-owned capital in enterprises. Under the Resolution of the Basic Court in Banjaluka of 12 December 2002, the change of the name (to Telekomunikacije RS, a.d. Banja Luka) and the relevant status change were entered into the register. Pursuant to the Resolution of the Basic Court in Banjaluka of 28 June 2007, the following status change was entered:– ownership transformation by way of sale of the full amount of the state-owned capital to Telekom Srbija, a.d. Beograd.

By purchasing 65.0% of the state-owned capital, Telekom Srbija became the majority owner of Mtel and that resulted in the following capital structure:

- Telekom Srbija, a.d. Beograd, Srbija – 65.0%;
- Pension and Disability Fund a.d., Banja Luka – 10.0%;
- Zepter fond, a.d. Banja Luka – 5.1%;
- Restitution Fund of Republika Srpska, a.d. Banja Luka – 5.0%;
- Other shareholders – 14.9%.

Mtel is the owner of a 49% stake in Telecommunications Company mtel d.o.o. Podgorica.

Mtel was the owner of a 100% stake in the related legal entity “**TT Inženjering d.o.o. Banja Luka**” until 31 January 2014, when the status change: merger by way of absorption of the related legal entity “TT Inženjering d.o.o. Banja Luka” with Parent Company Mtel a.d. Banja Luka was registered under the decision of the district commercial court in Banjaluka.

Related parties

On 31 December 2015, Mtel a.d. Banja Luka had two related legal entities: **Mtel Austria** with a seat in Vienna and **Logosoft d.o.o.** Sarajevo.

Mtel Austria Vienna

On 1 July 2014, Mtel incorporated a new business company: Mtel Austria with the seat in Vienna with a 100% ownership share with the aim of providing telecommunications services in that country. Mtel Austria is going to operate as a MVNO (mobile virtual network operator) and render the mobile telephony services: voice, SMS and data transmission services. The service includes the offer of multimedia content from the ex-Yugoslav republics - Live TV and web-based music streaming services, intended primarily for the people who live and work in Austria.

The model of operation of MVNO Mtel Austria includes the offer of tariff packages with additional benefits towards the networks of Telekom Srbija Group in Bosnia and Herzegovina, Serbia and Montenegro in a form of a free traffic package offer, lower prices of traffic towards the networks of Telekom Group, lower prices of roaming in the networks of Telekom Group and content offer adjusted to ethnic community.

Logosoft d.o.o. Sarajevo

Logosoft d.o.o. Sarajevo was founded in 1995 as a company for IT and communication engineering. At first, it engaged in the sale of computers and system integrations. During 1998, the company started to provide Internet services and as early as in 2000, it commenced rendering wireless broadband Internet access to individuals and legal entities.

Later on, during 2003, Logosoft started the construction of own fiber optic infrastructure in the territory of Sarajevo which currently covers individuals and legal entities located in the wide area of the city and is also connected with Tuzla and Zenica. In the years that followed, Logosoft developed its business to network integrations, software solutions, business solutions, education and telephone services.

In early 2012, Logosoft d.o.o. Sarajevo announced the commercial launch of the VDSL-based services and today, it is the sole provider in B&H who possesses this type of broadband Internet service for individuals. Logosoft is also the first private ISP which started the provision of services via own xDSL and fiber optic network and, today, it has a large number of satisfied subscribers in Sarajevo, with the plan to expand the service to is Zenica and Tuzla.

On 1 October 2014, Mtel effected the payment for 65% of share capital in Logosoft d.o.o. Sarajevo assuming the obligation to pay the remaining amount to gain the full 100% ownership until the end of 2016.

In mid-December 2014, the integrated service with mobile telephony was offered on the market of B&H Federation.

Telecommunications Company mtel DOO Podgorica

mtel was registered on 4 April 2007 in the Central Registry of the Commercial Court in Podgorica, in keeping with the Law on Business Companies of Montenegro under registration number 5-0368574/001.

mtel’s founders were:

1. Telekom Srbija with the seat in Belgrade, Republic of Serbia with a 51% ownership stake; and
2. Ogalar B.V., with the seat in Amsterdam, the Netherlands, with a 49% ownership stake.

Ogalar B.V., Amsterdam, the Netherlands, the minority founder of mtel, sold its stake to Mtel on 1 February 2010.

In accordance with the Decision of mtel’s owner on an

increase in capital, dated 12 March 2010, additional capitalization was carried out in the amount of EUR 40,000,000. The funds for additional capitalization were paid by the owners by and inclusive of 15 March 2010, relative to their respective stake in mtel.

In June 2015, the founders increased the share capital in the amount of EUR 17,346,939 of which Telekom Srbija contributed EUR 7,500,000 with the transfer of ownership over the stakes in Fibernet d.o.o and Mtel in the amount of EUR 8,500,000 by the transfer of ownership over the stakes in “Cabling” d.o.o. To enable the owners to retain the percentages of their stakes in mtel, Telekom Srbija conducted a capital increase by EUR 1,346,939.

During 2015, mtel purchased 100% of the stakes of legal entities **Media Net d.o.o.** and **Elta Mont d.o.o. Nikšić**. In addition to the companies which had already been handed over by their founders to mtel, mtel performed merger by absorption of all the companies into mtel on 30 September 2015 in keeping with the Company Law.

The core activity is the provision of telecommunications services and other business activities as envisaged in the registration sheet, while the commercial operation officially commenced on 9 July 2007.

Absorbed legal entities

Based on the Agreement on merger by absorption no. 26468 of 28 September 2015, mtel merged the following companies under its control:

- Cabling d.o.o. Budva;
- FiberNet d.o.o. Podgorica;
- Elta Mont d.o.o. Nikšić;
- Media Net d.o.o. Podgorica.

On 30 September 2015, the merger by absorption took place and said legal entities were deleted from the Central Registry of business entities held with the Tax Administration. The process of merger by absorption was conducted by a simplified merger procedure, in compliance with the provisions of the Company Law of Montenegro (Off.Gazette of Montenegro 40/11) and upon the prior fulfilment of all legally prescribed conditions governing merger by absorption, incorporation documents and articles of association of all companies that were subject to merger by absorption.

The assets and liabilities of the companies merged by absorption became the assets and liabilities of mtel as the acquirer company as at 30 September 2015.

After registering the merger by absorption with the Central Registry of business companies, mtel as the Acquirer Company continued to operate with the same business name, seat and prevailing activity, in compliance with its incorporation memorandum and articles of association; the founder's interest in the share capital of mtel as the Acquirer Company remained unchanged so that the stake of Telekom Srbija is 51% and the stake of Mtel is 49%. Before the merger by absorption, Cabling d.o.o. Budva, Elta-Mont d.o.o. Nikšić, FiberNet d.o.o. Podgorica and Media Net d.o.o. Podgorica operated as separate legal entities.

Elta-Mont d.o.o. Nikšić and Media Net d.o.o. Podgorica was in a 100% ownership of mtel. FiberNet d.o.o. Podgorica was in a 100% ownership of Telekom Srbija a.d. Beograd, while Cabling d.o.o. Budva was in a 100% ownership of Telekomunikacije Republike Srpske a.d. Banja Luka, until 8 June 2015 when they became a 100% owner of mtel.

Cabling d.o.o. Budva

Cabling d.o.o. Budva was founded on 1998 by natural persons. Mtel became the owner of Cabling d.o.o. in March 2015. The prevailing activity of Cabling d.o.o. is provision of cable and analogue television services, Internet and fixed telephony in the territory of Montenegro to legal entities and individuals. Cabling d.o.o. had no bundled services in its offer. Cabling d.o.o. provided cable TV services and Internet in the territory of Montenegro where it covered the municipalities of Budva and Podgorica. The services of cable television are used via the cards which need to be installed in the receiver of each TV set.

Elta-Mont d.o.o. Nikšić

Elta-Mont d.o.o. possessed own network in Nikšić which was developed first by making a conceptual design during 2006 and 2007 and then by construction works which began in October 2007. The basic service of Elta Mont d.o.o. was provision of cable TV services. In July 2012, Elta Mont d.o.o. commenced provision of cable Internet in the territory of the Municipality of Nikšić.

Media Net d.o.o. Podgorica

Media Net d.o.o. was founded in 2011 by a natural person. Media Net d.o.o. possessed the licences for cable electronic communications networks and the licence for distribution of radio and television programs to end users. Media Net d.o.o. was the operator of public electronic communications services and operator of public electronic communications services of Internet access and telephony on different platforms. Media Net d.o.o. based its operations on the HFC (*Hybrid Fiber Coax*) technology.

Media Net d.o.o. provided services in the territory of Cetinje and the Municipality of Berane.

On 30 September 2015, after completing the process of restructuring – by merger of Elta Mont d.o.o. Nikšić, FiberNet d.o.o. Podgorica, Cabling d.o.o. Podgorica, Media Net d.o.o. Podgorica into mtel, the capital increase took place so that on 31 December 2015, it amounted to EUR 62,472,440, of which the pecuniary capital was EUR 46,472,440 and the non-pecuniary capital was EUR 16,000,000.

FiberNet DOO, Podgorica

July 2008 - the Parent Company concluded with the Montenegro Railways (Željeznica Crne Gore) a Joint Venture Agreement for the purpose of laying down, operating and maintaining optical and power supply cable along the Bar-Vrbnica railway.

December 2008 – For the purpose of implementing the said Agreement, the Managing Board of the Parent Company rendered the Decision on the Incorporation of FiberNet.

April 2013 – for the purpose of enabling recovery of a part of the initial capital, the Supervisory Board of the Parent Company passed Decision no. 125658/11-2013 on 25 April 2013, whereby consent was granted for the adoption of the Decision on reducing the initial capital of Fibernet.

July 2013 – On 30 July 2013, the competent corporate body of FiberNet passed the Decision on reducing the initial capital.

March 2014 – an Agreement on business and technical cooperation was signed with the Montenegrin Electric Transmission System (CGES) for the purpose of exchanging i.e. mutual utilization

of optical fibers on certain routes in the territory of Montenegro, which has been in place since May 2014.

In September 2015, the merger of FiberNet and other companies (Cabling, Medianet and Elta Mont) into mtel was entered into the Central Register of Business entities of Montenegro.

Telus a.d. Beograd

Telus was founded pursuant to the Decision of the Telekom Srbija Managing Board and it launched its operations in May 2005 as a closed joint stock company, 100% owned by its founder – Telekom Srbija.

Since 2008, Telus has possessed a certificate for implementation and application of Standard SRPS ISO 9001 – Quality Management System and, since 2012, Standard OHSAS 18001 – Health and Safety-at Work Management System.

TS:NET B.V., AMSTERDAM

February 2010 - TS:NET B.V. was registered as a closed joint stock company with limited liability. May 2013 – the Supervisory Board of the Parent Company passed Decision no. 152744/14-2013 on 23 May 2013, whereby consent was granted to the adoption of the Decision on reducing the initial capital of TS:NET B.V., for the purpose of recovering available funds in favour of the Parent Company.

September 2013 – the Supervisory Board of the Parent Company passed Decision no. 288253/11-2013 on 19 September 2013, whereby consent was granted regarding the amount of the approved decrease in capital of TS:NET B.V.

TELECOMMUNICATIONS COMPANY HD-WIN d.o.o., BEOGRAD

Telecommunications Company "HD-WIN" d.o.o. was founded on 13 September 2009. Since 3 September 2010, it has been 100% owner of HD-WIN ARENA SPORT in Croatia, which possesses a broadcasting licence for the territory of Croatia. Under Accession Agreement No. 226414 of 21 July 2011, the ownership structure and capital were changed. On 4 July 2014, based on the share sale

and purchase agreement, the acquisition of Agency **SportsADD Limited**, Nicosia, Cyprus (minority shareholders of HD-WIN-a) was carried out by Agency **MYD Sports SA**, Geneva, Switzerland, where a 9% share in HD-WIN d.o.o. was transferred to **Myd Sports SA**, so that the current ownership structure is as follows:

- 51% share held by Telekom Srbija,
- 40% share held by Goran Đaković and
- 9% share held by MYD Sports SA of Switzerland.

After the fulfilment of all conditions precedent referred to in the Accession Agreement, Telekom Srbija paid in the capital in 1 August 2011.

mts banka a.d., BEOGRAD

mts banka was founded on 28 December 1990 upon obtaining the consent from the National Bank of Serbia under the name KOSOVSKO METOHIJSKA BANKA a.d. Zvečan.

After the change in the ownership structure in the procedure for the increase in share capital, the Bank has started to operate, since October 2010, under the current name, still with the seat at Zvečan, and since December 2012, with the seat in Belgrade.

In December 2014, the Parent Company effected the payment in the procedure for the increase of share capital thereby acquiring the ownership of 55.79% of shares in mts banka. Telekom Srbija's stake in mts banka as a related entity in early 2015 increased to 57.89% after submitting a take-over bid.

At the session of the Shareholders Meeting held on 29 October 2015, mts banka passed a decision on withdrawing the shares from Beogradska Berza (Belgrade Stock Exchange) Multilateral Trade Platform – MTP Belex, whereby, based on the decision rendered by Beogradska Berza, it ceased to operate as a public joint stock company on 16 November 2015.

Under the decisions of the Company's corporate bodies in December 2015, an approval was granted for the acquisition of 1,190,700 shares of mts banka previously owned by the company Dunav osiguranje

a.d.o. Beograd, so that the ownership structure of mts banka is as follows:

- Telekom Srbija 76.05% shares, instead of 57.89% shares,
- Dunav osiguranje a.d.o 14.60%,
- Dunav Re A.D. 3.63 %,
- Other shareholders 5.72%.

DIMEDIA GROUP SA, GENEVA

Dimedia was incorporated on 19 March 2013 and it has a seat in Geneva, Switzerland. The Parent Company acquired in March 2014 the ownership over 50% of shares in Dimedia, while the remaining 50% is owned by another, foreign business company.

GO4YU D.O.O., BEOGRAD

GO4YU was founded during 2014 by Dimedia.

In August 2015, Telekom Srbija acquired ownership over 50% of share capital of GO4YU.

The activities of GO4YU were redesigned for the provision of telecommunications services to the users in the Diaspora living in South America.

mts d.o.o. Kosovska Mitrovica

mts d.o.o. was founded in October 2015 with the aim of conducting telecommunications activities in the territory of Kosovo and Metohija by Telekom Srbija, which is the sole member holding a 100% stake.

MARKET

Macroeconomic data

REPUBLIC OF SERBIA

Overall economic activities in 2015 in the Republic of Serbia measured by GDP increased, in real terms, by 0.8% as compared to the previous year. It is expected that the gross domestic product in 2016 go up by 1.8% and reach around 2.2 % in

2017. The growth should be based on investments while the share of net export will most probably be neutral.¹

The industrial production in the Republic of Serbia in December 2015 was higher by 11.0% than in December 2014 and, as compared to the 2014 average, it is higher by 18.3%. The industrial production in 2015 versus 2014 is higher by 8.2%.

Viewed per sector, in December 2015, as compared to the same month in 2014, the following trends have been recorded:

- Sector of electric power supply, gas, steam and air-conditioning – a 44.5% growth,
- Mining industry – a 37.0% growth, and
- Processing industry – a 0.6% growth.²

The total foreign trade commodity exchange of the Republic of Serbia for the January – December 2015 amounts to:

- 31,581.4 million dollars – decline by 10.9% as compared to the same period in the last year;
- 28,421.2 million euros – increase by 6.6% as compared to the same period in the last year.

The deficit amounts to 4,851.0 mil. dollars, which is a 15.8% decrease relative to the same period in the last year. Expressed in euros, the deficit amounts to 4,364.4 million, which is a 0.6% increase relative to the same period in the last year.

The export/import coverage index equals 73.4% and is higher than the coverage index in the same period of the previous year, when it accounted for 72.0%.³

The YOY inflation rate in December 2015 was 1.4% mostly due to the higher prices of electric energy and cigarettes. The inflation pressures remained on a low level also in the last quarter of 2015 which is

1. http://www.nbs.rs/export/download/pdf_ioi/oi_02_2016.pdf

2. <http://webzrzs.stat.gov.rs/WebSite/public/PublicationView.aspx?p-Key=41&pLevel=1&pubType=2&pubKey=3411>

3. <http://webzrzs.stat.gov.rs/WebSite/public/PublicationView.aspx?p-Key=41&pLevel=1&pubType=2&pubKey=3408>

attributed to the role of domestic factors and low prices of primary products on the world's market and, generally, the low inflation in other countries.

After the long-lasting declining trends, the YOY inflation rate should start growing from the mid-2016 and go back within the targeted limits. It is estimated that it will continue to grow in 2017, but at a slower pace, and that will be on the level of some 3.0%. The inflation growth should be a result of gradual weakening of disinflation pressures on grounds of the expected growth in the prices of primary products on the world's market, the local demand and the inflation in other countries.⁴

The unemployment rate in the Republic of Serbia in 4Q of 2015 amounted to 17.9%, in particular, 17.4% for male and 18.4% for female population.⁵

The average salary net of taxes and contributions paid in December 2015 was RSD 51,485. As compared to the average salary net of taxes and contributions paid in November 2015, it is higher in nominal terms by 16.6% and higher in real terms by 16.8%.

The average salary net of taxes and contributions paid in December 2015 is higher in nominal terms by 3.0% and higher in real terms by 1.5% as compared to the average salary net of taxes and contributions paid in December 2014.

The average salary net of taxes and contributions paid in the January–December 2015 period, relative to the average salary net of taxes and contributions paid in the January–December 2014 is lower in nominal terms by 0.2% and lower in real terms by 2.1%.⁶

BOSNIA AND HERZEGOVINA

The economy of Bosnia and Herzegovina is still the relatively small and mostly import oriented economy. The unemployment rate and public spending are rather high and amount to some 50% of GDP.

The year of 2015 in Bosnia and Herzegovina passed in the attempts to repair the damage caused by the floods in 2014. In Republika Srpska, it resulted

4. http://www.nbs.rs/export/download/pdf_ioi/oi_02_2016.pdf

5. <http://webzrzs.stat.gov.rs/WebSite/public/PublicationView.aspx?p-Key=41&pLevel=1&pubType=2&pubKey=3470>

6. <http://webzrzs.stat.gov.rs/WebSite/public/PublicationView.aspx?p-Key=41&pLevel=1&pubType=2&pubKey=3402>

in increased tax liabilities and introduction of solidarity aid tax at the rate of 3%. In order to avoid shifting the entire burden on the businessmen, it was prescribed that such liability be shared by the employer and the employees at 1.5% each. Wishing to help the devastated economy of B&H, Germany and Great Britain launched an initiative aimed at introducing the social and economic reforms as a the country's top-priority goal. This initiative was later formally adopted by the EU and finally signed in February 2015 by 14 political leaders of Bosnia and Herzegovina as a Reform Agenda. The document envisages some significant reforms that will be conducted in the field of business and labour, labour legislation, direct taxation, rule of law and improvement of entrepreneurship.⁷

The major concern of the international community and the monetary institutions is how to keep the social and political order in B&H. The IMF tried to support the entity budgets by granting a new stand-by facility, but entity governments failed to meet the IMF requirements during 2015 which caused a delayed disbursement of new tranches, for which reason the governments were forced to search for some other sources of finance.

The projected 2016 GDP growth is 4.00%, which is better than 3.5% in 2015.⁸

The disinflation trends are expected in 2016, as well, however, a mild increase in prices is also expected so that that the projected inflation rate increased from -1.8% to -1.2%.

The labour market will remain one of the major challenges of the B&H economy, because the unemployment rate in 2016 is projected at 42.80% which is somewhat better than in 42.81% in 2015. Yet, the economy of Bosnia and Herzegovina in 2016 is expected to continue the growing trend despite the unstable political situation.⁹

MONTENEGRO

According to the data contained in the November-2015 Report issued by the Ministry of Finance for in the first 11 months of 2015 relative to the same period in 2014, growth has been recorded in the following industries:

7. Foreign & Commonwealth Office: „Guidance – Overseas Business Risk – Bosnia and Herzegovina“

8. http://www.bhas.ba/tematskibilteni/TB_BDP_2015_bh.pdf

9. <http://www.tradingeconomics.com/bosnia-and-herzegovia/forecast>

- Industrial production 10.9%,
- Processing industry 22.1%,
- Number of overnight stays in tourism 15.6%,
- Retail transactions 4.3%.¹⁰

The annual inflation rate in November 2015 was 1.4%, while a 0.2% deflation was recorded on the monthly level. The average inflation rate in the January – November period was unchanged as compared to the ten months and as compared to the previous year, it amounted 1.6%.

As for the labour market in November 2015 relative to November 2014, a mild increase was recorded in the employment rate (1.2%), but the unemployment rate significantly increased (9.2%). The number of employed persons was 174,402 and it decreased by 0.2% relative to October 2015 and increased by 1.2% versus the same month of the previous year. The number of unemployed persons was 37,930 and it increased by 4.3% relative to October 2015. In the January – November 2015 period, the cash budget deficit in the amount of 266 million euros was recorded. The state debt (including deposits) at the end of September 2015 amounted to 2,150.8M euros or 58.8% of the projected GDP. The foreign debt is 1,975.1M euros, the domestic debt is 329.2M euros, while the deposits are covered by 153.5M euros.

The foreign trade exchange in the 11 months of 2015 was 1,948.1M euros which is 1.0% more relative to the relevant period in 2014.

In the January – October 2015, the increased net inflow of direct foreign investments continued and finally reached 556.4M euros, which is 90.2% more than in the relevant period in 2014. The DFI growth is attributed to a significant increase in cash-ins against investments in the national companies and banks and decrease in cash outs against direct foreign investments.

10. <http://www.mf.gov.me/rubrike/prezentacije/157428/Monthly-macroeconomic-indicators-December-2015.html>

Regulation

Telekom Srbija a.d. Beograd

In accordance with the Law on Electronic Communications (Official Gazette of RS no. 44/10, 60/13 – Decision of the Constitutional Court and 62/14 – hereafter: the Law on Electronic Communications) and the licences issued by the Republic Agency for Electronic Communications and Postal Services, as the competent regulatory body, (hereinafter: RATEL), Telekom Srbija a.d. Beograd performs the activity of electronic communications, which includes: construction and installation, maintenance, using and granting the use of public communications networks and relevant facilities, as well as the provision of publicly available electronic services.

In keeping with the Law on Telecommunications, the Rules on the number and period for which the licence for public mobile telecommunications networks and services is issued, and minimum requirements and minimum amount of a one-off fee for licence issuance (Official Gazette of RS no. 29/06 and 77/06), in a procedure of replacing the existing GSM/GSM1800 licence, RATEL issued to the Company, on 28 July 2006, the Licence for public mobile telecommunications network and services of public mobile telecommunications network, in keeping with GSM/GSM 1800 and UMTS/IMT-2000 standards, which was issued for a 10-year period. After the expiry of the relevant period, the Licence validity is to be extended for an additional 10-year period, without a demand by Telekom Srbija, provided that the Licence requirements have been met.

On 13 April 2007, in accordance with the Law on Telecommunications, the Company was granted by RATEL, in a replacement procedure, a Licence for construction, possession and operation of the public fixed telecommunications network and provision of services of public fixed telecommunications network, issued for the period until 9 June 2017. After the expiry of the relevant deadline, Telekom Srbija may file a request for extending the Licence validity, no later than six months prior to the expiry of this Licence.

On 16 June 2009, the Company was granted the Licence for the public fixed wireless telecommunications network (FWA) and voice

services, data packet transfer and concurrent voice and data transfer (CDMA licence). The licence was issued for a 10-year period, where the provision of commercial services was to begin within six months from the Licence effective date.

Apart from the above Licences, the Company was also entered in the register of operators maintained by RATEL for the broadband network access services and media content distribution services.

Of the activities related to the regulatory framework, with the implications on the operation of the Company in 2015, the following are the most important:

- In 2015, public competitions at RATEL were conducted as follows:
 1. For the frequencies of the issue of individual licences for the use of radio frequencies in the 1710-1785/1805-1880 MHz range for the territory of the Republic of Serbia, which is valid for ten years, with a possibility of extension for a period of two years, which provides for the introduction of 4G technology in Serbia. The licence was granted in March 2015;
 2. For the frequencies for the issue of individual licences for the use of radio frequencies in the 791-801/832-842 MHz range for the territory of the Republic of Serbia which is valid for ten years, with a possibility of extension for a period of five years.
- Telekom Srbija submitted to RATEL the Regulatory Report for 2014 as the basis for the prescription of the prices of regulatory services by the regulatory agency. According to the independent auditor's opinion, the regulatory financial reports of the Operator with ZTS with the balance as at 31 December 2014 and for the year ended that day, were compiled with all substantive aspects, in line with the Rules on the application of the cost-based principle, separate accounts and reports by the operator with significant market power in the sphere of electronic communications (*Official Gazette of RS no. 52/11*).

Telekomunikacije Republike Srpske a.d. Banja Luka

The regulation of the telecommunications market in Bosnia-Herzegovina falls within the competence of the Communications Regulatory Agency (hereinafter: Agency), and based on the Law on Communications (*Official Gazette of B&H no. 31/03, 75/06, 32/10 and 98/12*) and the Policy of the Telecommunications Sector and relevant by-laws.

The current regulatory framework in B-H is based on the regulatory framework of the EU. The telecommunications market of B-H was liberalized at the beginning of 2006 and at the end of 2015 the following were active on the market:

- 3 SMP (Significant Market Power) operators; according to the list of SMP operators (*Official Gazette of B-H no. 73/12*) Mtel a.d. Banja Luka, BH Telekom d.d. Sarajevo and HT d.o.o. Mostar were proclaimed SMP operators on the market of fixed and mobile services and leased lines;
- 13 holders of the Licence for the provision of fixed public telephone services;
- 85 holders of the Licence for the conduct of the activities of public electronic communications network operators;
- 71 holders of the Licence for the conduct of the activities of an Internet Access Provider.

Mtel operates in accordance with the applicable licences granted thereto by the Agency, as follows:

- The licence for a public fixed telephony operator as of 1 June 2002,
- The licence for the conduct of the activity of an Internet Access Provider as of 15 March 2013,
- The licence for the provision of the GSM services as of 12 October 2004,
- The licence for the provision of the mobile services in the universal mobile telecommunications systems UMTS as of 26 March 2009,

- The licence for the distribution of the audio-visual media services and radio media services as of 16 March 2010.

An annex and the Licence for the Provision of Mobile Services in the Universal Mobile Telecommunications Systems of December 2010 stipulate that Mtel may provide the UMTS services in the GSM frequency range, too. The Annex and the Licence for the provision of the GSM services stipulates that Mtel may use the E-GSM additional frequency range of as of June 2012.

The most important regulatory activities in the course of 2015 are as follows:

- In June 2015, the Agency Council enacted the Rule amending Rule 56/2011 on the licences for the distribution of audio-visual media services and media radio service (Official Gazette of B-H no. 52/15),
- In June 2015, the Agency Council adopted Rule 75/2015 on the use of the 11,7-12,5 GHz radiofrequency range for MVDS/MMDS. This Rule determines the method of using this radiofrequency range for the one-way distribution of TV channels in the MVDS/MMDS system in Bosnia-Herzegovina (Official Gazette of B-H no. 52/15).
- In June 2015, the Agency Council adopted the Decision on determining maximum prices for the roaming services in the public mobile communications networks. This Decision defines the bearers of the obligation, method and dynamics of reducing the prices of the roaming service in the public mobile communications network between the ministries in charge of electronic communications: Bosnia-Herzegovina, Montenegro, Republic of Macedonia and Republic of Serbia, signed on 29 September 2014 in Budva.
- In November 2015, the Agency Council adopted the Rule amending Rule 62/2012 on number portability (Official Gazette of B-H no. 94/15).
- In November 2015, the Agency Council adopted the Rule amending Rule 59/2011 the

Fees for licences in radio communications in Bosnia-Herzegovina. Article 11 of the Rule (Exceptions from the fee payment obligation) was amended. Namely, as of 17 June 2015, TV stations using radiofrequencies for analogue terrestrial broadcasting of the TV programme in B-H were exempt from the obligation of paying the prescribed fees for licences in radio communications (Official Gazette of B-H no. 94/15).

The regulation of the telecommunications market in Austria falls within the competence of the Rundfunk&Telekom Regulierungs regulatory agency (RTR), and is based on the Communications Law of the Republic of Austria. RTR granted to the **Mtel Austria** subsidiary the following:

- Network code 0667
- *Mobile Network* code 20
- Numbering 0667 77xx xxx and 0667 66xx xxx
- National signalling codes: 11 from 9376 to 9383
- *Mobile number portability routing* numbers 94 48 and 97 48
- Non-geographic numbers 0800 667 667, 0800 667 000 and 0800 667 777.

Mtel Austria was also approved the General and Special Terms for the Provision of Prepaid and Post-paid mobile services, including prepaid and post-paid tariff plans.

The **Logosoft d.o.o Sarajevo** subsidiary operates in accordance with the applicable licences and decisions granted by the Regulatory Agency for Communications as follows:

- The licence for the conduct of the activity of an operator of public electronic communications networks (national licence) no.:14/13
- The licence for the conduct of the activity of the Internet access provider no.: 007/13

- The licence for the conduct of the activity of the fixed public telephone service provider no.: 05/13
- The licence for the distribution of audio-visual media services and media radio services no.: 355-DP
- The Decision on the registration of a mobile telephone service provider.

Telecommunications Company mtel DOO Podgorica

The operations of mtel is primarily governed by the Law on Electronic Communications (Official Gazette of Montenegro no 40/13) effective as of 21 August 2013, whereas the full application of the law commenced on 21 February 2014 after the expiry of the deadline for aligning business operations with the new law.

After conducting a public competition, the Agency for Electronic Communications and Postal Activity designated Crnogorski Telekom and mtel as new operators of the Universal Service in the sphere of electronic communications. These operators will, as of 25 January 2016, replace the Universal Service operators so far Telenor and Teleinfo. Crnogorski Telekom was designated Universal Service operator that will provide access to the public electronic communications network, provide telephone call services and Internet access services. mtel was designated Universal Service operator that will provide the services of the universal service for the provision of information about phone numbers and the universal telephone directory.

The price of a call towards the Universal Information Service will, as of 25 January 2016, be substantially reduced.

The Universal Information Service (number 1180) offers the data about fixed and mobile phone numbers of all subscribers that have not requested a ban on publication and disclosure of such data as per subscriber number or number owner. A call to the Universal Information Service number

1180 may be made by all end users of electronic communications services. By calling 1180 one can obtain information about all phone numbers used by a certain subscriber. The mtel offer also defines the price of a printed Universal Telephone Directory and that the same be free of charge for socially vulnerable persons and persons with disabilities. The price of the electronic CD/DVD version of the Universal Telephone Directory is also defined, and the same shall be free of charge for socially vulnerable persons and persons with disabilities.

The relevant markets on which mtel operates are as follows:

- Wholesale regulated segments / markets in the fixed network – wholesale access to the network infrastructure on a fixed location, wholesale broadband access, call retention in public telephone networks provided on a fixed location, commencing a call from the public telephone networks provided on a fixed location, wholesale terminal and trunk segments of leased lines and wholesale lease of WLR lines
- Retail regulated segments / markets – public telephone network access on a fixed location for private and business customers, retail market of publically available services of local and long-distance calls for individuals and legal persons provided on a fixed location, retail market of publically available services and international calls for legal persons and individuals provided on a fixed location and the retail market of the broadband Internet access, and
- Wholesale regulated segments/markets in mobile networks – call termination in individual mobile networks and call initiation from public mobile telephone networks.

The wholesale and retail prices of roaming in the region are regulated.

TELUS a.d. Beograd

There is no special legal regulation which governs the hygiene maintenance services.

When it comes to the physical and technical, and fire protection services, this sphere is regulated by the Law on Weapons and Ammunition (Off. Gazette of RS nos. 9/92, 53/93, 67/93, 48/94, 44/98, 39/2003, 85/2005-state law, 101/2005-state law, 27/2011 – US and 104/12), the Law on Private Security (Off. Gazette of RS no. 104/13 and 42/15), the Fire Protection Law (Off. Gazette of RS no. 111/2009 and 20/15) and several by-laws.

TS:NET B.V., AMSTERDAM

TS:NET B.V. is operating in accordance with the Dutch law. At the end of 2012, the amendments to the law came into force providing for a more flexible form of business operations conducted by companies in the Netherlands (Flex BV act), and the preparations were launched for adjusting the operations of TS:NET B.V. to the relevant amendments.

TELECOMMUNICATIONS COMPANY HD-WIN d.o.o., BEOGRAD

Apart from the law and legal regulations governing general operations (the Law on Contracts and Torts, VAT Law, Income Tax Law and the like), the business operations of Arenasport TV is particularly subject to the Law on Broadcasting, the Law on Copyright and Related Rights and the Law on Public Information. In view of the nature of operations (broadcasting of TV programmes) and the advertising of customers on Arenasport TV channels, in this segment, operations are also regulated by the Law on Advertising.

mts banka a.d., BEOGRAD

mts banka is doing business in accordance with the regulations of the Republic of Serbia, primarily in the specific domain of banking transactions (Law on Banks – Official Gazette of RS nos 107/05, 91/10 and 14/15 and other regulations).

DIMEDIA GROUP SA, GENEVE

Dimedia is operating in accordance with the Swiss law.

GO4YU D.O.O., BEOGRAD

GO4YU is operating in accordance with the applicable regulations of the Republic of Serbia.

Telecommunications market

The telecommunications industry, as the core activity of the Parent Company and most of its subsidiaries, represents an economic sector which sees stable revenues despite the unfavourable market conditions. The telecommunications market is still dynamic with a strong competition, primarily in the domain of telephony and the Internet, the activities in this sector are still intensive capital-wise.

Until now, the telecommunications sector has seen a slight growth, particularly when it comes to the mobile telephony, Internet and pay-TV markets. In the past period, the first slight drop in the total value of the mobile market was reported in many European countries, primarily due to a decrease in the prescribed interconnection fees.

Over the past decade, the telecommunications markets were also regulated and gradually liberalized per business segment. A significant indicator of market liberalization lies in number portability.

As the present-day users are active in the world of swift changes, their needs for communication become more demanding and complex. The aspects to which more importance is attached are the availability of top-quality service and its flexibility and security.

From the point of view of a life cycle, fixed telephony can be said to be on a slight downward path, primarily due to the attractiveness of mobile telephony and more prominent transition to digital telephony. The number of telephone, cable and Internet operators relying on the Internet in the voice technology is increasing. Projections have it that from the point of view of the structure of operating revenues, there will be a significant decrease in the share of the revenues from fixed telephony and Internet services as a result

of the migration of these customers to bundle services. At the same time, the share of bundle, multimedia and M2N services will substantially increase, so that the revenues from these segments are expected to compensate for a drop in the revenues from fixed telephony.

The common characteristic of all three basic markets of the Parent Company and related legal entities, Serbia, Bosnia-Herzegovina and Montenegro, in mobile telephony, is a firmly established competition with at least three operators, as well as full liberalization of operations based on 3G technology, with the introduction of a new, more advanced LTE and/or 4G technology. Several segments of mobile telephony can be said to be in a stable phase, with a slight increase in the number of customers, primarily those using post-paid services. An increase in the number of smart phones contributes to the strengthening of this segment and opens up room for further growth. Constantly increasing is the awareness of the importance and possibilities of smartphones, which contributes to an overall growth in the use of the mobile Internet and speeding up of the so-called transition from voice to data.

Internet use currently represents an irreplaceable segment of contemporary society and an efficient support for the development of information society. Internet technologies are one of the extremely important factors of economic growth and progress of a country as an increase in the number of broadband Internet connections has a direct effect on an increase in GDP. The penetration rates of the Internet services are characterized by continuous growth, which is mainly the result of fixed broadband access. The services in this operating segment are being constantly developed by means of an increase in access bitrates, introduction of various service bundles for specific customer categories and a reduction in service bundle prices. An increase in the communications services based on the Internet such as Skype, Viber and WhatsApp represents an important trend. The future of telecommunications will be data-based and all messages will be IP based.

The markets of media content distribution have not significantly changed as compared to the last year, in terms of the transfer structure and technologies. The competition in this segment in all individual markets is extremely intensive, with a large number of distributors.

Serbia

The telecommunications market in the Republic of Serbia has been regulated and gradually liberalized per operating segment since 2006. According to internal estimates, the total share of telecommunications in the GDP of the Republic of Serbia in 2015 remains on a stable level of over 5%. Investments in this sector in Serbia amount to tens, and over the last one hundred years, even millions of EUR a year.

The information and communications technology sector is recognized as strategic and is considered to be of crucial importance for sustainable economic development in line with the Information Society Development Strategy until 2020.

Mobile telephony still has the largest share in overall revenues, even though a slight decrease in the total value of the mobile market in Serbia is seen. The Internet and pay TV markets are constantly on the increase.

The development of the IT sector is followed by legal and regulatory activities and liberalization of the regulatory regime, and the introduction of the e-governance program in a number of state institutions.

The fixed telephony market can be said to have entered the liberalisation phase, wound up with the introduction of number portability. As is the case with other markets of fixed telephony, the trend of migration to digital telephony is evident. Likewise, there is an apparently decreased traffic volume through fixed networks due to an increasingly more dominant share of mobile telephony. This trend largely compensates for the provision of bundle services.

Apart from Telekom Srbija, the following companies have also been operating on the fixed telephony market in the Republic of Serbia:

- since 2009 Orion Telekom d.o.o., Beograd, former Media Works,
- since 2010 Telenor d.o.o., Beograd,

- since 2012 Serbia Broadband – Srpske kablovske mreže d.o.o., Beograd, IKOM d.o.o. Beograd and Invest Inženjering d.o.o., Novi Sad,

According to internal estimates for 2015, in Serbia there were some three million fixed customers. The operations of Telekom Srbija in the fixed telephony segment remains dominant, both in financial and technical terms.

Despite a slight decrease, primarily as a result of a reduction in the fees of prescribed interconnections, mobile telecommunications have the largest share in the total revenues of telecommunications services in Serbia. In the mobile telephony market there are still three operators in place: Telekom Srbija a.d., Telenor d.o.o. Beograd and Vip mobile d.o.o. Beograd. All three operators hold licences for the public mobile telecommunications network and the services of public mobile telecommunications network in conformity with GSM/GSM1800 and UMTS/IMT-2000 standards issued by Ratel. The licences have been issued for the territory of the Republic of Serbia, for a 10-year period, whereafter the licence validity will be extended for an additional 10-year period, for which the licence holder shall not be required to file a request, provided that all requirements from the licence have been fulfilled. The commercial provision of services via the LTE network was launched in 2015 following the successful participation in the tender for the issue of spectrum radio frequencies of the advanced LTE and/or 4G technology for the territory of the Republic of Serbia for which all three operators present in Serbia had applied.

As regards penetration and access to the most advanced services, the mobile telephony market in Serbia is on the level of developed markets. Penetration per inhabitant accounts for almost 130% and available to customers is a wide range of the latest mobile handsets, products and services.

The total number of mobile users in Serbia is almost 10 million and the Company has a market share of over 40%. The trend of using smartphones is contributed to by the natural demand and mobile operators themselves as they subsidize the purchase of smartphones in the framework of post-paid contracts offering combinations of voice communication, data transmission and message transfer.

The mobile telephony segment is characterized by the increased use of Internet-based services such as Skype, Viber and WhatsApp. Statistics has it that almost one-third of mobile customers uses some of the listed services, primarily due to significant savings and ease of use.

The mobile banking market represents a new segment of services, which additionally enriches user experience with flexibility and diversity of services.

In 2015, the Internet market in the Republic of Serbia maintained the increase trend from the past years. The most widespread method of Internet access is still ADSL access. Internet access can also be ensured even by way of a cable modem, directly, via the Ethernet, by way of an optical cable, wirelessly in the 2.4 GHz and 5.8 GHz frequency ranges, which are in the free regime of use, to a lesser extent by using the 3.4-3.6 GHz ranges and by way of UMTS (3G) and the LTE (4G) network of mobile operators.

In the ICT service domain, the cloud service offer was upgraded, with the creation of conditions for strengthening partner business models in an extremely complex sphere, where the demands for data safety and security are exceptionally high.

Additionally upgraded were the services for the business segment, including bundle service packets, the possibility of connecting locations into a single network system, the introduction of the WiFi service, a full IT security solution which integrates virus protection, and data compromise and abuse threatening from the Internet, and the *Staas (Storage as a Service)* solution which ensures a particular storage space and a maximum number of its users.

The market of media content distribution in the Republic of Serbia did not significantly change in 2015. The operators provided their services through the following public telecommunications networks:

- Cable distribution network (coaxial, hybrid and optical) – KDS, which include analogue and digital cable distribution system;
- Public fixed telephone network– IPTV;
- Satellite distribution network (Direct to Home) – DTH.

The advancement of television technologies has also led to a significant change in the quality of image and tone, by way of digital programme broadcasting. In Serbia digitalization was conducted in three phases in the course of 2015 and was successfully completed on 7 July 2015. The digital TV signal covers 97.8% of the population of Serbia, instead of the projected European standard of 95%, with the aim of covering with the signal the remainder of two percent of the population.

With its IPTV platform, Telekom Srbija is the second largest operator of media content in Serbia and at the same time the largest IPTV operator on the market.

After the introduction of the advanced mts TV service via the new multimedia platform, the number of IPTV customers has largely increased, particularly since the introduction of the multiscreen service. LTE customers may use the TV channel reception service on mobile handsets, which is one of the initiatives which is to ensure an adequate response to increasingly more competitive market of OTT (Over the Top) services.

Bosnia-Herzegovina

In the sphere of telecommunications, the processes of market liberalization and raising the competition level on the market of telecommunications in Bosnia-Herzegovina. These processes have seen a positive growth trend which is reflected in: an increase in the number of Internet service users, which increases the Internet use rate to almost 70%, an increase in the number of mobile customers, and an increase in the number and type of services offered by the telecom operators.

The operators that hold a Licence for a Public Fixed Telephony Operator include: JP BH Telecom d.d. Sarajevo, Telekomunikacije RS a.d. Banja Luka and JP Hrvatske Telekomunikacije d.d. Mostar. In 2015, the same operators are the ones with a significant market power on the fixed market in Bosnia-Herzegovina. The listed operators have a significant market share, sales volume and generated revenues and the number of employees.¹¹

11. www.rak.ba

The voice service market in fixed telephony was marked by such activities as an increase in a bonus in tariffs, the introduction of flat traffic packages in the fixed and mobile networks, the care for the social categories of customers, the possibility of creating a single account, the protection of customers from excessive usage and clearer definition of the terms for the provision of services.

The activities on the market of leased lines were aimed at reducing the prices of the offers of leased lines, the introduction of the wholesale offer of Ethernet lines, a reduction in the monthly subscription fee, the introduction of new access rates and a reduction in the prices of using the direct Internet access service.

The multimedia service market was marked by the activities of increasing the number of TV channels in packages and the number of packages, reducing the monthly subscription fees and increasing bonuses therein.

The number of fixed subscribers of the operators with significant market power in B-H at the end of 2015 is put at 854,587¹², where the growth rate as compared to 2014 amounts to -3%. The market share of Mtel according to internal estimates, from the point of view of the number of fixed users in B-H, accounts for 31.4%.¹³

The liberalization of the telecommunications market of B-H, particularly the number portability services for the users of fixed public telephone services, increased competitiveness on the fixed market. The growth trend of the total of transferred numbers in the fixed telephone network of B-H continued in 2015 as well, bringing their number to 32,869 in 2015.¹⁴

In Bosnia-Herzegovina, three operators hold the Licence for the Provision of the GSM Services: JP BH Telecom d.d. Sarajevo, Telekomunikacije Srpske a.d. Banja Luka and JP Hrvatske Telekomunikacije d.o.o. Mostar.

12. [Internal estimate based on the official RAK data.](#)

13. [Internal estimate based on the official RAK data.](#)

14. [Internal estimate based on the official RAK data.](#)

There are some other operators registered as the providers of mobile public telephone services which provide mobile services on the basis of commercial contracts concluded with the holders of the Licences for the Provision of the GSM Services, including IZI Mobil and Logosoft d.o.o. Sarajevo which operate pursuant to contracts with Mtel, Blicne and Telrad Net that entered into contracts with BH Telecom.

There are 3,507,250 mobile subscribers in Bosnia-Herzegovina as at 31 December 2015, which is by 0.5% customers more as compared to the end of 2014.

Although the number of prepaid subscribers is still several times higher as compared to the number of post-paid subscribers, the share of post-paid customers increased in 2015 to some 23.1%. The market share of Mtel, according to internal estimates, taking into account the number of customers on the level of B-H, accounts for 40%.¹⁵

A decrease in the popularity of SMS messages is the result of a greater use of messenger applications such as Whatsapp, Google Talk, Facebook Messenger, Viber, and Skype, whereas a drop in international outgoing traffic resulted from the high prices of international calls and the use of the substitutes such as Viber, Skype, Gtalk, and Whatsapp for voice calls.

The Internet access service market was marked by the introduction of new access technologies, flat traffic packages, unlimited upload in packages, the services which protect Internet users through the control of Internet content access, and an increase in access rates for all customers.

The Internet service penetration rate on the market of Bosnia-Herzegovina is characterized by continual growth, where broadband access should be singled out as the generator of this growth. It is estimated that the Internet use rate at the end of 2015 accounts for 69.87%, which is by some 10 pp more as compared to 2014.

There were 570.060¹⁶ fixed broadband access service users in B-H at the end of 2015. The penetration rate of broadband access in relation to the number of inhabitants in B-H accounts for 15%. The market share of Mtel on the level of

15. Internal estimate based on the official RAK data

16. Internal estimate based on the official RAK data

B-H in the sphere of fixed broadband access is internally put at 23%.

The use of broadband services is on the increase year in year out, so that the number of broadband subscribers reached 99.58% of the total number of Internet subscribers.

The development of the broadband Internet, along with the liberalization of the telecommunications market, influenced the offer of service packages which integrate multiple telecommunications services: The Internet, fixed telephony, mobile telephony and television. In 2015, the number of users of such service packages significantly increased.

The multimedia service market in B-H, from the point of view of operators with significant market power, is characterized by a constant growth in the number of packet services, acquisition of new customers or retention of the existing ones so that ADSL customers and voice service customers become users of 2P, 3P or 4P service packages (the share of residential voice customers in 2P/3P/4P packages accounts for 99.7%).

The modernization of the platform for the delivery of IPTV content ensured new services in this segment.

Likewise significant are the activities of the operators in the sphere of broadening the content offer. In 2015, partner cooperation was established with the OTT content provider (Pickbox in Mtel Open).

Montenegro

In the market of Montenegro in 2015, the following companies directly operate: mtel, FiberNet and HD-WIN, in the segment of mobile telephony, fixed telephony (via the Wi-Max network), distribution of media content and provision of transport capacities for the providers of communications services, as well as connection with foreign telecommunications networks.

The mobile telephony market is characterized by strong competition, with three operators in place, Telenor, T-mobile and mtel. Said operators aspire towards full modernization of the mobile network, expansion of radio spectrum, a broader offer of handsets on the market and the development of

services and multimedia content. That the market is saturated is testified to by the penetration rate which has been over 160% over the last years.

A drop in the revenues in mobile telephony resulted from the regulator's influence on the prices of interconnection, a reduction in the revenues from voice and SMS and strong competition on the market. Increasingly more present is the influence of the OTT applications such as Viber whereby the customers more significantly reduce the use of standard Voice and SMS services. On the other hand, strong competitiveness calls for constant investments in the modernization of the mobile network in order to remain in the game. Telenor and Telekom Crne Gore have already introduced the 4G generation.

Further modernization of the mobile network also calls for an optical infrastructure both in the transit section and the access part of the infrastructure.

In line with the world trends of using the mobile Internet, mtel paid special attention to this segment in which it sees an increase in revenues. In the sphere of the Internet and cable TV, the market in Montenegro saw consolidation. The TV signal distribution market is divided between three dominant operators: T Com, SBB and BBM and 4 cable operators. Bearing in mind this state in the market, mtel identified the greatest growth potential in the domain of fixed services, so that, in the course of 2015, it made a significant step towards further winning of this part of the market by acquiring cable operators.

On the fixed telephony market, evident is the dominance of Crnogorski Telekom, whereas mtel offers its fixed services by way of the Wi-Max network. Just like in most of the countries, the fixed market sees a decline, but the number portability process makes it possible for mtel to win new customers. To achieve an increase in the market share in the sphere of the Internet and pay TV, in the course of 2015, mtel made significant investments into the fixed network. Such optical structure will soon be used for base stations for the LTE signal.

By acquiring four legal entities, including three cable providers, mtel continues the process of building cable infrastructure in all towns in Montenegro.

Apart from the aforementioned core markets in which the Parent Company and related legal entities operate, HD WIN also operates in the territory of Croatia, Macedonia and Slovenia, whereas Mtel Austria also conducts its business in the territory of Austria. TS:Net headquartered in Amsterdam and Dimedia Group and GO4YU, represent the support for the planned breakthrough of the Parent Company and related legal entities on the markets outside the parent, regional markets.

03

Corporate governance



CORPORATE GOVERNANCE

Owing to corporate governance, Telekom Srbija has achieved better organization and control mechanisms and an efficient distribution of competencies between the corporate governance bodies.

CORPORATE GOVERNANCE BODIES AND CORPORATE GOVERNANCE SYSTEM

Telekom Srbija a.d. Beograd

Corporate governance is organized as two-tier. The corporate governance bodies include:

- General Meeting,
- Supervisory Board,
- Executive Board.

General Meeting

The General Meeting includes all shareholders of the Company that, through its operation, are exercising their ownership rights. In 2015, the following were held: 48th regular session (on 25 June 2015) and the 49th extraordinary session of the General Meeting (on 25 September 2015).

Supervisory Board

The Supervisory Board conducts the tasks falling within its scope of responsibility in accordance with the applicable legal regulations, the Company Articles of Association and the Rules of Procedure of the Supervisory Board, endeavouring to act in the best interest of the Company.

The Supervisory Board and its members are obligated to act conscientiously and loyally to the Company and the shareholders, and perform the duties falling within their scope of responsibility with due care and in the reasonable belief that they act in the best interest of the Company.

Supervisory Board members are elected by the General Meeting, usually by a simple majority of the attendees and represented shareholders with the right to vote and the shareholders who,

in accordance with the Law and Articles of Association, vote in writing.

Supervisory Board members are nominated by the Supervisory Board, the Supervisory Board, the Appointment Commission, if any, and the Company's shareholders with the right to put forth an agenda.

The chairman is elected by the Supervisory Board from among its own members by a majority vote of the total number of Supervisory Board members, at the proposal of the Supervisory Board members put up by the controlling shareholder of the Company.

Audit Commission

The Commission for the audit of operations was set up by the Supervisory Board and it conducts the tasks falling within its scope of responsibility in line with the competences laid down by the applicable legal regulations and the Company's by-laws.

Executive Board

Members of the Executive Board, including the director general, are elected by the Supervisory Board. Executive directors are members of the Executive Board.

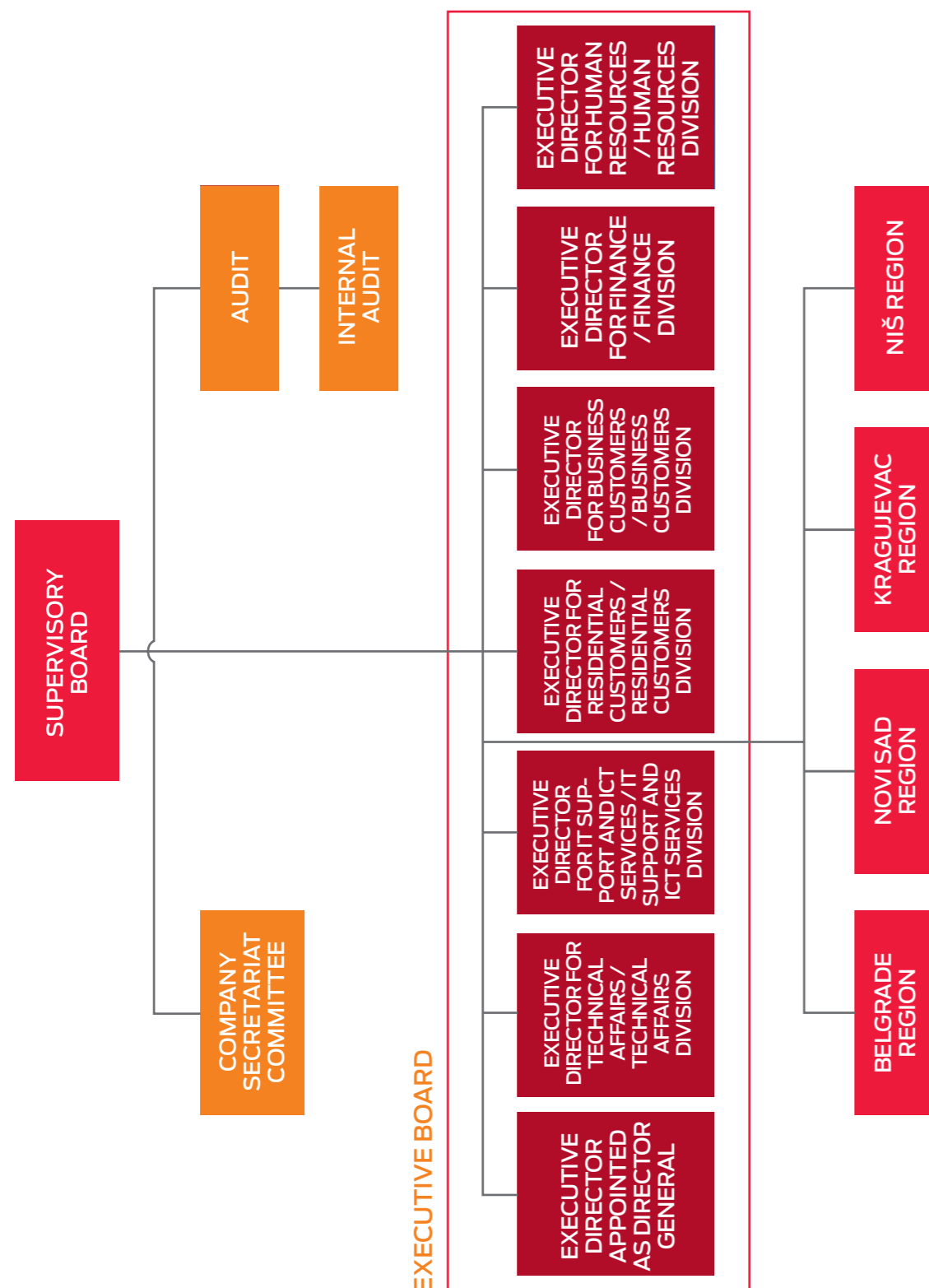
The organization, method of operation and decision-making of the Executive Board are more specifically regulated by the Rules of Procedure which were adopted by the Executive Board in keeping with its legal and statutory competences.

Secretary to the Company

Telekom Srbija has a Secretary to the Company who is appointed by the Supervisory Board.

Internal Control

The Company also includes an organizational unit competent for the activities of internal control (Internal Audit), which conducts the audit of compliance of the Company's operations with the law, and other regulations and by-laws of the Company. With its by-laws, the Supervisory Board regulated the manner of implementation and organization of the activities of the internal audit of business operations, including the terms to be fulfilled by the persons performing the duties of internal audit as regards their professional



Organizational structure of Telekom Srbija

skills or expertise, experience and respect for the ethical norms which make them suitable for the performance of said duties in the Company.

The Supervisory Board adopted the Charter of Internal Audit which is necessary for the purpose of ensuring independent and objective functioning of the organizational unit in charge of internal audit activities and the Rules of Internal Audit.

Organizational structure

The Company pursues its business goals through the business units managed by executive directors.

The chart attached hereto features the organizational structure of Telekom Srbija:

REPRESENTATION ON THE APPLICATION OF THE CODE OF CORPORATE GOVERNANCE

Telekom Srbija has applied the Code of Corporate Governance (hereafter: Code), which was adopted at the 1st session of the Company Supervisory Board held on 26 June 2012 and published on the corporate website at www.telekom.rs.

The Company is endeavouring to develop a practice of corporate governance which is based on the contemporary and generally-accepted principles of corporate governance, experience and best practice in this sphere, with the respect for the requirements laid down by the applicable regulations and the acknowledgement of the global market conditions and trends on the domestic telecommunications market and defined development goals of the Company.

The Company Supervisory Board is competent for the implementation and interpretation of the Code, regular monitoring of its implementation and compliance of the corporate organization and activities of the Company with the Code.

The implementation of the principle of adequate observance of the interest of all the existing and potential shareholders, investors, creditors, service users, employees, and members of the corporate governance bodies, is ensured through the procedures, activities and decision-making method of the corporate bodies, defined by the by-laws and through communication and coordination

of the activities between all bodies of the Company, managers at the business seat of the Company and units of its territorial organization, employees, shareholders and the public.

There were no deviations from the rules laid down by the Code in the implementation of the corporate governance system

Shareholders' rights

The Company guarantees the exercise of ownership and non-ownership rights of the shareholders established by the Law, the Act of Incorporation, the Articles of Association and other by-laws of the Company.

All company shares are ordinary shares and each share gives shareholders the right to one vote at the Company's General Meeting.

Through the timely scheduling of General Meeting sessions and the mechanisms of the shareholders' voting in absentia, the Company tries to encourage the participation of shareholders in the work of the General Meeting.

All the relevant information and materials for a General Meeting session are available at the web page of the Company www.mts.rs/otelekomu, within the legally prescribed deadlines before the holding of the General Meeting's session, especially having in mind the current situation of there being a large number of shareholders.

Remunerations and bonuses for members of the Company's bodies

The Company's General Meeting made certain decisions by which it established the remunerations for the work of the chairman and members of the Supervisory Board, i.e. the policy of remunerations for the work of executive directors of the Company. By a special decision, the Supervisory Board established the right to remunerations for work of the president and members of the Audit Commission.

Communication with the public, disclosure of data and transparency

The Company shall secure the transparency of its operations by fulfilling the envisaged obligations regarding the reporting and publishing of accurate and complete information, with the respect for

the principle of regular and timely provision of information via its web page. The shareholders and the public shall primarily via the web page of the Company be informed about the financial results of the Company, and all the important events regarding the Company, which is bound to respect the obligations of such reporting by the applicable legal regulations and the internal by-laws of the Company.

Other activities in the implementation of the Code

The Company invests maximum efforts to permanently improve the corporate system which will guarantee that all the corporate bodies of the Company, their members, employees and the Company as a whole act in accordance with the rules of the Code, especially in the domains regulating the following:

- Existence of personal interest and the duty of avoiding the conflict of interest,
- Cooperation between the corporate bodies of the Company,
- Suppression and prevention of corruption and bribery,
- Engagement of external consultants,
- Business ethics.

This statement represents an integral part of the Consolidated Annual Report on the Company's operations for 2015.

Telecommunications of Republic of Srpska a.d. Banja Luka

The operations of Mtel, as a company of capital, that is, a joint stock company, are defined by the provisions of the Law on Business Companies. In line with these provisions and the Articles of Association of Mtel, the bodies of the joint stock company include:

- General Meeting,
- Supervisory Board,
- Director General,

- Executive Board,
- Audit Commission,
- Internal Auditor.

The governance bodies of the Logosoft d.o.o Sarajevo subsidiary include:

- Company management
- Supervisory Board

The governance bodies of the Mtel Austria subsidiary include:

- Director General
- General Meeting

Statement on the implementation of the corporate management standards

The Mtel company adopted its own Code of Conduct and Corporate Management, which it fully adheres to. This Code establishes the mechanisms of functioning of the Company's bodies and the protection of interests in the mutual relationships of different interest holders in the Company. The Code was established based on the Law on Business Companies, the Corporate Management Standards and the Principles of Corporate Management adopted by the Organization for Economic Cooperation and Development (OECD).

All the issues not regulated by the Code shall be directly governed by the provisions of the Law on Business Companies, the Corporate Management Standards adopted by the Securities' Commission, the Articles of Association and other general by-laws of the Company. The aim of the Company is to, by permanent application of the prescribed standards, and good and responsible management and supervision of the business and managerial functions of the Company, improve the competitive ability of the Company and provide a more favourable environment for investment.

By the application of the Corporate Management Standards and its own Code of Conduct and Corporate Management, in the course of 2015, Mtel secured the efficient implementation of the principle

of corporate management of the Company through activities that referred to:

- Providing the basis for an efficient implementation of the principle of managing joint stock companies;
- Shareholders rights and the key ownership function;
- Equal treatment of the shareholders;
- Role of interested parties – interest holders – in the management of joint stock companies;
- Publishing and availability of information,
- Role and responsibility of the board.

Corporate governance will continue to be an important segment of market operations in the Company. Mtel will continually monitor the compliance of the principle of good corporate governance with the Company's bylaws and will make them available to all interested parties. The bearers of the management functions of the good corporate governance practice in the company and the company will operate observing the interests and positions of other interest holders towards the Company.

As a responsible and market-oriented company, Mtel will apply the corporate governance principle, exercise its rights in accordance with the fair principles of market operations and fulfil its obligations in a responsible manner, whereby it will endeavour to ensure a long-term prosperity of the company and its shareholders.

Mtel's statement on the harmonization of organization and operations with the code of conduct, and/or corporate management standards constitutes an integral part of this report and is published on the web page of the company within the section "Investors": <http://www.Mtel.ba> and on the web page of the Stock Exchange: <http://www.blberza.com>.

The subsidiaries of Mtel, Logosoft d.o.o. Sarajevo and Mtel Austria, also observe the highest standards of corporate governance which are a precondition for high quality and long-term relations with our customers, partners and different stakeholders.

Telecommunications Company mtel DOO Podgorica

In accordance with mtel's Articles of Association, mtel's bodies are as follows:

- The Board of Directors,
- The Executive Director.

The Executive Director appoints directors responsible for certain spheres of operations.

Telus a.d. Beograd

The management of Telus is organized in one-tier. Telus' bodies are:

- The General Meeting and
- The director

The Telus' organization structure consists of:

- The Head Office and
- Territorial centers

The Head Office is divided into four organizational units:

- The director's office:
 - Assistant Director for Hygiene Maintenance and Regular Maintenance
 - Assistant Director for Physical and Technical Security
- Expert Section for Legal and General Affairs
- Expert Section for Sales
- Expert Section for Finances.

The territorial centers of the Company, managed by the heads of the Territorial Centers, are organized in:

- Belgrade,
- Niš,
- Kraljevo and
- Novi Sad.

TS:NET B.V. AMSTERDAM

The bodies of TS:NET B.V. are:

- The General Meeting and
- The Board of Executive Directors.

TS:NET B.V. is managed, with the authorizations and competencies of the Board of Executive Directors, by the legal entity Sovereign Trust B.V., from Amsterdam, based on a specially concluded Management Contract, while the tasks from the competence of the General Meeting are performed by the director general of the Parent Company as the founder.

TELECOMMUNICATIONS COMPANY HD-WIN d.o.o., BEOGRAD

Telecommunications Company HD WIN is operates and is divided into the following units:

- The Office of the Director General
- The Technical Affairs Department
- The Studio Technical Section
- The Satellite Direction Section
- The IT and Development Section
- The Production Department
- The Programme Department
- The Editorial Section
- The Marketing and Sales Department
- The Economic and Legal Affairs Department

Telecommunications Company HD-WIN, as the sole corporate body, includes the General Meeting composed of all shareholders/members of the Company. Through the General Meeting of the Company, all Company members exercise their ownership rights. Sessions of the General Meeting of the Company are held periodically to define the basic lines of development of the Company, strategies for the acquisition of sports content, market appearances and other decisions of

strategic importance for the Company. At sessions, members of the Company are presented the operating results and in line therewith, further lines of development are presented as well.

mts banka a.d., BEOGRAD

The Bank bodies include:

- General Meeting of the Bank
- Managing Board (with 7 members)
- Executive Board (with 3 members)

DIMEDIA GROUP SA, GENEVE

According to the Articles of Association adopted by the General Meeting, the corporate bodies include:

- General Meeting
- Board of Directors (with 4 members)
- Executive Director

GO4YU D.O.O., BEOGRAD

The management of GO4YU is organized as one-tier.

The corporate governance bodies, in line with the Memorandum of Incorporation of GO4YU include:

- General Meeting
- Director.

mts d.o.o. Kosovska Mitrovica

The management of mts d.o.o. is organized as one-tier.

04 Business operations



STRATEGY

The Parent Company and its related legal entities enjoy a unique position on the telecommunications market in Serbia, Bosnia and Herzegovina and Montenegro, as operators that make it possible for their customers to have a unique and integrated customer experience based on the delivery of a wide range of convergent services. Provision of mobile telephony services started in Austria in 2015, through a related legal entity, with the intention to exploit the potential for expansion to other markets and business areas. The Parent Company and its related legal entities aspire to retain the leading position in several segments of the market in the region, through innovative development of products and services, improving the satisfaction of the customers and business partners and generating growth in the business results.

The strategic commitment of the Parent Company and its related legal entities, apart from retaining the leading position in certain market segments, is to improve the market position and secure sustainable growth of its market share. The said aims are achieved by continuous improvement of customer experience through the introduction of new services and application solutions, network modernization and the strengthening of the brand with respect for the principles of socially responsible behaviour.

The contemporary demands of the market and growing customers' needs require that comparative market advantages and strategy implementation should rely ever more on intangible assets such as: human capital, information capital and organizational capital.

For the purpose of strengthening our market position, improving our organizational effectiveness and efficiency and improving our business performances, a new business strategy for the period 2014-2016 was adopted in 2014, based on an enhanced vision and mission, which develop the key segments of the corporate strategy in the fields of marketing and sales for private and business customers, PR, technological development, IT development, human resources development, finances, logistics and procurement. Strategic goals were defined which refer to all the key areas of operations, and which are achieved by the implementation of strategic initiatives, and the implementation of strategic recommendations.

The strategic framework is based on the pyramidal principle and defines answers to the main challenges which the companies face in performing the core activity, i.e. in the development of new spheres of operations. The major part of resources is directed at increasing the overall competitive strength in three main spheres: increasing market effectiveness, increasing efficiency and increasing organizational effectiveness. The aim of these efforts is to create superior customer experience and increase the efficiency of the company's organization. In order to cope with the competition, investing continued in order to establish and retain the leading position in the sphere of innovations on the markets where we are present. The success of the Parent Company and its related legal entities is measured by the sustainability of growth in the value of these companies for their shareholders.

Our strategic commitment in the 2014-2016 period relies on three pillars, which refer to the main challenges:

What TS should do?

- Leadership and Retention of leadership position in innovations and network
- Transformation and Improvement of the business model and corporate culture
- Focus and Stabilisation of the core activity

HOW to do that?



Strategic framework and links to the pillars of strategic directions

- Focus and stabilization of the core activity,
- Transformation and improvement of the business model and corporate culture,
- Leadership and retaining the leading position in terms of innovations and network.

Strategic goals and strategic initiatives to be implemented in order to achieve the set goals are defined for each level of the strategic framework.

In the course of 2015, the company continued or started implementing a large number of strategic initiatives, in accordance with the defined action plans for implementation.

The strategic goals and initiatives for increasing competitive strength are grouped according to the main spheres to which they refer and include the goals and initiatives for increasing market effectiveness, goals and initiatives for increasing efficiency and goals and initiatives for increasing organizational effectiveness. In order to increase efficiency, an initiative relating to the optimization of office space was implemented in the course of 2015. By concentrating employees in a smaller number of locations in Belgrade, the conditions were created to reduce the cost of leasing office space. The realization of initiatives related to the transformation of OSS/BSS system is continued by implementing ERP, CRM, billing and other advanced application solutions. Increase of the organizational effectiveness is carried out through initiatives related to the transformation of human resources management (competency models, performance management, reward and salary system, changes in corporate culture), transformation of the procurement process and supply chain management, as well as improvement of the IT management process through the introduction of ISO 20000 and ISO 9001 standards. The implementation is under way of initiatives to increase the market effectiveness that relate to the introduction of new service packages tailored to different customer requirements, improvement of the effects of managing the standardized customer segments and development of new loyalty program for customers. Progress has been made in consolidation of the company brands architecture by introducing the new mts brand and customer experience has been enhanced by introducing a new unified portal.

The strategic goals and initiatives for building

competitive advantage are grouped into two main spheres: goals and initiatives for creating superior customer experience and goals and initiatives for increasing the efficiency of organization. The initiatives directed at building competitive advantage require bigger investments and a longer time horizon due to a longer period required for the return of investment. The commercial provision of services across LTE network began in April 2015, thus implementing the initiatives for providing a superior customer experience. In the RATEL public tender the Company ensured the necessary frequency bands for the long term provision of wireless broadband Internet access services of high quality. There has been a huge increase in the number of IPTV users after the introduction of advanced mts TV service through a new multimedia platforms, and the promotional provision has begun of the service related to reception of TV channels on multiple devices (multiscreen). LTE users were enabled the promotional use of the service related to reception of TV channels on mobile devices. These initiatives should provide an adequate response to the increasingly competitive market of OTT (Over The Top) services.

The strategic goals and initiatives for securing a leading position in innovations refer to entry into new market segments. The initiatives for securing a leading position in innovativeness on the market are directed at providing non-traditional telecommunications services to customers and expanding operations to other activities. By acquiring a majority ownership in Dunav banka, now mts banka, the conditions were created for entry into a new segment of operations with the aim of providing the synergy of banking and telecommunications services. In the field of ICT services, the Cloud services offer has been upgraded, thus creating the conditions to strengthen the partnership business models in this challenging but highly complex area.

The corporate business strategy, with its three pillars and the strategic framework, creates a balance between the initiatives that are oriented toward just one organizational unit and the initiatives whose implementation requires multidisciplinary cooperation between a larger number of organizational units, which leads to full achievement of the common goals.

The key factors of successful implementation of the strategy are:

- internally harmonized plan of implementation, responsibilities and coordination, with full support and consent of top management to the time schedule and the defined priorities;
- setting up appropriate teams for implementation in terms of skills and capacities, with an intense involvement of stakeholders at higher levels;
- providing the necessary IT resources, given the high level of dependence of strategy implementation on the availability of information technologies.

A successful implementation of the strategy greatly relies on the implementation of management methodologies and tools that are applied in the best practice:

- implementation of the Key Performance Indicators (KPI) system through the BSC (Balanced Scorecard) system for monitoring strategy implementation
- strengthening project and program management in order to create and control a unique map of changes that exceed everyday operations
- continued improvement of business processes management and increase of operational and organizational efficiency

The Parent Company and its related legal entities try to continually identify the possibilities and create synergy effects from the organizational, technical and commercial aspects.

The organizational synergies are reflected in the introduction of corporate management on the group level, which is supposed to create a number of positive effects: improving the business results of the Parent Company and its related legal entities and retaining the investors' trust, cost reduction, increasing the value of the companies, encouraging the management to achieve the goals that are in the interest of the shareholders and the company, and decreasing risks in the operations. The operational synergies involve the consolidation, and/or centralization of common functions in order to create positive effects on the group level, thanks to the economies of scale.

The technological synergies refer to joint long-term network planning and attitude toward the suppliers, establishing common guidelines for the development and use of certain technical platforms, and the exchange of

knowledge, competencies and best practices between the Parent Company and the related legal entities.

The commercial synergies include joint marketing activities on the group level, transfer of solutions during the development of new products and services between the related legal entities, price strategy on the group level, centralized management of partnerships, for the purpose of achieving cost optimization and securing a unified brand strategy.

SERVICES

Telekom Srbija a.d., Beograd

Telekom Srbija is a company that successfully maintains a leadership role in the field of fixed and mobile telephony and has a significant market share in the Internet and multimedia segment, while introducing new standards and developing new tendencies with continuous business improvement. Therefore, our services are synonymous with trust, superior performance and innovative technology.

In 2015, the mts user brand got a new visual identity and unified all the company services under one roof and one name.

Business Customers Small and Medium-Sized Enterprises

During 2015, a new 4G service was introduced via 4G mobile telephony network of Telekom Srbija. The service may be activated only for the customers with USIM cards and mobile devices that support LTE technology (existing customers were provided with a replacement of SIM cards by USIM cards). The service is not charged extra, but there are restrictions on the packets for which it is enabled:

- for mobile internet - for Mobile Net 30GB package and larger,
- for postpaid customers with tariffs BizMixNet L, XL and XXL and BizMax and BizMax Plus.

BlackBerry BES 12 service was introduced in the first half of 2015 and it allows users to securely manage BlackBerry OS7, BlackBerry 10, iOS, Android and Windows Phone 8 phones from a

unified BES 12 console. The following services are used in this manner: wireless receiving and sending e-mail messages, wireless access to the Internet, all functions of a mobile phone; enabled synchronization and use of *organizer* from a PC, access to business information and contacts from a PC and the separation of two work environments - business and private.

The IPTV service for business customers was enhanced in March, and it offered an extended set of functionalities through the new platform. The service has been released for the following segments of business customers: hotels, office premises, public (open) space.

A new Mts BizPaket service was introduced in the first half of 2015, for the business customers from the segment of small and medium-sized enterprises. BizPaket combines the services of fixed telephony (up to 9 lines), mobile telephony (up to 20 lines) and the Internet. This package was further enhanced in August by enabling customers to include the IPTV in the BizPaket service, as an additional service. The number of allowed mobile lines in the package was also increased from the max 20 to max 40 mobile *postpaid* line.

At the end of 2015, PromoBox was introduced for business customers, as a fully integrated and tested system that provides the ability to market promotions to customers, to manage promotions, as well as to generate reports on the marketed promotions in a simple and fast manner. PromoBox allows users to activate roaming add-ons and tariff add-ons via SMS and USSD menus. The introduction of PromoBox for business customers improved the Front-end segment, i.e. channel of communication with customers, as well as customer segmentation on the USSD channel.

ICT Services

The Managed LAN service that connects the business customers' locations in a single network system - local network, has been improved through new terminal equipment, and new - lower prices have been applied for equipment rental.

The WiFi service for business customers was launched in June. The service enables business customers to use Wi-Fi technology for Internet access. Telekom Srbija provides a complete solution - Internet access (via optical fibers or

copper wires), active equipment and access points (indoor and outdoor). Also, the service includes a *captive portal* - web page to which every end user is diverted. That page can have some marketing text, but it can also serve as a *log in* page for access to WiFi, depending on the requirements of the business customer.

TBB concept was introduced for Cloud services, which customers can use to test these services for a limited time, by selecting the special packages marked as TBB packages. Period of testing usually takes about a month.

Microsoft business solution includes MS Exchange, MS Lync and MS SharePoint services. Those are services that represent a hosted solution on Telekom Srbija servers and a rounded, so-called. Office Productivity solution. Customers can opt for any combination of services.

WFBS product is a complete IT security solution and it relates to unified protection from viruses, data compromises and abuses that threaten from the Internet, with minimal impact on the performance of protected computers.

Bizdisk Pro was released in the second half of 2015 and it represents a StaaS (Storage as a Service) solution.

It is a service that provides users with a certain amount of storage space per maximum number of customers using that space. One of users is also the administrator, who creates other users and defines access rights for internal folders. In addition to the disk space that can be accessed via any device that has an internet *browser*, access is enabled through applications for mobile devices (Android, iPhone, Windows Phone) and PCs (with Windows operating system - for which there are separate Sync and Backup applications).

BizMail service enables the use of e-mail over the Internet, where the mail server is provided by Telekom Srbija. Sending and receiving users' e-mails is carried out with strict data security, antivirus and antispam protection and easy usage of the service. The whole process, from purchasing to creating and defining individual user accounts and other options, is fully automated. User accounts that are opened on the mail server can be on a domain that is registered to Telekom and not additionally charged to the user or on a domain

that is registered to the user. When activating the service, users get their credentials for access to the administration portal (Delegated Admin) and completely independently create and manage their mail accounts, using one of the predefined mailboxes from the offered set.

Residential Customers

Mobile Telephony Services

The mts centre application was created in 2015, with a version for the three most common operating systems in the mts mobile network (Android, iOS and Windows). The application allows users to check their account balances, top-up credits for friends and family and get information about the current promotions. It is enabled to purchase vouchers and activate services related to favourable calls to fixed and mobile networks abroad, as well as to favourite numbers in the mts network. It is also enabled to review important numbers, list of Telekom Srbija outlets, SMS directory or the network your friends are in.

The Credit Alarm service was launched in June. Customers log in to the service which enables them, as soon as the credit in the account reaches an amount that is below 50 dinars, to receive a reminder in the form of an SMS notification. The service is provided to customers free of charge. The Credit Alarm can be used by *prepaid* customers and users of the Cost Control tariff.

Since July, the purchase of mobile phones in instalments at retail prices has been enabled even when customers decide on a monthly fee with a 50% discount. The number of instalments is conditioned by the length of their contractual obligations.

The service of paying invoices for the MTS services via a mobile phone was also launched in June, and the payments are effected by debiting VISA/MasterCard payment cards. To use this service, customers must be registered for mobile payments in the bank that issued Visa or MasterCard. In this manner the invoices are paid without commission, in just a few simple steps, sending text messages or using the android application *m_plati*.

During the summer months of 2015, users of mts mobile network were enabled to purchase bus

tickets for transportation from the major Serbian cities to tourist destinations in Montenegro. Users of mts mobile network were enabled to purchase tickets at the portal *redvoznje.rs* by debiting postpaid or prepaid accounts, with the tickets being delivered to their home address.

Since September, the postpaid tariffs introduced some novelties, involving a new Mix XL Plus tariff, Mix XXL revised tariff with more SMS and GPRS traffic and a lower price for the Super Plus tariff.

The service of purchasing vouchers for taxi rides in the territory of Belgrade was launched in November. Users of mts mobile network buy vouchers via CarGo mobile application by debiting their postpaid or prepaid accounts.

The service of purchasing BusPlus tickets by debiting customers' mobile accounts was released in December. The prerequisite for using this service is that customers have a mobile phone with Android operating system version 4.4. or higher, which supports NFC service and that they download the mts centre application. The ticket purchased in this manner is downloaded into the phone's memory as an NFC token, which is visible only to the validator in the public transport vehicles in Belgrade. In this manner, users can purchase individual time tickets for all four zones of the Belgrade city transport. Purchased tickets can be used/validated in the following 24 hours. A new BusPlus ticket can be purchased after using/validating the previously purchased ticket.

The service of mobile telephony over LTE (4G) technology was experimentally provided to residential customers in April. It involves the use of services via 4G technology at no additional charge to users of postpaid tariff profile Mix XL and users of Box package containing a postpaid tariff profile of mobile telephony, as well as users of Mix XXL, Super and Super Plus, Mobile NET L and Mobile NET XL tariffs.

In April, the cooperation was established with TV Pink in terms of services that accompanied the TV show "*Pinkove zvezdice*". A special prepaid tariff was established, and users are able to enjoy special benefits, including 15 free votes for voting shows. The application *Pinkove zvezdice* was developed as well, allowing users of specific mts tariffs to follow the television programs *Pinkove zvezdice* via their phones. The following facilities

were available to users: all the shows broadcasted so far (approximately 60-70 hours of recorded content); exclusive video material of events taking place behind the scene during recording; interesting facts about the program, the jury, the competitors, in the form of video clips - on a daily basis.

Since July, the mobile application mts Željko Joksimović has been released, allowing users to listen to 11 new songs for this artist. It is available to all users, and for the first 130,000 mts customers it was free to download from Google Play and App Store until 30 September.

The Elektronski račun (E-bill) service has been active since August, providing users with the option of downloading/receiving Telekom Srbija bills in electronic form. The service is designed for all residential customers of Telekom Srbija. It represents a replacement/addition to the existing paper form bills.

Internet Services

There are different Net packages of various speeds, designed according to customers needs:

- Net 10 (up to 10/1 Mb/s)
- Net 20 (up to 20/2 Mb/s)
- Net 50 (up to 50/2 Mb/s)
- Net 100 (up to 100/2 Mb/s).

Net packages have been offered at more favourable prices since December. With a 24-month contract, the use these service is enabled for 1 dinar in a period of 2 to 5 months, depending on the selected package.

Multimedia Services

The mtsTV GO application was released in April - it is a service that allows users to watch TV channels and other video, audio and multimedia content over the Internet. It is necessary for users to install the relevant application on their mobile phones, tablets or computers, i.e. to have a webTV plug-in.

There has been a new mts TV service offer since October, through which customers have available packages that are created in accordance with the

genre and thematic guidelines. Mts TV Basic offer changes in terms of contents and includes 102 channels + 5 Arena channels.

The Multiscreen service has been released since October, allows users to view multimedia content via TV, PC and mobile devices (so called OTT devices). This functionality includes the ability to use content on multiple devices. A user who starts viewing the content on one device, can continue to monitor the content on another, under the same user account. Multiscreen functionality as an additional service can only be used by residential IPTV users.

Convergent Packages Services

The Green Field campaign started in October 2015, allowing applications for a BOX package to be submitted even at a location where there is no fixed line. The aim of introducing this procedure is to facilitate the submission of applications to customers who do not use any of the services at the moment of application.

Telecommunications of Republic of Srpska a.d. Banja Luka

In order to retain existing customers and attract new ones, services were upgraded in the mobile telephony segment during 2015, in terms of introduction of new tariff models, implementation of a number of marketing activities and offer of attractive models of smart devices.

During 2015, numerous promotional campaigns were conducted, intended for prepaid customers, offering them certain amounts of free minutes in Mtel fixed and mobile network, free SMS within BiH, data transfer in Mtel mobile network, as well as calls to m:ts mobile network of Serbia at the price of 0.17 KM/min.

The most important activity in the prepaid segment of mobile telephony was marketing a new brand, GO! with a price of calls to all mobile networks in BiH - 0.10 KM, according to a 60+60 calculation unit, which represents a unique offer in the market and the cheapest national traffic in BiH. GO! brand offer was enhanced by mobile phones: Alcatel 1016G, Allview S5 Simpy and Allview A5 Smiley. In order to retain existing customers, have a better

relation with loyal customers and attract new ones, a Loyalty Program was defined and commercially released on 21 December 2015.

The mobile telephony segment is characterized by a continuous offer of various starting packages and tariff models. Since December 2015, new postpaid tariff models My Mix MINI, My Mix STANDARD, My Mix Net, My Mix EXTRA, My Mix TOP and My Mix PREMIUM have been included in the offer. The new tariff models are much improved in relation to the existing ones and they comply with the market requirements and customer needs. It is expected to have an increased influx of new postpaid customers, and migration of a large number of existing customers from the old to the new tariff models. Customers are offered numerous significant bonuses, as well as various discounts for calls, SMS and the Internet.

Mtel Company offers the latest models of mobile phones, thus standing out as an operator that follows trends and provides customers with the best package of services with terminal equipment. In 2015, Mtel offered mobile phones of renowned global manufacturers as well as models covering all consumer segments in BiH. It achieved competitiveness and advantage over other operators by offering of the most attractive phone models (Samsung Galaxy S6 Edge, S6 Edge+, Note 4, Huawei P8, Mate S, HTC One M9, HTC One E9, LG G4, Sony Xperia Z3+, Sony Xperia Z5), with the largest portfolio and the first to offer it in the BiH market.

In addition to selling service packages with a mobile device, Mtel offers its customers the opportunity to purchase handsets at purchase price, without a contractual obligation. It also offers the possibility of purchasing handsets bundled with a service in 12 monthly installments.

In the market of Bosnia and Herzegovina, Mtel has the largest portfolio of integrated services tailored to the customers needs and structured: Open Duo, Open Trio and Open Quadro. These packages incorporate in various combinations services of fixed and mobile telephony, IPTV services and Internet access via ADSL. This way, the integrated services have impact on keeping a good market position and extending lifetime of fixed telephony. The Open packages have been offered so as to compensate for a decline of physical volume of fixed telephony traffic by *flat* traffic.

The portfolio of integrated packages in 2015 included new additional services: nPVR, Start Over, Pause, Catch up TV and Mosaic TV channels (Mosaic Promo and Mosaic Sport).

The offer for residential users of the integrated fixed telephony, Internet access, mobile telephony and IPTV services included Pickbox SVoD service (Subscription Video on Demand). This video on demand service enables IPTV users to view a large number of contents integrated into the Pickbox video library with the option of unlimited number of views of selected content in the service use period. The service resulted from partnerships with the OTT content provider.

Plan for the coming period is to continue with the activities related to increasing the number of users of integrated services and thereby elevate the number of IPTV users in relation to the total number of fixed telephony subscribers. The plan is to develop a portfolio of multimedia services by introducing the Multiscreen service, OTT IPTV service, and OTT widgets as well.

In 2015, Mtel constantly offered its customers LCD TV models with excellent characteristics, made by the renowned manufacturers, following the world trends and ensuring the availability and accessibility of different models. LCD TV sales in 2015 increased by 39% compared to 2014, and the relevant revenues accordingly increased by 62% compared to 2014.

Logosoft d.o.o. Sarajevo

From the aspect of service portfolio, Logosoft is a unique company in the wider region as it offers a complete set of IT and telecommunications services that are currently necessary to all users, such as ISP services, fixed and mobile telephony, IP television, business solutions development, system integrator solutions, advanced solutions on the network infrastructure, all the way to the specialist IT education. In that sense, the portfolio is really spreading over the entire scope of what is now considered IT and telecommunication services.

Logosoft is among the first companies in Bosnia and Herzegovina that started selling and implementing the cloud based services and solutions. Thus in April 2015, the new loGO! BIZ

platform was introduced, which combines all IT and communication services, among which is the Office365 solution.

In the coming period, Logosoft will further work on development of the *cloud* service implementation. Some examples of the *cloud* based services that could be offered in the BH market right at the beginning, and on whose development they have been working, are the following *remote backup*, *VM hosting* and *platform-as-a-service* models. A distinctive advantage of Logosoft compared to other potential competitors in this segment of services in the BH market is well-branched infrastructure to the end users, with high bandwidth, which basically allows the use of a wide spectrum of *cloud* service.

Mtel Austria Vienna

Mtel Austria started commercial operation in October 2015, whereby they released prepaid and postpaid mobile telephony services. Other significant activities were likewise carried out: web site was put into operation; the purchase of startup *prepaid* packages was enabled via the web shop by using credit cards, PayPal or payment from a current account; ordering postpaid services via the web shop on the web portal was also enabled. The number portability service was enabled with the mobile operators in Austria, mtel Austria Call Centre was put into operation, m:music service was enabled for users of mtel Austria and a new mtel Austria outlet was opened in Vienna.

Telecommunications Company mtel DOO Podgorica

Mobile Telephony Services

In order to satisfy the needs of all mobile telephony customers - primarily with the aim to retain the existing and gain new customers, and having in mind the segmented target groups, the mtel company carefully planned new services.

In February, the postpaid segment introduced a new group of Select Plus packages. A special feature of these packages is that they have the resources to access the M:BOX digital service which allows users to store all their photos, video clips and files on an online server.

Taking into account the advantages of doing business with the Parent Company and related legal entities, mtel continued the campaign with advantages for all users who are roaming in Serbia, in the mt:s network, entitled m:roaming tickets. Customers could select one of the m:roaming tickets for 15 days or the First Class annual ticket, which allowed them to use all of the said benefits until the end of 2015.

Regarding the prepaid segment, for all new *prepaid* customers the m:go plus NEW package was prepared in April, with the possibility of sending SMS messages to all networks in Montenegro for just 1 cent. By activating a card during the promotional period, users receives free calls to three selected numbers from any network in Montenegro in the following 30 days (2000 minutes).

Continued campaigns of selling mobile phones (with a special emphasis on smart phones), modems and tablets were aimed at popularizing mobile Internet as much as possible as well as greater Internet consumption, particularly if taking into consideration the tendency of increasing use of social networks and mobile applications.

Apart from the standard offer within the USSD menu, and with an aim to increase revenues in the *prepaid* segment, a special menu was enabled – the m:me menu, created with a personalized offer of benefits depending on the customer's previous habits and preferences of the targeted user group (calls, SMS or the Internet). For prepaid customers offers are generated through m: me menu on a daily, weekly and monthly basis, relating to the consumption within the M:TEL network, or consumption towards all networks in Montenegro.

At the beginning of the tourist season, in June, the sale was launched of a new tourist package with the prepaid package m:go tourist. For only 3 EUR users can get 3 EUR of credit, 100 SMS messages to be sent to international networks in the following seven days, and 3 days of free Internet, 500 MB of which at the maximum speed.

A promotional campaign was launched in July, in the segment of the provision of services via the cable infrastructure. New tariff packages were introduced that combine services of the fixed and mobile telephony, Internet and television. Key benefits of the offer are: the richest TV offer, the most favourable internet packages with free connection and installation.

In October, the sale continued of the *prepaid* package m:go plus, with the following benefits: 10,000 minutes in 068 MTEL network, 10,000 SMS messages in 068 MTEL network, 300 MB of free Internet and 3 EUR of credit for free consumption, whereby the free resources are valid for 15 days from the date of activation.

As regards *postpaid* customers, the offer includes the opportunity to purchase phones in instalments, and a discount rate of up to 30% for the customers who sign a 24-month contract by purchasing a phone at a retail price with *Odaberi Plus* packages. As of 15 November, the offer has included the opportunity to purchase annual m:roaming tickets at a price of 19 euros. This ticket allows all MTEL network users unlimited minutes towards mobile and fixed network of Telekom Srbija and towards MTEL networks, unlimited SMS messages to numbers from the mt:s and MTEL network, unlimited Internet and unlimited incoming calls from any network in the world until the end of 2016.

In December, new tariff packages Surf Elastic and Super Surf Elastic were introduced, which include a possibility for users to get two SIM cards and to use the Internet simultaneously on two devices with one monthly subscription.

A campaign was also launched in December aimed at users who prefer phones with a keyboard and larger screen. With the new Senior Plus postpaid package, for just 7.9 euros per month customers get an Alcatel 2004C phone, with the following benefits: 3000 minutes and 3000 SMS messages in MTEL 068 network, 100 minutes to fixed networks in Montenegro and 30 minutes and 30 SMS messages to other mobile networks in Montenegro.

Services of Fixed Telephony, Internet and Television

In early September, the mtel company officially offered cable television and Internet services.

The m:BOX packages were introduced that combine fixed, mobile, Internet and digital television services, with a monthly subscription from EUR 19.99 to 34.99. There are four BOX Packages offered: BOX Trio 1 that includes Tel BOX 1, Internet 2M and Mini Basic TV package, Box Trio 2 that includes Tel BOX 1, Internet 8M and Basic TV package, BOX Trio 3 comprising Tel

BOX 2, Internet 15M and Basic TV package, and BOX all 4 with Tel BOX 1, Internet 8M, Basic TV package and mobile package.

In addition to BOX packages, special Flash Internet packages were created that offer internet speeds of up to 25 Mbps, as well as special fixed telephony packages with benefits in a promotional campaign.

Basic and Mini Basic TV packages contain the best offer of TV channels in the Montenegrin market. A wide range of Pink channels is included in the Basic package, along with Arena channels. In addition to these packages, the offer likewise includes standard add-on packages (HBO...).

With BOX packages there is an opportunity to purchase the most advanced Samsung and Tesla TVs, at retail prices or with deferred payment.

The national digital line enables digital connectivity and connection of two customer's points in the territory of Montenegro, and this is a service provided by FiberNet in the Montenegrin territory. The above service does not depend on the protocol and it enables a transparent transmission of the signal of required capacity between the customer's endpoints. It is used for the provision of telephone services or other services of data transmission between the customer's locations that require high service quality. FiberNet offers national and international digital lines of the following capacities: 2Mbps, FETH (4MMbps, 6Mbps...100Mbps) and STM-1, depending on the locations of the customer's endpoints.

The service of leasing optical dark fibers allows customers to connect their locations in Montenegro or to connect a location in Montenegro with a location abroad.

The service of lease of transport capacities represents the service of lease of high bit rate capacities implemented via SDH/DWDM network of FiberNet* and its partners abroad. Transport capacities that are leased may be national and international. The said service is intended for operator (wholesale) customers for the connection of endpoints of their network or for the connection of their network with the network of another operator.

Telus a.d. Beograd

Within its registered activity, Telus offers the following services:

- securing facilities and property (physical and technical security, fire protection and money escort),
- maintaining hygiene of office space and facilities and
- services related to ancillary tasks.

Since 2008, Telus has possessed a certificate on implementation and application of Standard SRPS ISO 9001 – Quality Management System and, since 2012, Standard OHSAS 18001 – Health and Safety-at-Work Management System. In 2013, the quality standard ISO 14001 was introduced - Environmental Management System.

TELECOMMUNICATIONS COMPANY HD-WIN d.o.o., BEOGRAD

At the end of 2015, the Arenasport channels were present in the distribution networks of 47 operators on the territory of Serbia, 28 on the territory of Bosnia and Herzegovina, 4 in Montenegro and 1 each in Macedonia and Croatia, i.e. a total of 81 operators.

In all the said markets, the Arenasport channels were present on the platforms of all the main telecommunications operators (T-Com Crna Gora, T-Com Makedonija, T-Com Hrvatska, BH Telecom, m:tel RS, HT Eronet, Telekom Srbija).

Arenasport prepares and broadcasts the following channels:

- Arenasport 1 for the territories of Serbia, Montenegro, Bosnia and Herzegovina and Macedonia
- Arenasport 2, 3 and 4 for the territories of Serbia, Montenegro, Macedonia and BiH
- Arenasport 1, 2, 3, 4 and 5 for the territory of Croatia
- Arenasport 5 currently only for the needs of OpenIPTV of Telekom Srbija

- Arenasport WEB channel exclusively for the needs of www.svenaklik.com service
- MaxGP channel (a specialized auto-moto channel) for the territory of Croatia.

All channels are available in the SD and HD formats (1920x1080i), while the entire production process, from the reception (ingest) of the signal, through its processing, i.e. post-production, until the delivery to end users was projected and performed in high resolution.

The basic elements of play-out are based on automation systems by the reputed producers of broadcasting equipment such as Snell, Harmonic, Omneon, Miranda, Rorke, etc., while the entire system is connected through Cisco servers and switches.

The virtual studio For-A, which is also one of the most modern studios in the country, has been operational since the first round of the Champions League season 2012/13.

Since the beginning of its broadcasting, the program of Arenasport TV has been based on the exclusive premium content from the world of sports. The content itself is mainly provided on the basis of three-year contracts based on negotiations and direct negotiated procedures with the holders of the rights. The exception is the UEFA, which has strict rules and procedures thanks to which telecom operators from this region managed to win the bid for the seasons 2015-2018.

With the work of the studio, the program was enriched with studio shows that comment on the Champions League and the Europa League, and the events regarding the Jelen Super League, the French and the Italian leagues, and there is also a show that deals with the events in the world of basketball. Daily Arena News are broadcasted as well.

Arenasport is engaged in the productions of various sports events in the territories where it is present (JSL, ABA, BPL, KLS, CL and EL). All the important competitions are covered by studio shows and special shows from its own production.

Arenasport Channel 1 is distributed by all operators within the basic offer, and other channels are part of the pay package whether as a stand-alone Arenasport package or as part of another pay package. As a promotion, some operators were allowed to broadcast channels to customers within the basic package.

Distribution of channels to the operators is carried out either via Polaris (BulSat) DTH platform (reception with Polaris or Tandberg receivers and only in SD format) or via optic fibers.

INVESTMENTS

PARENT COMPANY AND RELATED LEGAL ENTITIES

The total investments in 2015, at the level of the parent and related legal entities amounted to RSD 29.6 billion and 51.9% were higher than the investments in 2014. A comparative overview of capital investments made by individual companies in 2015 and 2014 is featured in the table below:

In million RSD	2015	Growth rate	2014
Telekom Srbija	20,122	64%	12,267
Mtel	6,977	22%	5,717
mtel	2,498	68.5%	1,483
Telus	1	85.7%	0.7
FiberNet	-	-	2
HD-WIN	11	-56.8%	25
mts banka	9	-	-
Total	29,619	51.9%	19,494

Total investments

Analysed by members, the largest investments in 2015 were made in the Parent Company (RSD 20.1 billion), whereas the lowest were made in the Telus related legal entity (RSD 1.3 million).

Telekom Srbija a.d., Beograd

Major investments by Telekom Srbija were aimed at ensuring business continuity in all operating segments. Telekom Srbija is committed to maintaining the position as the leading provider of the most demanded ICT services in the market, including: Internet access via different technologies, data transfer, voice and multimedia services, but it is simultaneously turned towards new market segments imposed by a dynamic business environment. In this regard, investments in Telekom Srbija comprise investments in the network for the provision of regular services in a more technologically sophisticated manner and investments in new technologies.

The total investments amounted to RSD 20.1 billion, which is 64% more compared to the previous year.

In the fixed network the aim is to further increase the customer base, while maintaining existing customers and facilitating higher Internet speeds. Investments were mainly intended for upgrade and expansion of access network, thus providing users with services via high-speed Broadband (BB) access. In the fixed telephony segment of switching systems there was improvement and expansion of the IMS system, which is the central switching node for the new generation of fixed and mobile network.

In mobile network Telekom Srbija continues being a leader in mobile network territorial coverage, providing its users with high quality signal and fast mobile Internet throughout the country. The investment related to obtaining licenses in the 800 MHz and 1800 MHz bands, which is a prerequisite for the provision of LTE services, confirms the intention of Telekom Srbija to turn the technological capabilities and performance into a superior user experience.

During 2015, various improvements have been made to the CS core network, as well as implementation of additional core network functionalities, enabling the provision of services via LTE technology. The implementation of the new EPC (2G/3G/4G PS core) has been finalized, while the mVAS platform (unified platform for the provision of messaging services) is in the final testing stage.

In the Internet sphere, investments were directed towards expansion of the IP/MPLS network aiming at implementation of the best solutions available on the market and providing the capacities for all future network and customers' demands.

In the sphere of multimedia, investments were directed towards further expansion of IPTV multimedia platform and additional services and HeadEnd platform, by which Telekom Srbija wants to improve its position in this market segment offering the attractive high quality multimedia contents in contemporary manner.

Shortening the loop makes a prerequisite for better flow rate, i.e. fast fixed Internet and high-quality offering of IPTV service on several HD channels simultaneously.

The most important IT projects in this period include

continuation of the IT transformation program through consolidation of the Billing platforms, introduction of a new CRM system, ERP system standardization and further virtualization of the complete IT infrastructure with the aim of creating a Software Defined Data Centre, as well as support for new revenue sources by offering *payment* and *cloud* services to end-users.

Investments in logistics support primarily refer to the reconstruction and installation of radio base stations, space refurbishment and the procurement of the work equipment. In order to ensure smooth work process in the Company, the motor pool was considerably improved, with a plan for the modernization to be completed by the end of 2016.

TELECOMMUNICATIONS OF REPUBLIC OF SRPSKA A.D. BANJA LUKA AND RELATED LEGAL ENTITIES

Total investments of the Mtel company with related legal entities Mtel Austria and Logosoft in 2015 amounted to RSD 7 billion (KM 113 million).

Of the total realized investments of Mtel and its two related legal entities, the biggest investments were realized in Mtel in the amount of RSD 6.6 billion (KM 107 million), which is 12.4% more related to investments in 2014.

Telecommunications of Republic of Srpska a.d. Banja Luka

In the structure of total realized investments of Mtel in 2015, significant investments refer to investing into cable transport network, access network, procurement and installation of equipment for the expansion of MSAN and the construction of new ANs. During 2015, the procurement was also effected of installation materials for telecommunication, copper and fiber optic cables, OTN/DWDM equipment and services, construction of FTTx networks, fiber optic cable connection paths and drop lines to the base stations and MSANs. Also, as required by the project FTTx Bijeljina, assembly was completed of the part of

access equipment and the project was launched and the contract signed for the procurement of equipment and works for the project FTTx Prijedor. During 2015, the reconstruction has been completed of a significant Mtel project, the reconstruction of Banja Luka TKC, wherein a complete reconstruction of the facade and roof of the building was completed, as well as construction of the power supply for data centre premises. The construction of new, centralized power supply systems and connection within the control system resulted in a new power supply topology for the central Mtel building. In addition, an advertisement was placed on the building, the air-conditioning system was purchased and installed, which will be able to respond to new demands regarding better cooling capacity, greater heat loads in small areas and precise cooling.

The project related to delivery and installation of the core system for expansion of the core telecommunications network of Mtel enabled a number of significant interventions to be performed on the fixed network infrastructure. A replacement of a significant part of the legacy hardware was executed on the NGN network element, as well as implementation of the Terminal Management System (TR69), which enables remote control of the user terminal equipment.

A significant project in the context of the total realized investments refers also to the purchase of equipment and services necessary for the modernization of the mobile network and continued implementation of the project which started in the previous year - Modernization of the Wireless Access Network SWAP Phase III (Krajina and Herzegovina), and procurement of base stations. In addition, equipment and licenses were purchased that are necessary for the implementation of SON system for wireless access network, and new repeaters and pico repeaters to achieve coverage within the facilities.

In addition, twelve mobile trailers with infrastructure for accommodation of mobile telephony base stations were procured, which would considerably improve the mobile telephony signal and provide sufficient capacity where large gatherings are expected or coverage for new locations until permanent BS are constructed.

During 2015, replacement of the complete CS Core subsystem with two new MSS/MGW nodes located in TKC buildings in Banja Luka and Pale was carried out within the project of modernization of the CS Core system, and installation of new network elements in the PS Core subsystem (Firewall, Border Gateway) increased the system security for data transfer via cellular networks and ensured a high capacity required for the provision of services in the future. Likewise, there were significant projects related to expansion of the IN system functionality (charge@once Unified), supply and installation of the mPayment system and services, as well as one of the strategic projects in the mobile telephony network - the project of Expanding Capacity and Functionality of the VPN system in the mobile network, which was launched in the previous year.

In 2015, investments in internet network equipment and IPTV were carried out. The equipment necessary for expansion of the core router of Mtel network was purchased within the implementation of the expansion project for ISP router Bijeljina, along with equipment related to procurement of the DoS attacks prevention system, while migration and installation are planned in 2016. In addition, the project related to procurement and installation of the integral system for IPTV content distribution was completed; it is a system with a very advanced architecture and fully implemented Multiscreen concept.

Modernization and improvement of the NOC system and expansion of the capacity and functionality of the system for signalization and quality control, enabled the system for signalization and quality control to be provided for all newly built elements in the network core, as well as the radio access network. In 2015, the equipment and licenses were purchased for the purpose of full implementation and installation of the existing IP/MPLS network in 2016.

The structure of investments included implementation of investments in user software and licenses, and they are related to the procurement of software solutions that need to improve, promote and facilitate the work of employees in the company, and shorten the market release time for new services.

During 2015, the support was purchased for Sales and Marketing activities, the HRMS system was purchased and implemented, software licenses were procured and SAS platform improved, while IS POS application software was procured and service delivery improved.

In addition, procurement was effected of a printer and software for bulk printing, active and passive Corporate Computer Network, new servers and storages, system for DoS/DDoS attack protection, redundant CA (Public Key Infrastructure - PKI), centralized Password Management, as well as a software solution for control of remote access to network resources and security system (UTM) that is integrated with the existing system for monitoring, recording and analyzing server access.

Logosoft d.o.o. Sarajevo

Regarding investments of the Logosoft related legal entity, the major part of investments during 2015 is intended for the purchase of terminal equipment in the access network (VDSL2 CPE devices, HD Set-Top-Boxes and IP phones) that delivers services to residential customers. A significant part of investments is directed towards the procurement of xDSL equipment projected for termination of lines to residential customers, in particular the contemporary DSLAM aggregation devices and VDSL2 service modules for expansion of capacities in the access network.

Part of the funds in 2015 was invested in the acquisition of a *multicast streaming* server, which is a key part of the IPTV Headend system, through which processing and distribution of television and radio signals to IPTV services subscribers are carried out.

Mtel Austria Vienna

The most significant investments of the Mtel Austria related legal entity in 2015 referred to investments in network elements of the MVNO platform with CRM and billing system, HLR, GGSN, DNS and firewalls, enabling operation of the mobile network and the commercial commissioning of mobile telephony services.

Telecommunications Company mtel DOO Podgorica

The total investments of the mtel related legal entity in 2015 amounted to RSD 2.5 billion (EUR 20.7 million) and they are 68.5% higher than those realized in 2014.

In 2015, investments were directed to the mobile network through providing better coverage in 2G and 3G network, increasing capacity in the Core and RAN part of network in keeping with the expected increase in traffic, and additional hardware and software system upgrade for the PS Core packet traffic. The number of 2G and 3G base stations has been increased, and the second carrier was activated on all 3G base stations in the network is activated, enabling packet flow rates up to 42/5.78 Mbps. The third carrier was activated on all base stations at the sea side to prepare the network for the tourist season. The HW and SW upgrade was performed on all elements of the Core Network where it was planned, and licenses were extended on all the network elements to the extent required by the traffic they generated. It facilitated smooth network traffic.

Likewise, the installation of mobile customers positioning system was carried out. The equipment was delivered and installed. The connection to the centre for emergency management OCC 112 of the Ministry of Interior of Montenegro by optical coupling was executed in accordance with the current legislation in Montenegro and intensive testing with the Ministry of Interior is under way.

Investments were also focused on the development of the HFC cable network in all cities of Montenegro, as well as on the expansion of DWDM and MPLS infrastructure. The DWDM/MPLS project was fully implemented by December 2015, and the equipment was installed in all regional and local Data Centres where it was planned by the network topology. The redesign was thus executed of the transport network for the provision of services of cable television, Internet and fixed telephony, and at the same time the network was prepared to redesign the transport of the mobile network traffic, which will gradually occur as base stations are being linked to the optical transmission systems.

In the course of 2015, the replacement was effected of all parts of the TV head-end station in Budva

that were out of the warranty period. The same is upgraded to the latest SW version, and the backup installation was performed for the TV headend station in Podgorica, which will functionally replace the existing one in Budva after its commissioning. The preparation of premises for the TV station in Podgorica was completed, which included works in the Data Centre Čelebić and preparation of the space on the roof of the facility for installation of satellite dishes. The system upgrade to the latest version of Conax Contego encryption was done in the TV station Budva. The final activity related to commissioning of the TV station Podgorica and configuration of the cluster Podgorica-Budva was expected in February 2016.

Telus a.d. Beograd

In 2015, the total value of investments of the Telus subsidiary amounted to RSD 1.3 million and relate to the procurement of work equipment (cleaning equipment for premises, photocopying machines, brush cutter and other devices). Realized investments were lower compared to the previous year by RSD 616 thousand (85.7%).

TELECOMMUNICATIONS COMPANY HD-WIN d.o.o., BEOGRAD

In 2015 the the related legal entity HD Win's investments totalled to RSD 10.9 million. Major investments relate to replacement of the archives and expansion of the broadcasting system (play-out) by two new channels. Realized investments were lower compared to the previous year by RSD 14.3 million dinars (56.8%).

mts banka a.d., BEOGRAD

Realized investments of the mts banka related legal entity in 2015 amounted to RSD 8.9 million and mainly referred o investments in the IT infrastructure.

CUSTOMERS

PARENT COMPANY AND RELATED LEGAL ENTITIES

On the level of the Parent Company and the related legal entities, the number of Internet and multimedia customers increased and the total number of fixed telephony customers declined in 2015, whereas the number of mobile telephony customers remained on the previous year's level.

Fixed Telephony Customers

The fixed telephony services provided by the Parent Company and the related legal entities are used by 2.7 million customers. In Telekom Srbija, as the Parent Company, and the Mtel related legal entity, the number of fixed telephony customers in 2015 was lower than the number of customers in 2014, whereas the number of fixed telephony customers was higher in the mtel related legal entity, because this company has started to provide fixed telephony services through the optical network since July.

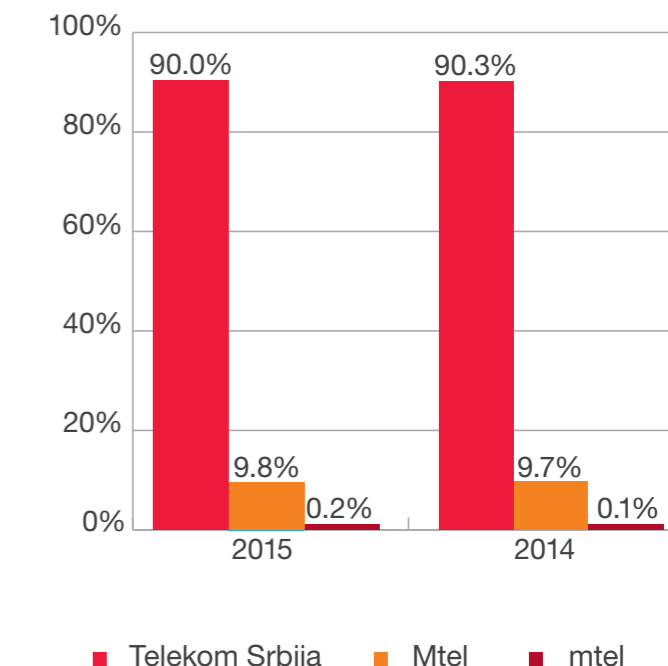
The total number of fixed telephony customers per company is shown in the table below:

In thousands	2015	Growth rate	2014
Telekom Srbija	2,440	-6.8%	2,618
Mtel	267	-4.9%	281
mtel	5	158.1%	2
Total	2,712	-6.5%	2,901

Total number of fixed telephony customers

The percentage of the Parent Company and the related legal entities' share in the total number of

fixed telephony customers is shown in the graph below:



The Parent Company and the related legal entities' share in the total number of fixed telephony customers

In 2015, there were 2.5 million residential customers and 290 thousand business customers in the Parent Company and the related legal entities.

In thousands	2015	Growth rate	2014
Residential	2,422	-8,2%	2,637
Business	290	9,8%	264
Total	2,712	-6,5%	2,901

Total number of fixed telephony customers

Mobile Telephony Customers

In 2015, the total number of mobile telephony customers on the level of the Parent Company and the related legal entities amounted to 6 million. All companies recorded a decline in the number of

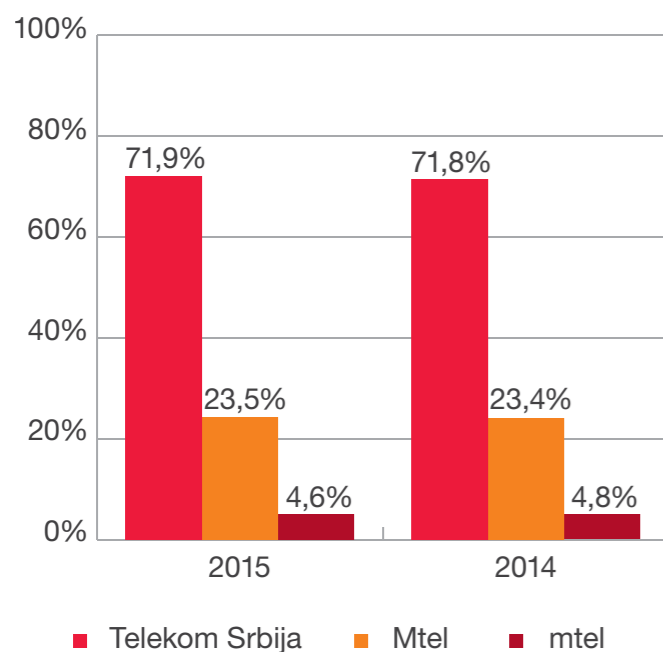
prepaid customers and an increase in the number of postpaid customers compared to the previous year.

The total number of mobile telephony customers of the Parent Company and the related legal entities is shown in the table below:

In thousands	2015	Growth rate	2014
Telekom Srbija	4.303	1,5%	4.239
Mtel	1.404	1,6%	1.382
mtel	275	-2,5%	282
Total	5.982	1,3%	5.903

Total number of mobile telephony customers

Percentage of the Parent Company and the related legal entities' share in the total number of mobile telephony customers is shown in the graph below:



The Parent Company and the related legal entities' share in the total number of mobile telephony customers

In 2015, the number of *prepaid* customers amounted to 3.4 million taking a 57% share in the total number of customers, whereas the number of *postpaid* customers amounted to 2.6 million taking a 43% share in the total number of customers.

In thousands	2015	Growth rate	2014
<i>Prepaid</i>	3.392	-3,8%	3.526
<i>Postpaid</i>	2.590	9,0%	2.377
Total	5.982	1,3%	5.903

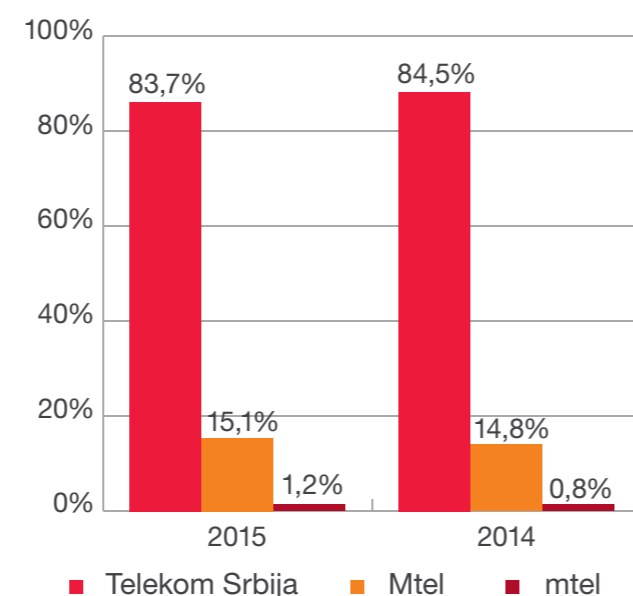
Total number of mobile telephony customers

Internet and Multimedia Customers

In 2015, the total number of internet users on the level of the Parent Company and the related legal entities amounted to 888 thousand and included the ADSL customers of the Parent Company and the Mtel related legal entity, as well as the customers of the mtel related legal entity using the internet via cable and *wimax* technology. The growth in the number of mtel's customers is the result of merging the cable providers.

In thousands	2015	Growth rate	2014
Telekom Srbija	743	4,6%	710
Mtel	134	8,2%	124
mtel	11	73,2%	6
Total	888	5,7%	840

Internet

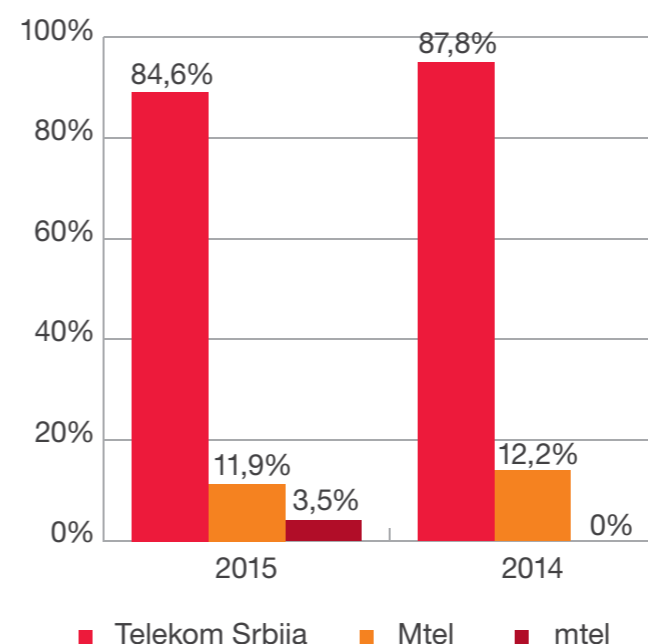


The Parent Company and the related legal entities' share in the total number of internet users

The number of multimedia customers at the end of 2015 amounted to 472 thousand. Multimedia customers of the Parent Company and the related legal entities include IPTV users of the Parent Company Telekom Srbija and the Mtel related legal entity, as well as mtel's cable users. The growth in the number of mtel's multimedia customers is the result of buying and merging the cable providers.

In thousands	2015	Growth rate	2014
Telekom Srbija	399	26,9%	314
Mtel	56	28,8%	44
mtel	17	-	0
Total	472	31,7%	358

Multimedia customers



The Parent Company and the related legal entities' share in the total number of multimedia customers

TELEKOM SRBIJA

Despite the challenges of growing competition in all business segments, Telekom Srbija has a considerable number of customers²² in fixed and mobile telephony and an increasing number of IPTV and Internet users.

The number of convergent package users is

²². Active connections / customers at the end of period.

intensively growing because the customers have recognized the advantages of convergent packages offered by Telekom Srbija. In the previous three years the number significantly increased and at the end of 2015 amounted 496 thousand customers.

Fixed telephony customers

Liberalization of the fixed telephony market has not jeopardized the leading position of Telekom Srbija. Declining number of customers has been mostly caused by alternative forms of communication such as mobile telephony and Internet, but also by launching the number portability service.

In thousands	2015	Growth rate	2014
POTS	2.372	-6,9%	2.548
ISDN	50	-17,0%	61
Other*	17	77,3%	10
Total	2.440	-6,8%	2.618

*IP Centrex, Business trunking i E1
Note: Business trunking 2015 – number of lines, 2014 – number of connections

Fixed telephony customers

At the end of 2015, Telekom Srbija's fixed telephony services were used by 2.4 million customers. Owing to development of IP technology, the number of ISDN customers declined, whereas an interest in IP Centrex and Business trunking services increased due to their advantages.

In 2015, Telekom Srbija had a steady number of customers on the mobile telephony market taking its major share.

Mobile telephony customers

In 2015, the total number of mobile telephony customers increased vs. 2014 as a result of the larger number of *postpaid* customers.

In thousands	2015	Growth rate	2014
Prepaid	2.144	-4,2%	2.239
Postpaid	2.159	8,0%	2.000
Total	4.303	1,5%	4.239

Mobile telephony customers

The advantages of numerous campaigns and new tariff profiles introduced in order to meet the specific demands of various groups of customers had a positive impact on the total number of mobile telephony customers.

At the end of 2015, Telekom Srbija recorded 83 thousand users of mobile Internet via USB modem.

Fixed Internet and Multimedia

In thousands	2015	Growth rate	2014
Fixed Internet - retail	634	7,0%	592
Fixed Internet - wholesale	109	-7,3%	118
IPTV	399	26,9%	314
Total	1.142	11,5%	1.024

Fixed Internet and multimedia

The Internet market recorded growing customers' demands for the Broadband Internet, which reflected the customer interest in the service enabling a high-quality and easily accessible content.

At the end of 2015, the Company had 634 thousand fixed Internet users in the retail segment and recorded a 7% growth compared to the previous year.

In 2015, the number of IPTV users considerably increased (by 27%) as a result of the convergent packages offering and TV signal digitalization. At the end of 2015, the Company recorded 399 thousand IPTV users.

At the end of 2015, the subscription-based number of Web TV service users amounted to 30 thousand.

Telecommunications of Republic of Srpska a.d. Banja Luka

In accordance with the improvement of the service portfolio and numerous marketing activities, in 2015 there was a growth in the number of mobile telephony customers, as well as integrated, ADSL and IPTV users. The volume of mobile telephony traffic also increased as a result of increased number of customers and migration of customers to packages with a higher bonus.

In October 2015, Mtel Austria started its operations connecting the *prepaid* customers only. Having facilitated the provision of postpaid services, the activities related to postpaid customers were carried out at the end of December 2015.

Fixed Telephony

The total number of fixed telephony customers of Mtel and its related legal entity Logosoft, as at 31 December 2015, amounted to 267 thousand.

In thousands	2015	Growth rate	2014
Residential customers	235	-5,6%	249
Business customers	32	0,4%	32
Total	267	-4,9%	281

Total number of fixed telephony customers

Within the fixed telephony structure, the residential customers accounted for 87.9%, whereas business customers accounted for 12.1%. There are two categories within the residential and business customers of fixed telephony: the customers of non-integrated services and the customers of integrated services. The customers of non-integrated services in fixed telephony are the customers of basic voice services (*POTS, ISDN, CLL*), whereas the customers of integrated services are the customers of bundle packages (the customers of at least two services). In the last few years there has been a trend of integration and convergence of certain telecommunications services both globally and on the market of Bosnia

and Herzegovina with the unique aim of reducing the outflow and retaining the fixed network customers.

In 2015, a decline in the number of customers was recorded as compared to 2014, which conforms to the feature of fixed telephony market that has entered a declining stage from the aspect of its life cycle, primarily due to substitution of fixed and mobile telephony.

The strategic guidelines in the fixed telephony segment are to preserve revenues. To achieve the above, the Company is focused on slowing the downward trend in the number of customers in this segment, i.e. stabilization of the average traffic and revenue per user indicator. Considering the tactical level, the key instruments are integrated service packages, in the context of providing top-quality value to end users and on that basis building loyalty and retention of „good customers“.

Mobile Telephony

The total number of mobile telephony customers, as at 31 December 2015, amounted to 1.4 million, of which 76.9% referred to *prepaid* customers and 23.1% referred to *postpaid* customers.

In thousands	2015	Growth rate	2014
Prepaid	1.080	-1,7%	1.099
Postpaid	324	14,0%	284
Total	1.404	1,6%	1.382

Total number of mobile telephony customers

Despite the observed negative trends in the national economy, the telecommunications market in B&H in the mobile segment kept the growing trend. There is still room for growth in this market, especially in the segments of the overall mobile telephony penetration, the number of postpaid customers, the penetration of smart devices, the level of mobile internet use and the development of OTT services.

Mtel has a 40.2% B&H market share in mobile telephony. The mobile telephony market in Bosnia and Herzegovina is characterized by the operation

of three dominant operators and five MVNO mobile operators, as follows:

- Blic net d.o.o. Banja Luka,
- Telrad NET d.o.o. Bijeljina,
- IZI mobil d.o.o. Sarajevo,
- Logosoft d.o.o. Sarajevo i
- ELTA-KABEL d.o.o. Doboje.

In 2015, Mtel created a new tariff policy for prepaid customers of GO! brand at the price of KM 0.10 to all mobile networks in B&H. The accounting unit is 60+60. As at 31 December 2015, there was 1,216 GO! customers.

In 2015, the mobile telephony customer base was expanded with 1.7 thousand Open quadro service users. The total number of Open quadro service users amounted to 6,113.

Considering that Mtel Austria started its operations in October 2015, the first customers were connected in October, so a significant increase in the customer base has been planned. Initially, Mtel Austria provided the prepaid mobile telephony services and at the end of December 2015, after introducing the postpaid services, marketing activities were carried out to attract postpaid customers.

Logosoft exclusively provides postpaid mobile telephony services, but the structure of the total number of customers includes M.net, VPN and Quadro users in addition to standard postpaid customers.

Internet

As at 31 December 2015, the number of **ADSL** customers (independent and as part of integrated service packages) totalled 134 thousand, that is 8.4% more as compared to the previous year. In 2015, a trend of migration of customers from ADSL packages to *Open* services was recorded.

As at 31 December 2015, the number of registered Dial up customers totalled 42 thousand.

In thousands	2015	Growth rate	2014
ADSL residential customers	122	8,3%	112
ADSL business customers	13	6,9%	12
Total	134	8,2%	124

Total number of ADSL customers

The Mtel B&H market share still grew in the segment of fixed broadband access to the Internet and it was estimated at 24.2% in 2015.

The Internet access is possible in all towns in Bosnia and Herzegovina. Mtel's infrastructure is limited to the provision of internet services in the territory of the Republic of Srpska. Mtel offers to all its customers the advanced version of ADSL standard (ADSL 2+) providing a higher flow rate compared to the standard ADSL (up to 30 Mbps towards the user and up to 3 Mbps from the user).

Integrated Service Users

In the B&H market, Mtel has the largest portfolio of integrated services tailored to the users' demands and structured as follows: Open duo, Open trio and Open Quadro. These packages incorporate various combinations of fixed and mobile services, IPTV services and Internet access via ADSL. The Open packages have been designed so as to compensate for a decline of physical volume of fixed telephony traffic by *flat traffic* offering.

The packages have been created with a single monthly subscription fee for the service package, offering free telephone traffic within Mtel's fixed network, free international traffic based on Flat fare-use principle, ADSL package with different access flow rates compared to independent ADSL, differentiated IPTV packages and mobile telephony service offering.

As at 31 December 2015, the number of Mtel's customers and the related legal entities of integrated service packages totalled 83 thousand.

In thousands	2015	Growth rate	2014
Residential customers	82	22,8%	67
Business customers	0,4	65,1%	0,2
Total	83	22,9%	67

Total number of customers of integrated services

The total number of IPTV users (independent and as part of integrated service packages) as at 31 December 2015 amounted to 56 thousand.

In thousands	2015	Growth rate	2014
Residential customers	56	28%	43
Business customers	1	71%	0,5
Total	56	28,8%	44

Total number of IPTV customers

Telecommunications Company mtel DOO Podgorica

Fixed Telephony

The mtel related legal entity has started to provide fixed telephony services via optical network since July 2015, resulting in a significant growth in the number of customers, so that the total number of fixed telephony customers increased from 1,963 at the end of 2014 to 5,067 customers at the end of 2015.

In thousands	2015	Growth rate	2014
Residential customers	4,7	188,1%	1,6
Business customers	0,4	15,0%	0,3
Total	5,1	158,1%	2,0

Total number of fixed telephony customers

The market share recorded at the end of December 2015 amounted to 3.81%, with a 25% penetration in the Montenegrin fixed telephony market (according to the definition of the Telecommunications Agency).

Mobile telephony

The market share recorded at the end of December 2015 amounted to 28.52%, with a 162.56% penetration in the Montenegrin mobile telephony market (according to the definition of the Telecommunications Agency).

The number of mtel's customers, at the end of 2015, amounted to 275 thousand, whereof *prepaid* customers accounted for 61% and *postpaid* customers accounted for 39% in the total number of mobile telephony customers.

In thousands	2015	Growth rate	2014
Prepaid	168	-11,0%	189
Postpaid	107	14,7%	93
Total	275	-2,5%	282

Total number of mobile telephony customers

Internet

The development of optical network as well as the purchase and merger of business entities in 2015 caused a 73% increase in the total number of Internet users from 6,308 users at the end of 2014 to 10,923 users at the end of 2015.

In thousands	2015	Growth rate	2014
Wimax internet	3,7	-41,8%	6,3
Cable internet	7,3	-	0
Total	10,9	73,2%	6,3

Total number of Internet customers

The market share of Internet users at the end of December 2015 amounted to 11.25% according to the definition of the Telecommunications Agency.

Multimedia

Since July 2015, the mtel related legal entity has started to provide the television service and reached the market share of 8.01% by the end of 2015.

As at 31 December 2015, the number of TV users totalled 16,5 thousand.

Telus a.d. Beograd

Besides Telekom Srbija and PE PTT Traffic Srbija, as the major buyer on the market, Telus has significantly developed its operations on the hygiene maintenance service market particularly since 2010.

The security services are predominantly rendered to Telekom Srbija and PE PTT Traffic Srbija.

In public procurement procedures, contracts were awarded, inter alia, to PE PTT Traffic Srbija, the Flight Control Agency of Serbia and Montenegro, City Municipality Novi Beograd, CM Savski Venac, Public Utility Company Beogradske Elektrane, Drinsko-limska HE, the Republic Geodetic Authority, ED (Šabac, Kraljevo, Valjevo, Lazarevac, Užice, Novi Pazar, Loznica), the Ministry of Finance branch offices – Treasury and Tax Administration, PE Elektromreža Srbije.

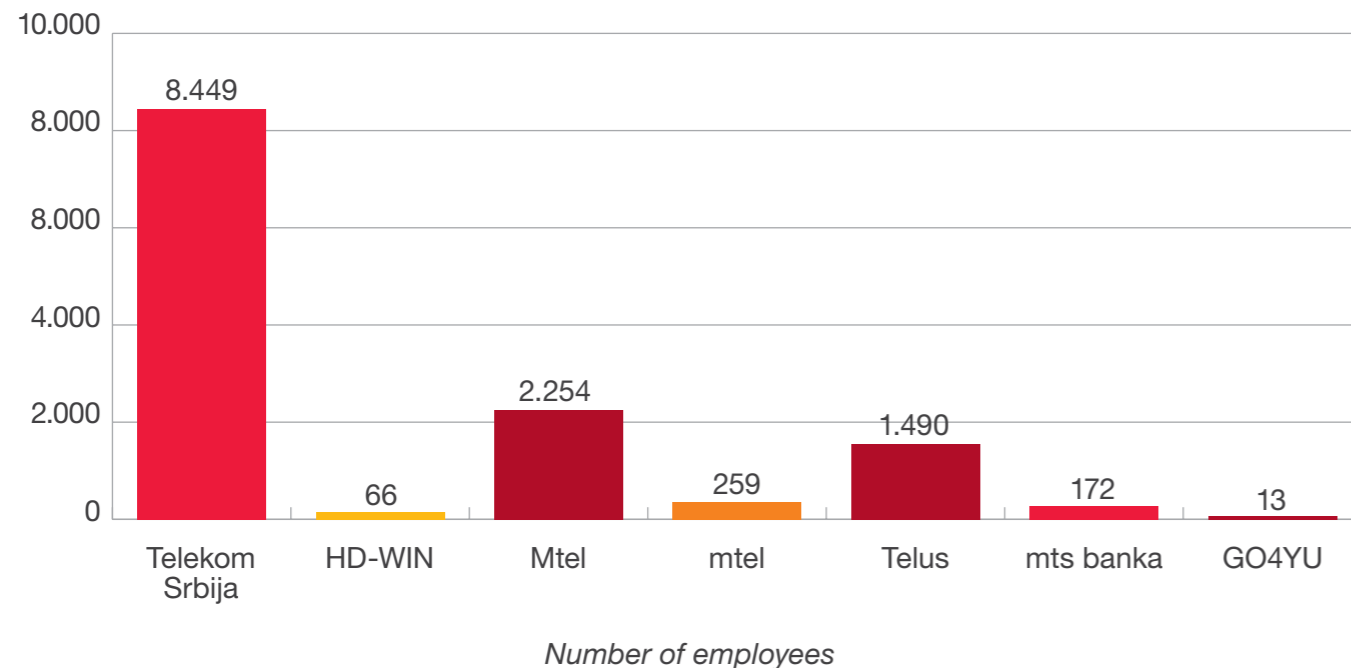
Also, based on conducted internal procurement procedures, contracts were concluded with: DDOR Novi Sad, Delta Generali osiguranje a.d.o., Piraeus banka a.d., Alfa banka a.d., Opportunity banka a.d., Dunav osiguranje a.d. branch offices.

EMPLOYEES

PARENT COMPANY AND THE RELATED LEGAL ENTITIES

Employees

The management and development of human resources is one of the topmost goals and tasks of Telekom Srbija. Care about employees involves care about overall satisfaction of employees, boosting their motivation and adherence to the Company. Telekom Srbija always strives to ensure for its employees a better future, adequate working conditions, equal treatment of employees, safety



Besides the permanent and temporary employees in the Parent Company and the related legal entities, there is a total of 2,166 workers hired based on various outside of employment contracts (temporary and casual jobs, agency and mediation), whereof 47.92% in Telekom Srbija, 39.66% is hired in Telus, 7.02% in Mtel, 3.32% in HD-WIN, 1.75% in mtel, 0.28 in mts banka, whereas 0.05% is hired in GO4YU.

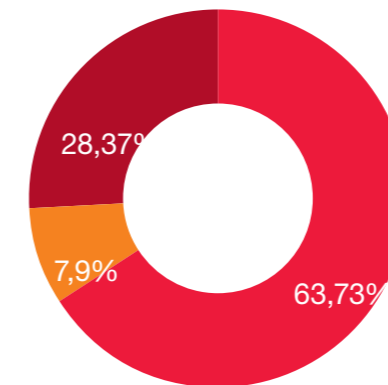
at work, health care and possibilities for further advancement and education.

The total number of employees in the Parent Company and the related legal entities amounts to 12,703 including the employees that have a dormant employment status (30 in the Parent Company and the related legal entities), whereof the largest portion relates to Telekom Srbija a.d. Beograd (66.51%), 17.74% to Mtel, 11.73% to Telus, 2.04% to mtel, 1.35% to mts banka, 0.52% to HD-WIN, whereas 0.1% to the GO4YU.

Owing to the nature of jobs, 8 employees of Telekom Srbija a.d. have been referred to work in the related legal entities, therefore they are presented both in the Parent Company and the related legal entities. The total number of employees in the Parent Company and the related legal entities as at 31 December 2015 is shown in the following graph:

By analyzing the educational structure of employees on the level of the Parent Company and the related legal entities, it can be noticed that the largest share belongs to the employees with secondary school education (63.73%), followed by university education (28.37%) where the total number includes specialists, master and PhD degrees.

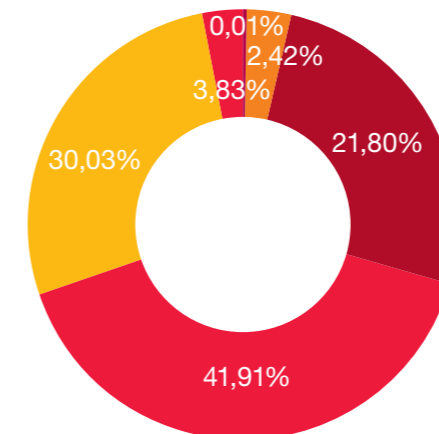
The smallest share belongs to the employees with two-year college education (7.9%).



university degree college degree secondary school

Educational structure of employees

As for the employees' age structure in the Parent Company and the related legal entities, the largest share belongs to the employees aged between 40 and 49 (41.91%), followed by 50 - 59 aged employees (30.03%), 30-39 age group (21.80%), 60 and over 60 (3.83%), 20 - 29 age group (2.42%), whereas employees up to 20 years of age account for 0.01%.



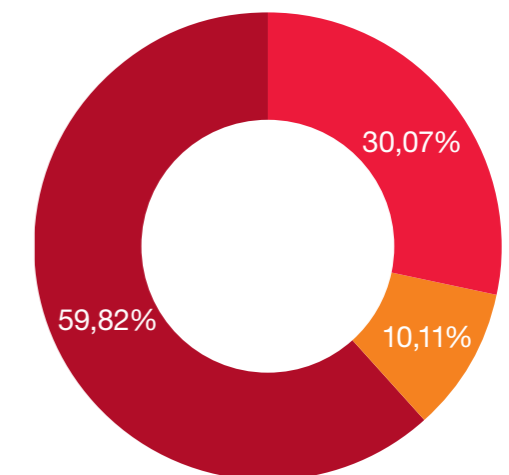
up to 20 years of age 0,01%
20 - 29 years of age 2,42%
30 - 39 years of age 21,80%
40 - 49 years of age 41,91%
50 - 59 years of age 30,03%
over 60 years of age 3,83%

Age structure of employees

Telekom Srbija a.d., Beograd

As at 31 December 2015, there were a total of 8,449 employees in the Company. Out of the above number, owing to the nature of jobs, 8 employees have been referred to work in the related legal entities on a temporary basis. In addition to the above number, as at 31 December 2014, 1,038 persons were engaged outside of employment contract through employment agencies (staff leasing).

Educational structure of employees (without the employees that have a dormant employment status).

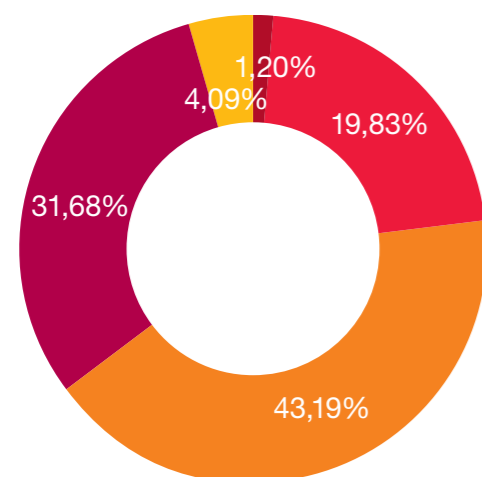


university degree college degree secondary school

Educational structure of employees

By analysing the educational structure of employees on the Company level, it can be noticed that the largest share belongs to the employees with secondary school education (59.82%), followed by university education employees (30.07%), whereas the smallest share belongs to the employees with two-year college education (10.11%).

As for the employees' age structure, the largest share belongs to the employees aged between 40 and 49 (43.19%), followed by 50 - 59 aged employees (31.68%), 30-39 age group (19.83%), 60 and over 60 (4.09%), and the smallest share belongs to the employees aged between 20 - 29 (1.20%).



■ up to 20 years of age	0,00%
■ 20 - 29 years of age	1,20%
■ 30 - 39 years of age	19,83%
■ 40 - 49 years of age	43,19%
■ 50 - 59 years of age	31,68%
■ over 60 years of age	4,09%

Age structure of employees

A new project of the Human Resources Division – Employee performance evaluation and corporate culture transformation

In 2015, based on the Strategic Business Plan for the 2014-2016 period, a project entitled Employee Performance Management Model and Corporate Culture Transformation was implemented in cooperation with the consultant. The process of introducing the performance management as a new system for managing the employee performance has been initiated by the project in order to improve the employees' output and competences, introduce a transparent and more equitable system of remuneration (salaries and benefits) based on objective performance indicators, thus creating the basis for talent and knowledge management processes in the future. On the other hand, the corporate culture transformation process has been initiated by the project, primarily through the assessment of the existing corporate culture, defining new corporate values and ambitions of new, desired culture. The corporate culture transformation is aimed at defining new corporate behaviour necessary to

create an adequate organizational context for the implementation of new values and achievement of the Company's strategic objectives, while simultaneously overcoming resistance to change.

EDUCATION

External education in the country and abroad

In 2015, a total of 2,125 employees were referred to external education in the country and abroad, who had 6,841 training days that accounts for approximately 3.21 days per attendee.

The external educational events in the country were attended by 1,066 beneficiaries, whereof 186 employees were sent to referential seminars, 441 to training and seminars, 18 to law-mandatory training, 176 to business skills training, 227 to *teambuilding* and 18 employees to training in general knowledge and skills. The attendees spent 2,757 training days in the country, which accounts for 2.58 per attendee.

In accordance with the agreement on teaching English concluded with external language schools – *Zadužbina Ilije M. Kolarca*, in 2015 the English language course was held for 35 employees attending group lessons and 40 employees attending individual lessons, who had 298 training days, which accounts for 3.97 days per attendee.

Educational events abroad were attended by a total of 304 employees, whereof 226 attended conferences, congresses and seminars, 32 attended the training in operating the equipment according to the contracts concluded with suppliers of equipment and services, 25 attended forums, 15 attended vocational training and workshops and 6 employees visited fairs. The attendees spent 1,418 days abroad, which accounts for 4.66 days per attendee.

The Company enters into contracts with the employees that are sent to training in the country and abroad so that they are bound to stay with the Company for 14 or 24 months. The number of employees having the contractual obligation as at 31/12/2015 amounts to 858 (838 for training in the country and 20 for training abroad under the contract concluded with suppliers), whereof, in 2015, there were 635 beneficiaries with active contracts, i.e. 616 for training in the country and 19 for training abroad.

In 2015, 680 training beneficiaries under the contract concluded with suppliers (with/without contractual obligation) spent 2,368 training days in the country, which accounts for 3.48 days per attendee, whereas 32 training beneficiaries under the same contract spent 150 training days abroad, which accounts for 4.69 days per attendee. 712 training beneficiaries under the contract concluded with suppliers spent a total of 2,518 training days, which accounts for 3.54 days per attendee.

In-house training

In 2015, the Training Centre in the Human Resources Division organized in-house training attended by a total of 794 employees who spent 2,923.3 days on in-house training, which accounts for 3.7 days per attendee.

In-house vocational education was attended by 446 participants, 204 employees attended professional skills training, 78 employees attended the English course (56 – group lessons, 22 – individual lessons with department managers).

In 2015, the first in-house *teambuilding* program was organized for 66 participants from the Company.

The number of internal and external education beneficiaries in the country and abroad totals to 2,919 who spent 9,764.3 days on training, which accounts for approximately 3.34 days per beneficiary.

Schooling

The Company enters into contracts on settlement of mutual rights and obligations with employees referred to various types of additional schooling, particularly with regard to the period of completion of schooling and the period of mandatory stay in the Company; as at 31/12/2015 there were 32 active contracts (4 for the 1st grade vocational studies, 6 for the 1st grade academic studies, 5 for master studies, 5 for the 2nd grade vocational studies, 6 for MBA studies and 6 for postgraduate, PhD and specialist academic studies). In 2014, 14 new schooling contracts were approved, as follows: 2 for the 1st grade vocational studies, 6 for the 1st grade academic studies, 3 for specialist vocational studies, 2 for master studies, 1 for EMBA studies,

whereas 3 contracts were terminated and 13 approved studies were completed.

Licences, certificates, membership

In 2015, the Company financed different types of licences, certificates, professional exams and membership fees for total of 663 employees, as follows: the Engineer Chamber membership renewal for responsible designer and contractor licenses for 520 employees, acquiring of new licenses for 16 employees, vocational exams for 9 employees, acquiring of CISCO and other vocational certificates for 40 employees, GIAC re-certification for 2 employees, PMI membership for 32 employees, PMP re-certification for 4 employees, the International Institute of Business Analysis membership for 7 employees, the Association of Internal Auditors membership for 6 employees, the Association of Accountants and Auditors membership for 21 employees, the Chamber of Certified Auditors membership for 1 employee, the Journalists' association of Serbia for 1 employee and vocational exam in the sphere of transport of dangerous goods and fire protection for 4 employees.

Practical training

In 2015, practical training in the Company was done by 111 university students. In accordance with an Agreement on Cooperation signed with the Ministry of Youth and Sports, the Company provided summer practical training for 3 beneficiaries of the Fund for Young Talents. For the purpose of organizing practical training in the Regions, an Agreement on Cooperation was signed with the University of Novi Sad and Niš.

RECRUITMENT AND SELECTION

In 2015, the Company engaged 194 external candidates of the total of 837 candidates involved in the selection procedure (the highest percentage of engagement refers to jobs with a high rate of fluctuation - operator and sales jobs). Pursuant to internal advertisements, 21 employees were assigned to new positions – based on internal selections performed with 76 employees. Out of 25 selected candidates, 21 candidates were assigned.

EMPLOYEES' BENEFITS

Implementation of the policy of material, social and health protection of employees

Jubilee awards

In accordance with the Company's Collective Agreement, the jubilee awards are granted to employees and ex-employees, who in the period from 2 June of the previous year to 1 June of the current year have:

- 10 years of uninterrupted employment in Telekom Srbija;
- 20 years of uninterrupted employment in PTT system of Serbia;
- 30 years of uninterrupted employment in PTT system of Serbia;
- 40 years of uninterrupted employment in PTT system of Serbia.

Notwithstanding the foregoing, in 2015 the jubilee awards were also granted to employees who in the period from 2 June 2014 to the effective date of the Collective Agreement of the Company, i.e. to 27 January 2015 had 35 years of uninterrupted employment in PTT system of Serbia in line with the previous Collective Agreement.

The awards are granted on the basis of the average gross salary in the Company for the month of June paid to the employees with 20 years of uninterrupted employment in PTT system of Serbia, i.e. 1/2 of the average gross salary for 10 years, 2 average gross salaries for 30 years and 3 average gross salaries for 40 years (i.e. 35 years according to the previous Collective Agreement).

In 2015 the jubilee awards were granted to 946 employees.

Collective Insurance Program

All employees in the Company are insured from the consequences of accidents, severe illnesses and surgeries, at work or outside of work (24x7), with additional insurance of employees who are assigned to positions entailing higher risk.

The program is implemented pursuant to the insurance agreements/policies, which the Company

concluded in 2015 with the following insurance companies:

- for the period from 1 January to 30 April 2015 with *DDOR Novi Sad a.d.o.* in case of accidents and *Delta Generali osiguranje a.d.o.* in case of severe illnesses and surgeries,
- for the period from 1 May to 31 December 2015 with *Delta Generali osiguranje a.d.o.* in case of accidents, severe illnesses and surgeries.

In 2015, a total of 306 applications were filed and the insurance companies reimbursed the insured sums for 106 employees and members of their close families, whereas 200 applications were rejected.

Voluntary Retirement Insurance Program

All employees in the Company are provided with regular monthly payments against retirement contribution for voluntary pension insurance. The program was implemented according to the agreement on retirement schemes which the Company has concluded with the joint stock companies for the management of voluntary pension funds *Delta Generali a.d.* and *Dunav a.d.* since 2007.

Solidarity Aid Program and other types of help

In accordance with the Company's internal by-laws governing the field of granting solidarity and other types of aid, the Company paid solidarity aid to a total of 383 employees and members of their close families on all grounds granting the exercise of such rights.

Aid program for resolving the employees' housing needs

In accordance with the Company's internal by-laws regulating the allocation of housing loans to the Company's employees, 22 contracts on housing loans were concluded.

Specialist medical check-ups, health rehabilitation and recreation

With the aim of prevention and improving the employees' health, the Company organized specialist medical check-ups for 1,653 employees,

health rehabilitation for 346 employees and recreation for a total of 168 employees.

Gifts for 8th March

In 2015, on the occasion of 8th March, International Women's Day, and in accordance with the Company's internal by-laws, the Company granted the right to a one-off payment of funds as a gift to women employed/engaged outside of employment contract.

New Year gift for the employees' children

In 2015, the Company granted the right to a one-off payment of funds – gift to employees/individuals engaged outside of employment contract, for the purchase of New Year parcels for children of up to 10 years of age, on the occasion of New Year 2016.

Implementation of the policy of harmonization of relations with employees

All employees in the Company have at their disposal expert teams of lawyers, psychologists and social workers in terms of labour, legal and psychological counselling. In 2015, texts were published on the company website – short professional topics and the latest news in the domain of labour law, and responses to the requests and questions were continuously e-mailed to the employees and they were also informed by phone within the Labour and Legal Counselling section. In 2014, within the psychological counselling, 40 employees' requests were fulfilled and 24 texts were published.

Implementation of the policy of internal informing of employees

It represents a program of continuous, accurate and timely informing of employees via the Intranet and the Company's Newsletter. The Intranet implies regular and continuous preparation, processing and publishing of information on the internal site My Portal. The posted information is classified in categories: ad hoc information related to important announcements in the field of human resources (employees' rights), information about current events in the company that is posted on a daily basis and information that is posted on a monthly basis (current events in the sphere of

culture and sports, telecommunications in the country and abroad, sections Visit Serbia, the World, Famous Serbs, Great Thoughts by Great People, Psychological Counselling, Labour and Legal Counselling, Funny Press Clipping, German and English Language Tests, Survey and New Technologies).

In 2015, a total of 2,235,959 single visits were recorded, the corporate Newsletter (a total of 12 issues) was distributed, along with the latest news from the subsidiaries and a presentation of new services and current events in the sphere of culture and telecommunications, and 7 corporate bulletins were issued.

Telecommunications of Republic of Srpska a.d. Banja Luka

As at 31 December 2015, Mtel had 2,254 employees.

As for the educational structure of employees (without employees with dormant employment status), the largest share belongs to the employees with secondary school education, i.e. 59.7% or 1,343 employees, whereas university education accounts for 29.2% or 657 employees.

According to the age structure, the largest share of the total number of employees belongs to employees between 41 and 50 years of age who account for 38.04%, and employees between 51 and 60 years of age who make up 26.36%.

Putting the focus on the importance of adequate employee management, training was organized aimed at: business process improvement, better team cooperation, personal and professional advancement of employees, as well as the creation of an efficient and productive work environment. By developing these competencies, Mtel shows its consistency in order to be a leader in the region when it comes to monitoring and implementing the contemporary trends of the positive business practice.

In 2015, the Company also organized two team building events for employees, the internal training programs in order to adapt to market needs, as well as electronic training (LMS), certification of employees at Logosoft Education Centre.

Telecommunications Company mtel DOO Podgorica

At the founding of mtel, in April 2007, the employment of personnel was performed by public announcements, through the Employment Agency or by an agreement on takeover. A personnel data base was created along with the personal files of employees. In addition to the above said, the procedure of registering all employees in the Funds for healthcare and retirement and disability insurance was made and input of data into the HR database through Navision application was ensured. Collective insurance of employees was provided.

The employees who concluded employment contracts for positions that involve work under special working conditions, established by the Rules on Safety and Protection at Work, underwent medical examinations to establish whether they are capable of performing special tasks. A procedure for accessing the Montenegrin Employers' Union was also implemented.

Apart from the above said, a Collective Agreement was signed between the employer and the representative Trade Union in 2011.

In addition, the activity related to Manage services was initiated and implemented, whereby 34 employees of the Technical Affairs Department and 2 employees of the Marketing, Sales and Customer Care Department have been referred to work in Ericsson since 1 February 2015.

There were 259 employees in mtel as at 31 December 2015; 7 persons are engaged outside of employment contract, whereas 31 persons are engaged through the Staff Leasing Agency Gi Group.

As for the educational structure of mtel's employees, the largest share belongs to the employees with secondary school education university education (56.98%) or 147 employees, whereas university education accounts for 32.17% or 83 employees.

As for the employees' age structure, the largest share belongs to the employees aged between 30 and 39 (53.87%), i.e. 139 employees, followed by 40 - 49 aged employees (24.80%), i.e. 64 employees.

After the restructuring procedure had been implemented by merging Elta-Mont d.o.o. Nikšić, FiberNet d.o.o. Podgorica, Cabling d.o.o. Budva and

Media Net d.o.o. Podgorica, labour and legal status of employees of the aforementioned companies was regulated on 1 October 2015.

Telus a.d. Beograd

Telus' policy towards the employees primarily depends on market conditions, but it is completely committed to adherence to high standards, established by the founder.

The rights and obligations of the employees are regulated by the Collective Agreement of 29 January 2015, which guarantees more rights to employees than those envisaged by the law (bonuses for night work, length of annual leave, paid leave, higher percent of salary increase based on past labour, severance payment in case of layoffs, etc.).

The total number of employees including the employees that have a dormant employment status as at 31 December 2015 was 1,490.

TELECOMMUNICATIONS COMPANY HD-WIN d.o.o., BEOGRAD

At the end of 2015, HD-WIN Belgrade had 53 persons engaged on an employment contract and 59 outside of employment contract (technical staff, reporters and production), while HD-WIN Arenasport – Zagreb had 13 persons engaged on an employment contract and 13 outside of employment contract.

Apart from high quality technical and technological equipment of the television itself and the automated broadcasting system, a special emphasis in operations is placed on the overall satisfaction of employees, their loyalty to the television, motivation and specialist training for the job they perform. HD-WIN is trying to provide safe and adequate working conditions, health and personal protection at work, equality of all employees and a possibility of further training and education.

After Telekom Srbija had joined the Telecommunications Company HD-WIN, the reorganization and systematization of the entire production process within the company was performed and business standards were

established. All employees in the company are insured from accidents, serious illnesses and surgeries at work and outside of work (24/7). This program is implemented based on the Insurance Agreement/Policies with Delta Generali.

REPORT ON CORPORATE AND SOCIAL RESPONSIBILITY

The customer is at the centre, the community is the driver

In accordance with the main commitment of the Company to enrich customer experience by an offer of services based on modern technologies, the promotion of positive and safe ways of using these services was at the centre of socially responsible activities last year. This role, started by a very successful initiative aimed at raising awareness of the proper use of mobile phones while driving entitled "Park your phone while driving!", was enlarged in 2015 by an educational campaign dubbed "You choose how you communicate" in which the customers are advised on how to reduce exposure to the impact of electromagnetic radiation as the inevitable result of using mobile technologies.

Fostering a responsible attitude toward each individual user of its services, Telekom Srbija also remains loyal to its role of a reliable corporate partner to a wider community in which it operates. Thus, only in the previous year the Company supported 78 projects in the local community, most of which were in the sphere of education and health care, which is in accordance with the research projects which are being implemented and which show that it is exactly in these spheres that the citizens expect the Company's greatest engagement. By creating a network of reliable and responsible partners, the Company is always concerned with an equally distributed development, and since it operates in the entire region, it has to be especially sensitive to an equal treatment of local communities when it comes to improving the living conditions and creating preconditions for their further progress.

The socially responsible operations of the Company, as envisaged by the strategic

documents for the period up to 2016, relies on the guidelines of the Organization for Economic Cooperation and Development and the United Nations Global Compact. In this context, Telekom Srbija committedly launches and supports the initiatives directed at improving its own operations, and the operations of its partners, in the fields of consumer protection, respect for anti-corruption principles and the protection of the environment. The Company also promotes the values which it stands for and its activities in this field by means of a network of partner organizations gathered around the CSR Forum – the leading local association dedicated to the promotion of good practice in the business sector.

In 2015, like in the previous year, Mtel continued to foster old friendships, make new ones and build new paths for future connections with the society in which it operates. The year 2015 was marked by big projects that were dedicated to humanity, youth, knowledge and culture. Mtel tries to integrate as many positive aspects and institutions into its projects in order to encourage others to become the promoters of initiating positive changes by taking part in the campaigns of the company. During the year, Mtel organized, supported and was a friend of various events, conferences, humanitarian organizations and campaigns, as well as scientific, cultural and sports events throughout Bosnia and Herzegovina.

The mtel company believes that the progress of all segments of the social community within which it operates is of vital interest, which is why socially responsible operations are an important part of its corporate strategy. High ethical principles, reliability, commitment to work and results, respect for others and transparent cooperation with all factors of the society are the characteristics of operations that are directed at the welfare of the entire community.

"Park your phone while driving!"

According to the research taken by the GfK agency at the end of 2015, Telekom Srbija tops the list of the socially responsible companies in Serbia. The reason for this are certainly the results of the campaign "Park your phone while driving!" which 50% of the citizens, two years after its launching, recognizes at the first mention, and which has, along with other projects, brought the company the National Award for socially responsible operations

granted by the Serbian Chamber of Commerce in the category of large and medium-sized companies in April 2015.

Within the campaign “Park your phone while driving!” Telekom Srbija developed an Android application intended for drivers, primarily young people who are the most frequent users of smart phones, and who are at the same time the riskiest category of drivers. In cooperation with the Traffic Police Department of the Serbian Interior Ministry and the Serbian Traffic Safety Committee, the Company wanted to in this way additionally attract attention to the safe use of mobile phones during driving, and to enable smart phone users to use their mobile phones in yet another responsible way.

The Mtel subsidiary, which was a partner of the large campaign entitled “Stop texting if you don’t want to crash” intended to raise the drivers’ awareness of the dangers of using mobile devices while driving, dealt with the same topic.

“You choose how you communicate”

Telekom Srbija, in cooperation with the Faculty of Electrical Engineering of Belgrade University and under the auspices of the Ministry of Trade, Tourism and Telecommunications, launched a socially responsible campaign dubbed “You choose how you communicate”, in which mobile telephony users are advised on how to reduce exposure to electromagnetic radiation.

For the needs of the campaign, a microsite www.kakokomuniciras.rs was launched on which, apart from the advice on the proper use of mobile devices, there is basic information about the sources of electromagnetic radiation, the manner of functioning of mobile networks and the legal framework in this sphere. In Serbia there are more than 10 million mobile telephony users and the main idea of the campaign is to get them acquainted with the how the mobile network functions and teach them how to reduce their exposure to electromagnetic radiation as the inevitable consequence of using mobile devices. Since contemporary life cannot be imagined without many devices that operate with the help of electromagnetic waves, including mobile phones, the aim of the project is acquainting the public with the sources of electromagnetic radiation, and ways to reduce it by the proper use of the devices themselves.

By this project Telekom Srbija actually continues to educate its users, trying to raise their awareness of

responsible use of the devices and services that the Company offers. The visitors of the microsite can get information about the additional measures that the Company undertakes in this sphere taking into account the protection of the environment and all legal regulations. The website www.kakokomuniciras.rs also contains the main results of the research project “Lexnet”, organized under the auspices of the European Union, and in whose work representatives of Telekom Srbija and the Faculty of Electrical Engineering took part.

“City speaking”

The long-term project “City speaking” was launched two years ago with the main idea to encourage local self-governments and city tourism organizations to use modern technologies in order to present their city and its cultural and historical heritage to possible visitors in a modern and innovative way.

As a Company that offers a wide range of telecommunications services, and as a reliable partner in the local community, Telekom Srbija launched this project so that visitors of the larger cities in Serbia would have a faster and more interesting access to their sights and monuments. Thus, the Company developed mobile applications that in a very attractive way present the most important cultural and historical monuments of Belgrade, Novi Sad, Sremski Karlovci and Niš. In 2015, Telekom Srbija, in cooperation with the City Tourism Organization of Kragujevac, developed the application “Kragujevac speaking”, by which this old Serbian capital was placed on the “City speaking” map with 40 historical sights presented in an eventful and entertaining way. On the other hand, the Belgrade application was enriched by the new route “Belgrade under Belgrade” which contains ten new, underground locations that are becoming more and more interesting to local and foreign visitors.

All the applications within this project are available in the Serbian and English language for the Android and iOS platforms. Since the launch of the first application “Belgrade speaking”, in July 2013, all the applications together have been downloaded almost 60,000 times.

Fifth mts Android™ Competition

The fifth mts Android competition for the creation of applications for mobile devices in the Android™ operating system was launched in June 2015. Since its founding in 2011, the success of the competition has

increased and it can be measured by the enthusiasm and interest of the students, and an increasing number of quality and innovative applications. The mts Android competition is intended for students of high schools that follow a curriculum created for talents in the sphere of mathematics and includes six high schools in Serbia – the Mathematical High School in Belgrade, the Jovan Jovanović Zmaj High School in Novi Sad, the First Kragujevac High School, the Valjevo High School, the Bolyai High School in Senta and the Svetozar Marković High School in Niš.

With the development of entrepreneurial abilities, a special motive for the participation of students in the competitions are certainly the awards. Apart from a journey to Barcelona and visit to the World Mobile Congress for the first-ranked team and tablet computers and mobile phones for the second and third-ranked team, a special award entitled “The Power of Innovation – Igor Osmokrović” is granted for special innovativeness in the creation of applications.

For the purpose of improving the classes and the process of knowledge acquisition, the schools that took part in the competition were donated funds for equipping the classrooms with the information and communication equipment. The mts Android competition project was included in the selection of the prestigious European CSR organization, CSR Europe.

Support for the foundation of the Start IT Centre

The SEE ICT organization is one of the most active ones in the promotion of entrepreneurship in the industry of information and communication technologies, through the launch of various programs and projects, thus creating a stimulating environment for the development of a startup community and culture in Serbia. The Company became their first partner in the launching of the STARTIT centre, a new space that will gather experts in the sphere of technology and design, entrepreneurs and innovators who wish to start a local business in the sphere of technologies with a global perspective.

Apart from the *co-working* part of the centre in which some 50 local start-ups will permanently reside, it is envisaged to almost daily organize various educational programs and conferences at the centre which will help entrepreneurs successfully find investments for their business and then adequately offer it on the market, both local and international.

Telekom Srbija supported the centre by allocating funds for the refurbishing of space that was assigned to the SEE ICT organization by the Savski Venac municipality, and by the *in-kind* donation of services of Internet access and fixed telephony. It is, however, conceived only as a framework for a much closer cooperation in the development of programs for each of the partners by an exchange of tutorial and consultant services, and for the launching of joint projects in this sphere.

Mihajlo Pupin, the reality that obligates us

On the occasion of marking the 80th anniversary of Mihajlo Pupin’s death and one century since the filing of his patents that are considered most important in the sphere of telecommunications, the Company continues to implement activities for the purpose of popularization of the character and work of the great scientist. After support for the creation of the Mihajlo Pupin virtual museum and a 3D website by means of which one can visit his Hometown Complex in Idvor, and a great competition on Pupin in which elementary and high school students took place, Telekom Srbija joined the organization of a great interactive exhibition “Pupin – from physical to spiritual reality”, set up at the Historical Museum of Serbia. This is yet another project implemented in cooperation with the Educational and Research Society “Mihajlo Pupin”, under the auspices of the Ministry of Culture and Information.

The unique exhibition showed the most comprehensive overview of the life and work of the great scientist, and the visitors could get acquainted with a number of facts about the private life of Mihajlo Pupin, and the so far unknown archive material with a large number of documents such as the secret file of the Federal Bureau of Investigation (FBI), which was presented to the Serbian and the international public for the first time. What made the exhibition special is the use of technology of augmented reality and spatial installations which allowed the audience to step into Pupin’s world by means of sound and image. For the first time in museology, the interactive AR glasses were used.

Children, for whom school visits were also organized, were the ones who enjoyed the great Pupin exhibition most. Children from schools and day care centres in Serbia had the chance to become acquainted with Pupin’s work at the Malo Pozorište Duško Radović children’s theater. The theater season 2015 was marked by screening a short educational film about the great scientist, which was shown before each play, and which is Telekom Srbija’s gift to the youngest generations.

Nikola Tesla Virtual Museum

After the Mihajlo Pupin Virtual Museum, the Company, in cooperation with the “Tesla Global Forum” association launched yet another unique web portal dedicated to our famous scientist and inventor without whom the contemporary world of telecommunications would not exist – the great Nikola Tesla. What makes this Virtual Museum different from other forums, institutions and museums dealing with the character and work of this great man, is the reliability and accuracy of all information about Tesla and the exclusive content about his works that also reveal his peace-loving, ecological and philanthropic thought that has often been insufficiently analysed and emphasized.

The Nikola Tesla Virtual Museum is designed as a comprehensive guide through Tesla’s life and heritage. This unique online platform shows Tesla’s network, as an overview of all associations throughout the world that deal with his work. The thoughts of many Nobel Prize winners, academicians, the experts of UNESCO, Mensa, the scientific community and the civil society about Tesla are now available in one place.

With the support of the Company, the scientific directors of the Tesla Global Forum, with the help of numerous associates, from experts to students of electrical engineering, will continue to develop and improve the Nikola Tesla Virtual Museum. The museum can be visited at the website www.tesla.org.rs, and is characterized by a simple language, easy navigation and elegant design.

Support for education

As a big national company, Telekom Srbija develops and fosters strong ties with its users and the community where it operates. Young and educated people represent a very important element in the progress of the society and having this in mind, we try to support the organizations and projects that share the same values and allow pupils and students to acquire knowledge and experience that they will be able to use later in their career in an easier and more successful way.

The Company continuously invests in official education by providing funds for the procurement of IT equipment in order to improve classes at schools. The Company has successfully cooperated with the Mathematical High School in Belgrade since 2010. Apart from the participation of its students in the mts

Android competition, the cooperation is also reflected in the support for the preparation and participation of students in the international competitions in mathematics, physics and information science. Telekom Srbija provided its support to the Regional Centre for Young Talents that awards talented students, award-winners from various scientific disciplines at world championships, regional competitions and in the sphere of research projects. Since support to unofficial forms of education is equally important, mathematical camps whose organization the Company also supports are active during the summer.

When it comes to high school students, Telekom Srbija tries to encourage young people to think as future entrepreneurs by setting up inspirational tasks for teams participating in the Business Challenge program of the Youth Achievements organization. As a responsible company, the Company tries to allow all students equal conditions for the development and acquisition of knowledge, so that for this purpose, funds were donated for the procurement of a digital speech therapy set for the needs of the elementary school for children with disabilities “Radivoj Popović” in Zemun.

Mtel implemented the project Schools 2.0 whose aim was to allow as many elementary schools in Bosnia-Herzegovina to get their own website, in order to create a long-term social value for the entire community. As part of the project, Mtel provided all schools that participated in the project with free hosting and a domain for a period of two years, and tutorial support during the campaign, with laptops as awards for the best websites. The project resulted in the design of 60 new websites of the elementary schools in BiH. For a sixth year in a row Mtel continued to grant scholarships to the best students of electrical engineering and information technologies in BiH, by holding a new Competition for m:scholarships.

As a company whose strategic resource is highly educated and trained staff, and which believes in the importance of adequate education, mtel continues to contribute to a higher quality education in Montenegro through numerous campaigns and cooperation with elementary schools, high schools and universities. In order to help schools to more easily introduce pupils into the world of Internet, free Internet access was granted to all elementary and high schools in Montenegro for a period of 10 years. Also, in 2015, the best fourth-grade students of the Nikšić high school received a phone for the Luča degree.

In accordance with the mtel company’s principle to support projects that promote innovations and creativity, the company continued to support the Knowledge Factory project, which is held within the Open Science Days and represents the central feature of the event that has been traditionally organized by the Montenegrin Ministry of Science. mtel was a friend of the exhibition entitled “The Dinosaurs of Argentina: Giants of Patagonia”, at which 25 replicas of the skeletons of these prehistoric animals were displayed in natural size, in the halls of the Adriatic Fair in Budva.

Building of the Mokra Gora School of Management Campus

Support for education involves investments into the construction of institutions which will pass on to the next generations. The efforts to help future generations and improve the schooling of new generations, in this case Serbian managers, was implemented by the Company by participation in the project of building the Campus of the Mokra Gora School of Management.

With a significant donation of Telekom Srbija and the benefaction of Emir Kusturica, who assigned the land for the building of the facility to the Mokra Gora School of Management, without compensation, for a period of 25 years, works on the project started in September 2015. It is envisaged that after the construction of the Campus, in April 2016, the students of the Mokra Gora School of Management and participants of the forum will be able to use the amphitheatre “Mihailo Pupin – Telekom Srbija”, three working classrooms, a library and the accompanying content, on a total of 450 square meters.

Cooperation with student organizations

By cooperation with student organizations, the Company contributes to the improvement of education, with a belief that in an unofficial way, without strict limitations and frameworks, it can successfully contribute to the spreading of knowledge and by such build-up achieve real results.

A good indicator of students’ interest in the acquisition of knowledge in the field of innovative business ideas and business start-ups are the events of student organizations – Start Up Your Future and Open IT, organized by AIESEC, as well as the Case Study Show and the Modern Management Academy organized by ESTIEM, on the topic of entrepreneurship. The lectures and workshops also present a chance for the experts of Telekom Srbija to become additionally acquainted

with the stands and the way of thinking of students and future colleagues.

Support to health care and investments in the community

Telekom Srbija tries to be a responsible partner of the community and provide help and support to those who need it most. Special attention is dedicated to health care and improving hospital conditions. In 2015, funds were earmarked for the painting of three big General Hospitals in Kladovo, Arandelovac and Loznica, and for testing hearing in newborns at the General Hospital in Subotica. The Operational Block of the Dentistry Clinic in Niš was equipped with a diode laser with the accompanying equipment, the City Institute for Lung Diseases and Tuberculosis received the equipment for quick diagnostics, while the Special Hospital for Thyroid Gland and Metabolism Diseases Zlatibor was equipped with the equipment for a more efficient diagnosing of cardiovascular diseases. Funds for improving treatment conditions were granted to Health Care Centres in Prokuplje and Leskovac.

The Company contributed to the reconstruction of the University Children’s Clinic in Tiršova street and the procurement of a new entrance door by participation in the humanitarian race “Cord Charity Masters” within the 28th Belgrade Marathon. Forty of our employees took part in the Satisfaction Race, promoting healthy life styles and thus contributing to the humanitarian campaign.

Within the framework of social protection, a summer holiday was provided for the inmates of the Children’s Village from Kraljevo and the Home for Children with Special Needs „Veternik“, children with disabilities aided by the humanitarian organization “Heart for Children”, and cancer-stricken children, under the auspices of the humanitarian organization “Friend in Need”. Thanks to the support of the Company, living conditions were improved at the Institution for Children and Youth Sremčica, and in several Centres for Social Work and Foster Family Accommodation in Belgrade, Svrlijig and Miloševac. In Leskovac, aid was provided for equipping the Shelter for Women and Children Victims of Violence, which provides accommodation and food, legal and psychosocial support to victims of family violence from this region.

In 2015, Mtel implemented the “Good Deed” campaign whose idea is to encourage doing good deeds and the promotion of positive values and humanity. Citizens throughout BiH had the chance to write down their good deeds on an interactive map on the website dobrodjelo.com.

com, while the municipality with the largest number of recorded positive examples – the Prnjavor municipality – was rewarded with a children's playground. Apart from numerous humanitarian activities dedicated to children and youth, Mtel also supported the work of the Blue Phone, enabling free calls from the entire country, from all fixed and mobile networks, for the needs of a counselling line for children who are victims of violence. In 2015, a Month of Friendship was organized which was promoted throughout BiH, when the most humane, most original and most emotional friends' wishes were fulfilled.

The mtel company is especially proud of the donation of financial funds to the Nikšić Municipality and the Montenegrin Water Polo Alliance, allocated for the implementation of the project of refurbishing and reconstruction of the swimming pool located within the PE Sports Centre 'Nikšić'. mtel also provided financial support for the New Year 2016 celebration on the Republic Square in Podgorica, which improved the tourist offer of the capital, and in a similar way supported the activities of the Tourism Organization of Budva. Wishing to make a contribution to the development of the local fashion industry, the company supported the talented young fashion designer Ivana Murišić. mtel also takes care of the local religious community so that funds were donated to the Eparchy of Budimlja and Nikšić.

Since one should always contribute to noble values and activities that encourage love towards animals and the protection of animals, mtel donated funds for the "Donor Exhibition of the Best-Looking Mixed-Breed Dogs" organized by the NGO "sDog".

Activities of the "From the Heart" association

Taking care of the employees and the social community represents the main aim of the humanitarian association of employees in Telekom Srbija entitled "From the Heart". The association gathers more than 1,000 voluntary blood donors among the employees in the Company and pensioners, with a wish to allow those who really need to benefit from its humanitarian work.

Apart from blood donation, the Association also tries to contribute to education related to organ donation, help for disabled persons, the socially vulnerable and the poor and children without parents, and raising the citizens' awareness regarding the protection and preservation of the environment and popularization of a healthy life style.

On the occasion of Telekom Srbija Day, the Association traditionally organizes a voluntary blood donation

campaign in cooperation with the Military Medical Academy and the Transfusion Institute of the Republic of Serbia. The campaigns are also organized in Belgrade, Niš, Kragujevac, Subotica, Požarevac, Vranje, Cačak, Bujanovac, Zaječar, Pirot, Kruševac, Jastrebac, Užice, Šabac, Valjevo and Pančevo during the summer period when the need for blood units is greater. Last year, more than 1,200 blood units were collected. A total of 1,212 employees took part in the voluntary blood donation campaigns in 23 cities in Serbia during 2015.

By a project in the sphere of ecology, "Schoolyard Planning", the Company and the Association delighted children in small rural schools throughout the country.

Investments in culture

In accordance with its commitment to continuously support culture and education, Telekom Srbija continues to invest in cultural and educational values and institutions that foster these values. During 2015, over 700 books were donated to libraries that suffered a great damage to the book fund during the floods. New books were granted to the library "Dr Vićentije Rakić" in Paraćin, the Resavska Library in Svilajnac and the Cultural Centre Library in Kladovo. Apart from this, books were donated to two elementary schools in Kosovo, the elementary school "Veljko Dugošević" in Ranilug and the elementary school "Šarski odred" in the village of Sevice, in the municipality of Štrpce.

In the project entitled "Foster the Serbian Language" the Company saw the chance to as a big national company contribute to raising awareness of the importance and the need to preserve the Serbian language. The Company also supported the holding of the exhibition entitled "Four Centuries of the House of Romanov", set up in the crypt of the St. Sava Temple, while some traditional events such as Nušić's Days, the Vukov Sabor festival, the Antika festival, a theatre festival for children in Zaječar, and the Children's October Salon maintained their continuity thanks to the support of Telekom Srbija.

In cooperation with the Photographers Association, the Company continued the implementation of the project "The Eye of Serbia". This time the chance to discover new aspects of the cities through the objective of a camera was given to young people in Belgrade and Bor. The forty most successful works were displayed at the final exhibition held at the Cultural Institution "Parobrod" in Belgrade, while the exhibition was then moved to Bor.

Relying on the long-term support of Telekom Srbija and mts, the new concert season of the Kolarac Endowment was inspired by the new slogan of the brand and entitled "Kolarac – Your World of Music". Once again

the audience could enjoy the concerts of some of the most famous soloists and world renowned ensembles. An exceptional music performance was seen at the concert conducted by Zubin Mehta.

In 2015, Mtel designed and implemented the project "Catch the Communication", a competition for the best photo. The 100th anniversary of the birth of Branko Ćopić was the reason why Mtel took part in the reconstruction and furnishing of the newly opened library at the Elementary School "Branko Ćopić" in Hašani. The Company fostered its long-lasting friendships with cultural institutions, such as the National Theater of Republika Srpska, the Children's Theater of Republika Srpska, the Academy of Arts in Banjaluka, and many others, and created new friendships – Mtel was the sponsor of the "First Ballet School" in Republika Srpska, and together with the Museum of Contemporary Art in Banjaluka, took part in organizing the Night of Museums. The Company also organized the multimedia spectacle "The m.tel Night of the Ad Eaters", and supported numerous festivals, concerts and music events. In 2015, Mtel also supported the already world famous festival held in Banjaluka - Demofest.

Having in mind corporate loyalty, mtel tries to continuously contribute to activities that are important for both Serbia and Montenegro, through donations to the Embassy of the Republic of Serbia in Montenegro and the Embassy of Montenegro in Serbia. The Company continued to financially support the Matica Srpska institution that implements numerous cultural and scientific projects.

Supporting the development of media and different forms of research activities, mtel supported the organization of conferences: the Danube Business Forum and the Podgorica Journalist Forum, as well as the Public Policy Institute.

Development of a sports spirit among young people

Since young people are at the centre of Telekom Srbija's activities in the sphere of social responsibility, the Company actively supported the successful implementation of the project "One Team – Learning2Play", for the purpose of developing a sports and team spirit among young people and accepting mutual differences. The project was initiated by the BC Red Star Telekom within the Euroleague in cooperation with the Serbian Special Olympics.

The aim of the project was to allow the young people with disabilities, through sports and activities with their peers from regular elementary schools, to better adjust to everyday life, and to improve their knowledge from

mathematics, Serbian and English. The project recorded a huge success and was declared the best project in the competition of socially responsible projects of all clubs in Europe by the Euroleague. For Telekom Srbija, this is the second recognition by the Euroleague, because the Company's previous project "One Team", in 2013, won a recognition as the best example of work and partnership.

The Company's support for the sports and team spirit and cooperation among young people was reflected in continued cooperation with the Orthodox Sports Association "Holy Serbia". In 2015, numerous sports activities and events were organized and the top event was the second "Sports Festival of Holy Serbia". The project turned into an important sports event in the capital and gathered 2,000 participants.

From the very beginning of its operations in Montenegro, mtel was recognized as a great friend of sport – supporting various forms of sports activities that gather a large number of young people and influence the development of sports awareness and a healthy life style. As an unavoidable partner in this segment, mtel continued to support the Basketball Alliance of Montenegro, and support was also granted to the Football Club "KOM" from Podgorica, the Football Club Bratstvo, the NGO Association for the Development of Children and Youth Fair Play and the Montenegrin Equestrian Alliance.

Protection of the environment

The task of us all, and especially the big corporations, is not only to give our contribution to the society, but also to responsibly, conscientiously and intelligently use the resources, invest in sustainable development and in this way return our debt to the society and community. In accordance with this, Telekom Srbija and its subsidiaries, as active and responsible members of the society, respect the law and ethical principles that are generally accepted in business operations and reject and condemn the means of illegal and inappropriate behavior to achieve business objectives, which can be only achieved by the quality of products and services. When the external public is in question, Telekom Srbija and its subsidiaries ensure that the market, its suppliers and the public be informed about the activities of the Company respecting fair competition, because it is in the interest of both the company and its users and the capital owners.

Telekom Srbija undertakes measures for the protection of the environment by adopting ecologically oriented technologies and methods with an aim to reduce the negative impact on the environment. During the

performance of its activities, the company takes care of the aspects of environmental protection, such as the rational consumption of energy, prevention of waste, proper disposal of waste and its recycling. By investing and installing the most up to date telecommunications technology, the Company contributes to the implementation of clean technologies and technologies that consume less energy compared with the equipment used in previous decades.

Telekom Srbija generates various kinds of waste which is properly removed according to legal regulations. The Company has concluded contracts for the purchase of hazardous and non-hazardous waste with the companies authorized for such activities. During 2015, a total of 1,295 tons of waste were handed over, of which 261 tons of hazardous and 1,034 tons of non-hazardous waste. The radioactive waste is regularly delivered to the PE Nuclear Facilities of Serbia, which is the only authorized company for the takeover of this kind of waste. In 2015, 660 radioactive ionizing smoke detectors were handed over for permanent disposal.

The noise emitted into the environment mostly comes from the air conditioning chillers installed in the Company's facilities. If it is suspected that the level of the noise emitted into the environment is higher than the legally prescribed values, measurements are conducted. In 2015, noise was measured in 6 locations and the allowed noise level was not exceeded. The emission of pollutants into the air (smoke gases as the product of combustion in boiler-rooms) was regularly measured and the permitted values were not exceeded.

The electromagnetic radiation emitted into the environment mostly originates from mobile telephony radio-base stations. Before the installation of a base station, a Study of the assessed impact on the environment is done which contains all technical details and protection measures for this particular base station. Upon the approval of the Study of the assessed impact on the environment, the base station is launched into operation. There are regulations and standards that regulate the permitted level of radiation. Before the first launching into operation, the Company measures the level of radiation, and if there is a complaint against the level of radiation by third parties, a separate institution is engaged to measure the level of radiation. According to the Law on protection from non-ionizing radiation, the measuring of the level of electromagnetic radiation of radio-base stations is performed every two years. The Company has not exceeded the permitted level of radiation so far. In 2015, measurements of the level of non-ionizing radiation were conducted on 716 base stations, in 369 locations, so that there is a total of 49 base stations declared as sources of radiation of

special interest (depending on their location) and which are to be controlled every 2 years.

In the sphere of protection of the environment and people, in 2015, Mtel paid most attention to the operation of radio-base stations and electromagnetic radiation. Special attention was paid to the collection, recycling and disposal of electrical and electronic products, in accordance with Mtel's commitment to actively participate in the protection of the environment as a company. Apart from this, Mtel continuously conducted an internal and external campaign to save paper, i.e. use electronic instead of paper bills.

RISK MANAGEMENT

The Parent Company and the related legal entities are in their regular operations, to a various extent, exposed to certain financial risks, as follows:

- Market risk (including: risk of change in the foreign exchange currency rates, risk of change in the interest rates and price risk),
- Liquidity risk and
- Credit risk.

Risk management in the Parent Company and the related legal entities is directed at minimizing possible negative impacts on the financial standing and operations of the companies in fluctuating financial markets and it is defined by the financial and accounting policies of certain companies, adopted by the relevant managing bodies. In 2015, there were no significant changes in the risk management policies that are reviewed in order to reflect changes in the market conditions and activities of the companies.

MARKET RISK

Market risk is a risk of changes in market prices such as: foreign currency exchange rates, interest rates and the prices of capital instruments, which may have a negative impact on the revenues of the Parent Company and the related legal entities or the value of their financial instruments. The aim of market risk management is to control exposure to market risk within the acceptable parameters, with the achievement of an optimum yield.

The management of the Parent Company and the related legal entities established a policy for managing

the risk of changes in the foreign currency exchange rates as compared with their functional currency by means of hedging transactions, wherever possible.

The Parent Company and the related legal entities are exposed to risks that through the effects of changes in the amount of market interest rates affect their financial standing, operating results and cash flows.

The risk of change in the interest rates mostly stems from long-term loans from banks and loans from suppliers with a variable interest rate. The loans approved at the variable interest rate expose the company to the cash flow interest rate risk.

The risk of change in the interest rate also stems from short-term financial assets with a variable interest rate, which expose the company to the cash flow interest rate risk, and from the financial assets approved at the fixed interest rate, which exposes the Company to the risk of change in the interest rate fair value.

As at 31 December 2015 and 2014 liabilities against the loans were mostly expressed in EUR with a variable interest rate, which is related to Euribor.

The Parent Company and the related legal entities are exposed to the risk of change in the price of services, because they are facing intense competition in the sphere of mobile telephony, Internet and multimedia, and in the sphere of fixed telephony, which the Company tries to make up for by the introduction of diverse services.

The Parent Company and the related legal entities are not exposed to a significant risk of change in the price of equity securities.

LIQUIDITY RISK

The liquidity risk is a risk that the company will not be able to settle its due liabilities and it is centralized on the level of each individual company.

Access to liquidity risk management is aimed at providing at all times, to the extent possible, adequate liquidity for settling the liabilities when they are due, in both regular and extraordinary circumstances. The Parent Company and the related legal entities manage their assets and liabilities in a manner that allows them to at all times fulfill all their obligations. For the purpose of managing risk liquidity, financial policies were adopted which define the maximum amount of advance payment to the suppliers of

works, equipment and services, grace period and the length of repayment.

The Companies also monitor the expected cash-ins from receivables, along with the expected cash-outs against the liabilities.

CREDIT RISK

Credit risk is managed by undertaking appropriate activities and measures on the level of each individual company, such as client risk assessment, monitoring the client's operations and its financial standing, and receivables management. In cases of non-performance of obligations toward the Parent Company or a related legal entity, a further provision of services to the client is suspended. There is no significant concentration risk since the companies have a wide base of buyers who are unconnected with individually small amounts of obligations towards the company.

CAPITAL RISK MANAGEMENT

The policy of the Parent Company and each related legal entity is to provide a sufficient level of capital in order to keep the trust of the investors, creditors and the market, and maintain the future development of operations.

The aim of capital management is that the Parent Company and/or related legal entity should keep the ability to continue its operations in an unlimited period, in the foreseeable future, in order to preserve the optimum capital structure, with the aim to reduce the costs of capital and provide adequate compensation to capital owners. The Parent Company and the related legal entities monitor the capital based on the indebtedness coefficient, which is calculated as the ratio between the net debts of a certain company and its total capital.

05

Financial results



FINANCIAL RESULTS

CONSOLIDATED STATEMENT

In million RSD	2014	2015
Operating revenues	122.413	127.788
Fixed telephony	44.204	41.458
Mobile telephony	56.936	59.364
Internet retail	10.094	10.705
Multimedia	5.729	7.854
Other operating revenues	5.450	8.407
Operating expenditures	(101.309)	(111.839)
Salaries and remunerations	(20.650)	(20.630)
Operator expenses	(13.169)	(14.298)
Material and maintenance	(17.037)	(19.637)
Depreciation and amortization	(25.434)	(27.534)
Lease expenses	(6.146)	(6.652)
Other operating expenses	(18.873)	(23.088)
EBIT	21.104	15.949
EBIT rate	17,2%	12,5%
EBITDA	46.539	43.483
EBITDA rate	38,0%	34,0%
Financial expenses, net	(3.559)	(679)
Share in the loss of GO4YU affiliate	-	(22)
Profit tax, net	259	(575)
Net profit	17.804	14.673
Net profit margin	14,5%	11,5%

Consolidated P & L

In 2015, the total operating revenues amounted to 127.8 billion dinars and are by 4.4% higher compared to 2014. In the relevant period, operating expenses increased by 10.4% equalling 111.8 billion dinars.

Financial expenditure, net, decreased by 2.9 billion dinars. Foreign exchange losses, net, decreased by 2.4 billion dinars, while the interest expenses, net, fell by 566 million dinars. On the other hand, other financial revenues, net, decreased by 130 million dinars.

In 2015, the generated net profit amounted to 14.7 billion dinars (17.6% decline), EBIT amounts to 15.9 billion dinars (244% decline), and EBITDA 43.5 billion dinars (6.6% decline).

The operating revenues increased by 5.4 billion dinars. Mobile telephony increased by 2.4 billion dinars mostly due to the growth of postpaid and other services (by 3.2 billion dinars) and interconnection (by 1.1 billion dinars), while prepaid declines (by 1.9 billion dinars). Multimedia increased by 2.1 billion dinars, predominantly with the Parent Company. The Internet retail increased by 0.6 billion dinars. On the other hand, fixed telephony declined by 2.7 billion dinars.

Other operating revenues increased by 3.0 billion dinars. Of that amount, 1.3 billion dinars refers to collected damages from insurance as a result of fire in the Parent Company, 1.0 billion dinars refers to cancellation of deferred income based on granted funds to the Parent Company and 0.7 billion dinars refers to the revenues of MTS bank (which were missing in 2014).

Operating expenditures increased by 10.5 billion dinars. The increase was mostly influenced by higher depreciation costs (by 2.1 billion dinars), the costs of hte sold mobile handsets and devices (by 2.1 billion dinars), the operator costs (by 1.1 billion dinars) and the costs of fees against TV content (by 0.8 billion dinars). Besides, the fire-inflicted damage in the Parent Company amounts to 1.3 billion dinars.

In million RSD	31.12. 2014	31.12. 2015
NON-CURRENT ASSETS	204.607	207.322
Intangible assets	62.966	68.970
Real estate, plants and equipment and advance payments	131.178	127.093
Other	10.463	11.259
CURRENT ASSETS	57.361	54.462
Inventories	7.275	6.902
Receivables and other current assets	21.240	21.476
Cash and cash equivalents	21.503	17.127
Other	7.343	8.957
TOTAL ASSETS	261.968	261.784
Owner's capital	133.449	146.618
Equity capital	100.000	100.000
Other	33.449	46.618
Shareholdings without control rights	20.723	18.978
TOTAL CAPITAL	154.172	165.596
LONG-TERM LIABILITIES	39.304	28.699
Long-term loans	32.321	24.343
Other	6.983	4.356
CURRENT LIABILITIES	68.492	67.489
Current payables under long-term loans	28.178	29.566
Liabilities from business operations	12.167	15.831
Other short-term liabilities	28.147	22.092
TOTAL LIABILITIES	261.968	261.784

Consolidated Balance Sheet

In million RSD	2014	2015
Profit before taxation	17.545	15.248
Profit adjustment	32.893	33.263
Net cash-in from business activities	50.438	48.511
Net cash-out from investments activities	(19.751)	(25.964)
Net cash-out from financing activities	(17.518)	(26.923)
Net (outflow)/inflow of cash and cash equivalents	13.169	(4.376)
Cash and cash equivalents at the beginning of the year	8.334	21.503
Cash and cash equivalents at the end of the year	21.503	17.127

Consolidated Cash Flows

In million RSD	2014	2015
Total debt	60.498	53.910
Net debt	38.995	36.782
Net debt / EBITDA	0,84	0,85
Total liabilities / EBITDA	2,32	2,21
Debt ratio	20,2%	18,2%
Quick ratio	0,80	0,80

Ratio analysis of consolidated business results

In the course of 2015, indebtedness on consolidated level decreased, predominantly due to loan repayment.

FINANCIAL STATEMENTS OF THE PARENT COMPANY AND ITS RELATED LEGAL ENTITIES

BASIC FINANCIAL INDICATORS

Telekom Srbija a.d., Beograd

In million RSD	2014	2015
Operating revenues	89.588	93.368
Fixed telephony	37.902	35.608
Mobile telephony	36.413	39.169
Internet retail	8.626	9.121
Multimedia	2.438	3.544
Other operating revenues	4.209	5.926
Operating expenditures	(73.920)	(80.143)
Salaries and remunerations	(14.138)	(13.577)
Operator expenses	(12.850)	(13.512)
Material and maintenance	(11.552)	(13.029)
Depreciation and amortization	(16.526)	(18.155)
Lease expenses	(5.000)	(5.325)
Other operating expenses	(13.854)	(16.545)
EBIT	15.668	13.225
EBIT rate	17,5%	14,2%
EBITDA	32.194	31.380
EBITDA rate	35,9%	33,6%
Financial revenues, net	379	3.188
Profit tax, net	830	(96)
Net profit	16.877	16.317
Net profit margin	18,8%	17,5%

Profit and Loss Account

In 2014, total operating revenues were generated in the amount of 93.4 billion dinars and they increased by 4.2% compared to 2014. In the relevant period, operating expenditures increased by 8.4% and they amount to 80.1 billion dinars.

Financial revenues, net, increased by 2.8 billion dinars mostly due to foreign exchange losses, net, 2.4 billion dinars.

Net profit amounted to 16.3 billion dinars and it decreased by 3.3% versus 2014. In 2015, *EBIT* amounted to 13.2 billion dinars (15.6% decline), and *EBITDA* 31.4 billion dinars (2.5% decline).

Operating revenues increased by 3.8 billion dinars compared to 2014.

Mobile telephony revenues increased by 2.8 billion dinars. The revenues from *postpaid* monthly fees increased by 1.9 billion dinars and the revenues from interconnection by 1.6 billion dinars. *Prepaid* declined by 1.1 billion dinars. The revenues from multimedia and internet increased by 1.1 billion dinars and 0.5 billion dinars, respectively. On the other hand, the revenues from fixed telephony decreased by 2.3 billion dinars (a decline in revenues from national and international traffic, while the revenue from monthly fees increased). Other operating revenues increased by 1.7 billion dinars, mostly due to collected damages from insurance for the property destroyed in fire (1.3 billion dinars).

Operating expenditures increased by 6.2 billion dinars. The costs of the sold phones and devices increased by 1.6 billion dinars due to the growth of customers and versatile offer of high-budget phones. Depreciation costs increased by 1.6 billion dinars (partly the effect of reconstruction of fixed asset register). In addition, the damage upon the property inflicted by fire in February 2015 amounts to 1.3 billion dinars. In 2015, a voluntary layoff program was implemented whereunder, in keeping with the defined criteria, 512 employees left the Company. The severance costs amount to 1.4 billion dinars, with concurrent savings in gross salaries in the amount of 406 million dinars. In addition, in November 2014, so-called "salary tax" was introduced (the Law on Temporary Arrangement of Bases for Calculation and Disbursement of Salaries) whereunder the amount of 1.0 billion dinars was calculated.

In million RSD	31.12. 2014	31.12. 2015
NON-CURRENT ASSETS	161.781	164.765
Intangible assets	3.768	8.957
Real estate, plants, equipment and advance payments	88.418	84.385
Share in the capital of subsidiaries and affiliates	61.878	62.149
Other	7.717	9.274
CURRENT ASSETS	37.552	36.737
Inventories	5.666	4.203
Receivables and other current assets	13.937	14.194
Cash and cash equivalents	12.745	12.830
Other	5.204	5.510
TOTAL ASSETS	199.333	201.502

CAPITAL	114.176	129.530
LONG-TERM LIABILITIES	32.178	21.190
Long-term loans	28.395	18.994
Other	3.783	2.196
CURRENT LIABILITIES	52.979	50.782
Current payables under long-term loans	22.256	25.529
Liabilities from business activities	7.416	8.822
Other short-term liabilities	23.307	16.431
TOTAL LIABILITIES	199.333	201.502

Balance Sheet

The inventories as at 31 December 2015 amount to 4.2 billion dinars (a decrease of 1.5 billion dinars mostly due to the fire in February). Long-term liabilities as at 31 December 2015 are lower by 11.0 billion dinars mostly due to maturity of the syndicated loan from banks in 2016 (transfer to current maturity of long-term loans).

In million RSD	2014	2015
Profit before taxation	16.047	16.413
Profit adjustment	16.767	19.624
Net cash-in from business activities	32.814	36.037
Net cash-out from investments activities	(9.332)	(12.742)
Net cash-out from financing activities	(12.749)	(23.210)
Net (outflow)/inflow of cash and cash equivalents	10.733	85
Cash and cash equivalents at the beginning of the year	2.012	12.745
Cash and cash equivalents at the end of the year	12.745	12.830

Cash flows

In January 2015, dividends were paid to shareholders in the total amount of 10.5 billion dinars, which affected, at the same time, a decrease in other short-term liabilities as at 31 December 2015.

In million RSD	2014	2015
Total debt	50.651	44.522
Net debt	37.906	31.692
Net debt/ EBITDA	1,18	1,01
Total liabilities/ EBITDA	2,65	2,29
Debt ratio	24,9%	19,7%
Quick ratio	0,65	0,76

Ratio analysis

A significant decrease in the debt ratio as at 31 December 2015 was caused, to largest extent, by repayment of long-term credit liabilities.

Telecommunications of Republic of Srpska a.d. Banja Luka

In million RSD	2014	2015
Operating revenues	29.305	29.259
Fixed telephony	7.775	7.303
Mobile telephony	17.583	16.990
Internet retail	1.337	1.442
Multimedia	2.104	2.721
Network equipment and IT services	110	432
Other operating revenues	396	371
Operating expenditures	(22.430)	(24.168)
Salaries and remunerations	(4.642)	(4.951)
Operator expenses	(2.355)	(2.663)
Material and maintenance	(4.559)	(5.493)
Depreciation and amortization	(5.956)	(5.923)
Lease expenses	(759)	(859)
Other operating expenses	(4.159)	(4.279)
EBIT	6.875	5.091
EBIT rate	23,5%	17,4%
EBITDA	12.831	11.014
EBITDA rate	43,8%	37,6%
Financial revenues, net	217	179
Net profit	6.384	4.713
Net profit margin	21,8%	16,1%

Profit and Loss Account

Operating revenues in 2015 amounted to 29.3 billion dinars and they are at the level of 2014. Operating expenditures amounted to 24.2 billion dinars and they grew by 7.7% compared to 2014.

Net profit in 2015 amounted to 4.7 billion dinars (26.2% decline). *EBIT* amounted to 5.1 billion and decreased by 25.9%. *EBITDA* amounted to 11.0 billion dinars and declined by 14.2%.

Operating revenues decreased by 46 million dinars. Mobile telephony declined by 593 million dinars, primarily due to the decline in *prepaid* revenue (by

1.1 billion dinars). *Postpaid* revenues increased by 373 million dinars and the revenues from the sale of mobile handsets by 280 million dinars. Fixed telephony decreased by 472 million dinars. On the other hand, the multimedia revenues increased by 617 million dinars and the revenues from the sale of IT services and network equipment (generated by Logosoft) by 322 million dinars.

In 2015, operating expenditures increased by 1.7 billion dinars mostly due to higher costs of sold phones and devices (by 536 million dinars), the employee costs (by 347 million dinars) and operator costs (by 308 million dinars).

In million RSD	31.12. 2014	31.12. 2015
NON-CURRENT ASSETS	42.624	43.925
Intangible assets	4.956	6.138
Real estate, plants and equipment and advance payments	31.837	31.811
Share in the capital of affiliate legal entities	3.709	4.772
Other	2.122	1.204
CURRENT ASSETS	11.562	10.404
Inventories	1.317	1.499
Receivables and current assets	3.489	4.144
Cash and cash equivalents	5.483	2.932
Other	1.273	1.829
TOTAL ASSETS	54.186	54.329
CAPITAL	43.223	41.857
LONG-TERM LIABILITIES	2.390	2.437
Long-term loans	1.840	1.947
Other	550	490
CURRENT LIABILITIES	8.573	10.035
Current payables under long-term loans	713	806
Liabilities from business operations	3.868	4.600
Other short-term liabilities	3.992	4.629
TOTAL LIABILITIES	54.186	54.329

Balance Sheet

In million RSD	2014	2015
Profit before taxation	7.092	5.270
Profit adjustment	6.009	4.799
Net cash-in from business activities	13.101	10.069
Net cash-out from investments activities	(5.936)	(5.841)
Net cash-out from financing activities	(7.396)	(6.779)
Net outflow of cash and cash equivalents	(231)	(2.551)
Cash and cash equivalents at the beginning of the year	5.714	5.483
Cash and cash equivalents at the end of the year	5.483	2.932

Cash Flows

In 2015, total of 5.9 billion dinars was disbursed against dividends to shareholders, of which the Parent Company received 4.1 billion dinars.

Telecommunications Company mtel DOO Podgorica

In million RSD	2014	2015
Operating revenues	4.804	5.292
WiMAX	204	215
Mobile telephony	4.399	4.499
Multimedia	1	135
Other operating revenues	200	443
Operating expenditures	(4.659)	(5.023)
Salaries and remunerations	(523)	(511)
Operator expenses	(1.192)	(1.104)
Material and maintenance	(801)	(867)
Depreciation and amortization	(1.103)	(1.276)
Lease expenses	(298)	(309)
Other operating expenses	(742)	(956)
EBIT	145	269
EBIT rate	3,0%	5,1%
EBITDA	1.248	1.545
EBITDA rate	26,0%	29,2%
Financial expenses, net	(71)	(83)
Net profit	57	127
Net profit margin	1,2%	2,4%

Profit and Loss Account

In 2015, operating revenues amounted to 5.3 billion dinars and they increased by 10.2%. Operating expenditures amounted to 5.0 billion dinars and they increased by 7.8%.

Net profit in 2015 amounted to 127 million dinars and it increased by 122.8% compared to the previous year. *EBIT* amounted to 269 million dinars (85.5% decrease), and *EBITDA* 1.5 billion dinars (23.8% decrease).

Operating revenues grew by 488 million dinars. The growth was mostly influenced by the revenues from mobile telephony and multimedia. The revenues from mobile telephony increased by 100

million dinars: the growth of *prepaid* revenues by 315 million dinars, a mild growth of *postpaid* revenues by 12 million dinars. However, the interconnection revenue decreased by 191 million dinars. The revenues from multimedia amounted to 135 million dinars and they are generated by the distribution of TV content of affiliated companies.

Other operating revenues increased by 243 million dinars (reduced liabilities, gifts of suppliers, etc.).

Operating expenditures in 2015 grew by 364 million dinars, predominantly as a result of increased costs of depreciation (by 173 million dinars) and maintenance costs (by 101 million dinars).

In million RSD	31.12. 2014	31.12. 2015
NON-CURRENT ASSETS	6.171	7.919
Intangible assets	2.156	2.687
Real estate, plants and equipment and advance payments	3.960	5.217
Other	55	15
CURRENT ASSETS	1.616	3.877
Inventories	263	1.190
Receivables and other current assets	1.024	1.945
Cash and cash equivalents	13	13
Other	316	729
TOTAL ASSETS	7.787	11.796
CAPITAL	3.133	4.516
LONG-TERM LIABILITIES	1.584	2.569
Long-term loans	1.429	2.402
Other	155	167
CURRENT LIABILITIES	3.070	4.711
Current payables under long-term loans/short-term loans	1.256	829
Liabilities from business operations	1.164	2.554
Other short-term liabilities	650	1.328
TOTAL LIABILITIES	7.787	11.796

Balance Sheet

In September 2015, merger of the Cabling company was made (acquired in March 2015 by Mtel), Fibernet (previously owned by Telekom Srbija), Elta Mont and MediaNet (acquired in June 2015 by mtel). The merger generally caused an increase in assets (by 51.5%), which amounts, as at 31 December 2015, to 11.8 billion dinars.

Apart from the transfer of ownership in the aforementioned companies in total amount of 16 million euros, in order to retain the existing ownership structure of mtel, Telekom Srbija increased the capital in cash in the amount of 1.3 million euros. The capital as at 31 December 2015 amounted to 4.5 billion dinars (44.1% growth).

In million RSD	2014	2015
Profit before taxation	74	186
Profit adjustment	863	565
Net cash-in from business activities	937	751
Net cash-out from investments activities	(830)	(1.194)
Net cash-out from financing activities	(302)	443
Net outflow of cash and cash equivalents	(195)	-
Cash and cash equivalents at the beginning of the year	208	13
Cash and cash equivalents at the end of the year	13	13

Cash Flows

In million RSD	2014	2015
Total debt	2.685	3.231
Net debt	2.672	3.218
Net debt / EBITDA	2,14	2,08
Total liabilities / EBITDA	3,73	4,71
Debt ratio	46,0%	41,6%
Interest expenses/ operating revenues	1,73%	1,81%
Quick ratio	0,42	0,58

Ratio analysis

The increase in capital influenced a decrease in the debt ratio from 46.0% at the end of 2014, to 41.6% as at 31 December 2015.

Telus a.d., Beograd

In million RSD	2014	2015
Operating revenues	1,511	1,646
Operating expenditures	(1,423)	(1,541)
EBIT	88	105
EBIT rate	5,8%	6,4%
EBITDA	93	110
EBITDA rate	6,2%	6,7%
Financial revenues, net	38	33
Net profit	103	116
Net profit margin	6,8%	7,0%

Profit and Loss Account

The operating revenues in 2015 amounted to 1.6 billion dinars and they increased by 8.9% compared to previous year. The revenue growth in 2015 was caused, primarily, by renewing the contract on hygiene maintenance with PE PTT in February 2015.

Operating expenditures amounted to 1.5 billion dinars and they increased by 83%.

Net profit amounted to 116 million dinars and it increased by 12.6%. *EBIT* amounted to 105 million dinars (19.3% growth), and *EBITDA* 110 million dinars (18.3% growth).

In million RSD	31.12. 2014	31.12. 2015
NON-CURRENT ASSETS	19	16
CURRENT ASSETS	921	1.036
Receivables and other current assets	875	940
Cash and cash equivalents	28	85
Other	18	11
TOTAL ASSETS	940	1.052
CAPITAL	779	854
LONG-TERM PROVISIONS	59	66
CURRENT LIABILITIES	102	132
TOTAL LIABILITIES	940	1.052

Balance Sheet

TS:NET B.V., Amsterdam

In million RSD	2014	2015
Operating revenues	51	47
Operating expenditures	(44)	(42)
EBIT	7	5
EBIT rate	13,7%	10,6%
EBITDA	39	38
EBITDA rate	76,5%	80,9%
Net profit	6	4
Net profit margin	11,8%	8,5%

Profit and Loss Account

Operating revenues fully reflect the revenues from leasing equipment to the Parent Company. In 2015, they amounted to 47 million dinars and they were lower due to lower number of the locations to lease.

In million RSD	31.12. 2014	31.12. 2015
NON-CURRENT ASSETS	184	152
CURRENT ASSETS	108	59
Cash and cash equivalents	93	44
Other	15	15
TOTAL ASSETS	292	211
CAPITAL	291	210
CURRENT LIABILITIES	1	1
TOTAL LIABILITIES	292	211

Balance Sheet

Telecommunications Company HD-WIN d.o.o., Beograd

In million RSD	2014	2015
Operating revenues	2.064	2.509
The sale of licences and TV rights	1.905	2.341
Other operating revenues	159	168
Operating expenditures	(2.024)	(2.378)
Purchased licences and TV rights	(1.452)	(1.638)
Other operating expenses	(572)	(740)
EBIT	40	131
EBIT rate	1,9%	5,2%
EBITDA	81	173
EBITDA rate	3,9%	6,9%
Financial expenses, net	(213)	(102)
Net profit/(loss)	(173)	29

Profit and Loss Account

The operating revenues in 2015 amounted to 2.5 billion dinars and they increased by 21.6% due to the growth of revenues based on the sale of TV rights and licences. The growth was caused mostly by larger number of end users and the expansion to the regional markets.

Operating expenditures increased by 17.5% and reached the amount of 2.4 billion dinars. The operating expenditures are mostly related to purchased TV rights and licences (69% of total operating expenditures).

In 2015, net profit was generated in the amount of 29 million dinars. *EBIT* amounted to 131 million dinars, and *EBITDA* 173 million dinars.

In million RSD	31.12. 2014	31.12. 2015
NON-CURRENT ASSETS	192	162
CURRENT ASSETS	1.866	4.791
TOTAL ASSETS	2.058	4.953
TOTAL LIABILITIES	2.058	4.953

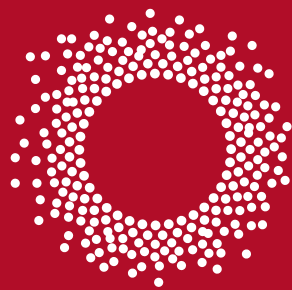
Balance Sheet

mts banka a.d., Beograd

In million RSD	2014	2015
Revenues from interest, commissions, fees and FX gains/losses, net	276	341
Other operating revenues	108	143
Expenditures against impairment of investments, net	(1.266)	(451)
Other operating expenses	(493)	(540)
Net loss	(1.370)	(500)

Profit and Loss Account

The lower expenditures of provision for risky investments, net, in 2015, predominantly caused a decrease in the Bank's net loss.



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