

Consolidated Annual  
Business Report for 2016



mts  
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Telekom Srbija



CONSOLIDATED ANNUAL  
BUSINESS REPORT  
OF *PREDUZEĆE ZA*  
*TELEKOMUNIKACIJE*  
*TELEKOM SRBIJA akcionarsko*  
*društvo, Beograd /*  
TELECOMMUNICATIONS  
COMPANY  
TELEKOM SRBIJA, joint stock  
company, BEOGRAD/  
FOR 2016

Telekom Srbija



# TABLE OF CONTENT

## 01 Summary report

Telecommunications Company Telekom Srbija a.d. and related legal entities .....	7.
Introductory note by the Director General .....	10.

## 02 Development and business environment

Background .....	15.
Market .....	19.

## 03 Corporate management

Corporate bodies and Corporate management system .....	37.
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## 04 Business operations

Strategy .....	45.
Services .....	48.
Investments .....	54.
Customers .....	57.
Employees .....	64.
Report on Corporate and Social Responsibility .....	74.
Risk management .....	82.

## 05 Financial results

Consolidated financial statement .....	85.
Financial statements of the Parent Company and related legal entities .....	87.

# 01

# Summary report



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Tvoj svet

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

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

The Public Enterprise of PTT Traffic "Srbija", Beograd (PE PTT or PE of PTT Traffic "Srbija") established Telecommunications Company "Telekom Srbija" a.d., Beograd (hereinafter: Telekom Srbija, or Company or, Parent Company) on 23 May 1997 by assigning all telecommunications assets to the Company, excluding 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, the Company 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 prevailing activity of the Company, according to the current nomenclature of activities, is cable and wireless telecommunications.

The Company's activity includes provision of telecommunications services, the most important being the publicly available telephone services in the fixed and mobile network (national and international traffic, traffic transit, add-on services in the fixed and mobile telephone network), pay-phones, data transmission, leased lines, lease of physical access to the network elements and the accompanying assets, broadband internet access services via mobile network, optics and xDSL technology, distribution of media content. The Company also provides services in the field of

lease, construction, management and protection of telecommunications infrastructure, publishing of telephone directories, operator-assisted calls and use of electronic directory in the sphere of fixed telephony services.

Telekom Srbija is a joint stock company whose subscribed, issued and paid-in share capital consists of 1,000,000,000 ordinary shares without a nominal value.

As at 31 December 2016, 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 (82% share capital);
- GO4YU D.O.O. Belgrade, Republic of Serbia (50% stake in the initial capital);
- "mts AntenaTV" d.o.o. Beograd, Republic of Serbia (50% share capital).

## RELATED LEGAL ENTITIES

### “TELEKOMUNIKACIJE REPUBLIKE SRPSKE“ joint stock company, Banja Luka, Bosnia and Herzegovina

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, Montenegro

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 telephony, Internet and multimedia services.

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

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.

Taking into account the interpretation of the Law on private security by the Ministry of the Interior saying that the prevailing activity of the company which applies for a licence to operate should be the activity of private security and the fact that the revenues from FTO services would reach a somewhat higher percentage than the revenues from other services, the prevailing activity of Telus was changed in 2016 and now it is the activity of private security.

### 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. It was registered for the provision of the following electronic communications services:

- Services of the public fixed network: voice telephone services, value-added services, leased lines, data transmission (Internet access), distribution of media content
- Services of the public mobile network: voice telephone services and data transmission services.

**TELECOMMUNICATIONS COMPANY HD-WIN d.o.o., BEOGRAD, Republic of Serbia**

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, Republic of Serbia**

mts banka a.d. Beograd, formerly: Dunav banka a.d. Beograd (hereafter: mts banka) is 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 General Meeting of the said bank, based on the Subscription Agreement entered into in December 2014 with Dunav osiguranje and Dunav RE and after the payment effected within the procedure of increase in the share capital, the Company acquired ownership over 56% of shares in mts banka.

The corporate bodies of the Company approved additional acquisition of 1,190,700 shares previously owned by Dunav osiguranje a.d.o. Beograd, whereby Telekom Srbija acquired ownership over 76% of the total number of shares of mts banka.

In February 2015, the additional 137.947 share i.e. 2 % of shares were acquired.

During 2016, the share of Telekom Srbija in the ownership structure of mts banka increased to 82%. In this way, conditions were created for commencing the provision of mobile banking services in a trial phase.

**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.

**“mts AntenaTV“ d.o.o. Beograd**

Business Company mts AntenaTV d.o.o. Beograd (hereafter: mts AntenaTV) was founded in 2016 as a joint venture of Telekom Srbija and JP “Emisiona tehnika i veze“ Beograd for the purposes of distribution of media content through DTT (Digital Terrestrial Television).

## INTRODUCTORY NOTE BY THE DIRECTOR GENERAL

Dear Sirs/Madams,

The year that passed was marked by a dynamic market environment and challenging macroeconomic conditions in which we operated. After finishing the process of privatization in late 2015, we completely devoted to further company development setting, as we always did, the ambitious, but sustainable business goals. We are quite satisfied with the results that we accomplished, but we should be ready to operate in the forthcoming period in a more agile manner, with higher efficiency and commitment to provide the satisfaction of customers, employees and shareholders in the conditions of a continued business transformation imposed by the requirements and needs of the customers, technology development and the ever-increasing market competition.

In view of the more complex operating conditions, regulatory restrictions and strengthening competition, despite the increased number of the users of mobile telephony, Internet and multimedia, a mild decrease in revenues was recorded at the level of Telekom Srbija as a company and the related entities in the previous year, primarily due to the decrease in the number of customers and the revenues from fixed telephony. Along with the decrease in operating costs, we manage to reduce the negative effect of revenue decrease and alleviate the consequential decrease in EBITDA. What we can particularly say is the fact that retained the high level of investments, duly settled all liabilities towards the creditors, paid out the dividends to the shareholders and provide the financial stability of operation maintaining the debt ratio at a low level.

In mobile telephony, we maintained the mild growth in revenues, retained the market shares on all the markets and continued the trend in providing significant changes in structure in favour of post-paid customers thanks to the offer of services and mobile handsets and devices with improving the quality of the network and services.

In fixed telephony, we have faced the global declining trend as for the number of customers,



volume of traffic and revenues due to number portability and we have been making continuous efforts to alleviate this trend by enriching the offer of integrated service packages (BOX) tailored to different customer needs.

We maintained a trend of stable growth in the broadband customers, while the number of PayTV users significantly increased mostly owing to and as a result of the acquisition of the cable providers in Montenegro.

We achieved noticeable improvement in the sale of BOX packages where won over one and a half a million of customers, which means that we have reached the goal that we initially set: to ensure maximum usage of the potentials of the unique offer and the unique brand "BOX" which makes us different from the competition.

During 2016, we continued the implementation of the Strategic Business Plan that adopted in 2014 and set the business strategy and the goals in all fields of operations for the purpose of strengthening the market position, improving the organizational effectiveness and enhancing business performances.

We also continued the implementation of initiatives related to the transformation of the OSS/BSS systems, finished the first phase and commenced the second phase of implementation of the ERP and CRM systems and finished the implementation

of the convergent billing system. We conducted activities related to the initiatives for the transformation of human resources management and improved the process of procurement and several other core processes in the Company.

We kept a high level of investments in 2016 for the purpose of improving the quality of the network and IT systems, upgrading the existing services and creating conditions for introducing new services, as well as for transforming the business processes to ensure better customer experience, reduction in costs and higher operating efficiency.

We reached the agreement with Huawei and launched the project "All-IP Fixed Network Transformation" which represents the biggest infrastructure project ever undertaken by the company. This project will help us achieve technological excellence and achieve higher bit-rates based primarily on optics and advanced services in keeping with the growing customer needs, and thus create conditions for the optimization of the network and the operating costs by way of replacement of a technologically obsolete network equipment. Beside the better customer experience and improvement of the operating performances on a highly competitive market of Internet and distribution of multimedia content, we expect that this project will have positive effects on the development of economy and improvement of the business environment in Serbia, in general.

We kept up with the expansion of the LTE network after we the commercial launch of LTE services in April 2015, and we ensured some additional frequency band- to 800 MHz - participating in the public tender invited by RATEL, whereby we provided better conditions for a long-term provision of broadband services via mobile access to Internet offering high quality in both the suburban, and the rural areas. We conducted preparations for a massive implementation of the WiFi network and the state-of-the-art WiFi-based services.

In cooperation with JP Emisiona tehnika i veze, we founded a new subsidiary company - **mts Antena TV d.o.o.**, which soon after commenced the provision of services covering the distribution of the media content via DTT technology, with the aim of enriching the our multimedia service offer and making such services available to the

customers who cannot receive TV content via other technologies due to the current restrictions.

We recorded a growth in the number of IPTV users, particularly the growth in the number of Pay TV users of mtel after the completed acquisition of the cable operators. We provided conditions for immediate launching of the more advanced OTT services via the new mts TV GO Application for mobile phones and tablets which is expected to considerably improve the offer in the domain of multimedia services and enable more adequate response to the rising competitive market of OTT services.

After the acquisition of mts bank, we entered in a brand new field of operation and during 2016 we implemented the project for the support to the business and IT transformation of mts bank and establishment of synergy with Telekom Srbija, whereby conditions were created for the launch in Q2 of 2017 of the first convergent services, such as, opening a multi-currency account and granting of a micro-cash loan in the mts bank branches. We implemented, to a high extent, the project for implementing the mWallet platform and we plan by the end of Q2 of 2017 to launch the mobile wallet service which will offer to the customers the significant advantages with respect to mobile payments. We worked hard to improve the offer of Cloud services and strengthen the partner business models with the aim of positioning the company as a significant market player on this complex and challenging market. In the domain of IoT market, we recognized the possible business models for further development and carried out preparations to create conditions for us to start up the implementation of first IoT solutions in 2017 and thus initiate the development of this globally perspective and fast-growing market.

We also completed the preparations for the development and adoption of a new business strategy for the upcoming period from 2017 to 2019 focusing on the implementation on the current long-term strategic initiatives.

A fierce market competition in all segments of operation reflected in the commencement of operation of a new MVNO operator in Serbia, the strengthening of other global OTT providers and providers of ICT solutions obviously impose more and more complex and challenging tasks for us. We are ready to respond to such challenging tasks

# Summary report

with maximum commitment by implementing the planned projects and consistency in the achievement of the set strategic business goals. We plan to increase the volume of investments to further improve the quality of network and business processes for the purpose of continually ensuring better customer experience of the users of our services.

It is necessary to provide for a continuous progress for the employees as the biggest asset of the company especially in the conditions of a more complex operation and the competitive market of expertise.

It is necessary for us to continue improving the corporate management of the Parent Company and the related entities in order to achieve a better synergy with our related entities in the crucial segments of operation. By taking a rational approach to our common fields of operation, unification of business processes and practices and reduction in the costs and risks of operation, it is possible to provide additional synergy effects and enhance the consolidated business result, which would help us keep the trust of the investors and increase the company value in the interest of the shareholders and the organization.

As in the previous period, the ambitious goals that we set in all segments of operation will require true commitment by the employees, and particularly, the management skills to provide an optimum usage of available resources and efficiency in decision making on all levels on management. We are convinced that only such approach, the committed, dedicated and persistent work, makes it possible for us to maintain the dynamics of the company development and keep the position of a leading regional telecommunications operator.

The continuity of a socially responsible operation on all markets covered by our services through active cooperation and support to the social community remains our imperative.

I would hereby like to thank our customers for the trust they showed in us and say that they are the most valuable part of our business success and ambition.

Likewise, I thank all our employees, the shareholders, the business partners and all those who share our vision to be the first choice of

our customers on all markets that we operate in by rendering top-quality services in line with the contemporary technological trends.

In view of all the achievements that we have made so far, I am truly convinced that we will continue achieving our common goals and sharing the same values in the forthcoming period.

Sincerely,

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



# 02

## Development and business environment



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## 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, 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.

### Mtel

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% of the state-owned capital, Telekom Srbija became the majority owner of Mtel. On 31 December 2016, the ownership structure of Mtel was as follows:

- Telekom Srbija, a.d. Beograd, Srbija – 65%;
- Pension and Disability Fund a.d., Banja Luka – 9%;
- Restitution Fund of Republika Srpska, a.d. Banja Luka - 5%;

- ZMIF in restructuring Zepter fond, a.d. Banja Luka – 4%;
- Other shareholders 17%.

## Related parties

On 31 December 2016, Mtel had ownership stakes in three business companies:

- Mtel GmbH with the seat in Vienna with a 100% ownership stake,
- Logosoft d.o.o. Sarajevo with a 65% ownership stake,
- “Društvo za telekomunikacije MTEL d.o.o.“ Podgorica with a 49% ownership stake.

## mtel

mtel was registered on 4 April 2007 with the Central Register of the Commercial Court in Podgorica in compliance with the provisions of the Company Act of Montenegro, under registration number 5-0368574/001.

The founders of mtel 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.

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

According to the Decision of the owner of mtel to increase the share capital on 12 March 2010, the share capital of mtel increased by EUR 40,000,000. Such additional funds were paid in by the owner on 15 March 2010, inclusive pro rata to the ownership stake in mtel.

In June 2015, the founders performed another capital increase in the amount of EUR 17,346,939 of which Telekom Srbija paid EUR 7,500,000 by transferring the ownership over the stakes in Fibernet d.o.o. and Mtel in the amount of EUR 8,500,000, and transferring the ownership over the



stakes in Cabling d.o.o. In order that the owners could retain their respective stakes in percentages in mtel, Telekom Srbija performed a pecuniary capital increase in the amount of EUR 1,346,939.

During 2015, mtel purchased a 100% stake in legal entities Media Net d.o.o. and Elta Mont d.o.o. Nikšić. Together with the business companies that were assigned to mtel by the founders, mtel conducted a merger by absorption of all business companies on 30 September 2015, in line with the Company Act.

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

### Legal entities merged

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, 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 Act of Montenegro and upon prior fulfilment of all legally prescribed conditions governing merger by absorption, incorporation documents and articles of association of all the entities that were subject to merger by.

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.

### Telus

Business company for maintenance and security of facilities, property and other services "Telus" was founded on 31 March 2005 and commenced its operation on 1 May 2005 as a closed joint stock company, 100% owned by its founder – Telekom Srbija.

Upon the incorporation, a total of 840 employees were transferred from the parent company to Telus to do the jobs related to hygiene maintenance and physical and technical security, and from 1 January 2006, Telus took over 767 employees from JP „Pošta Srbije“ on a five-year arrangement for the same jobs.

Since 1 June 2010, Telus has entered into contracts with Telekom Srbija on the provision of services within the registered activity at the annual level.

After the expiry of the five-year business arrangement, JP PTT (JP Pošta Srbije) conducted the open procedures for the public procurement of FTO and hygiene maintenance services concluding new three-year contracts with Telus.

### TS:NET

February 2010 - TS:NET B.V. was registered in the form of a closed joint stock company with limited liability.

May 2013 – the Supervisory Board of the Parent Company passed on 23 May 2013 Decision No. 152744/14-2013 granting consent to the Decision of the Executive Board No.149448/15-2013 approving the decrease in share capital of TS:NET B.V., for the purpose of drawing the available funds in favour of the Parent Company.

September 2013 – the Supervisory Board of the Parent Company passed on 19 September 2013 Decision No. 288253/11-2013 granting prior consent to the Decision of the Executive Board No. 263176/5-2013 of 20 August 2013 amending the Decision of the Executive Board No. 149448/15-2013 of 14 May 2013 with respect to the amount of the approved decrease in capital of TS:NET B.V.

## mts d.o.o.

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

During 2016, the capital was twice increased in „mts“ D.O.O. Severna Mitrovica, first time it was paid in things and rights, and the second time it was in cash.

## HD-WIN

Telecommunications Company HD-WIN d.o.o. was founded on 13 March 2009.

Since 3 September 2010, it has held a 100% ownership of HD-WIN ARENA SPORT in Croatia with the Licence for broadcasting in 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

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, from 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 56% of the shares of mts banka. Telekom Srbija's stake in mts banka as a related entity in early 2015 increased to 58% 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 Telekom Srbija acquired 76% of shares.

The share percentage of Telekom Srbija in the ownership structure of mts banka increased during 2016 to 82%, so that the ownership structure of mts banka is as follows:

- Telekom Srbija 82% shares, instead of 76% shares,

- Dunav osiguranje a.d.o 11%,
- Dunav Re A.D. 3%,
- Other shareholders 4%.

## GO4YU

GO4YU was founded in 2014 by Dimidiate Group SA, Geneva, Switzerland.

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

In March 2016, Telekom Srbija entered into the Agreement on the purchase of shares of Dimedia Group SA, Geneva, Switzerland by the other shareholder of said company so that Telekom Srbija, after the conducted share transfer procedure, since July 2016 has not been a shareholder of that, now former, legal party.

The activities of GO4YU include provision of telecommunications services to the users in the Diaspora worldwide, excluding in the countries of former Yugoslavia, predominantly in the territory of South America.

GO4YU provides telephone services, maintenance, management and enabling of access to the facilities for broadcasting, transmission or reception of messages (voice, text, images or data), lease of telecommunications equipment, and distribution of TV signals to end users and other multimedia services.

## mts AntenaTV

Business Company mts AntenaTV d.o.o. Beograd was founded in 2016 as a joint venture of Telekom Srbija and JP „Emisiona tehnika i veze“ Beograd for the purposes of distribution of media content through DTT (Digital Terrestrial Television).

## MARKET

### Macroeconomic data

#### REPUBLIC OF SERBIA

Serbia recorded a positive economic trend primarily owing to investment activity in the public sector, export growth, import decline and low prices of basic goods. According to the data published by IMF, Serbia had a 2.8% GDP growth in 2016.<sup>1</sup>

Objectively, Serbia did make economic progress in the past year. The public finance is stable. The problem in Serbia is a high negative birth rate for which Serbia loses around 35,000 citizens each year.<sup>2</sup>

In November 2016, the scope of industrial production increased by 1.3% as compared to November 2015. The Mining industry recorded a 0.5% growth and the Processing industry had a 4.9% growth. The growth in the industrial production was followed by a real growth in the retail price index. In November 2016, such growth was 7.4% as compared to the same period last year.<sup>3</sup>

The total foreign trade commodity exchange of the Republic of Serbia for the January – November 2016 period amounts to: - 31,142.1 million dollars – a 7.7% increase relative to the same period last year.

The deficit was 3,864.8 mil. Dollars, which is a 10.0% decrease as compared to the same period last year.

The export/import coverage index equals 77.9% and it is higher than the coverage for the same period last year (74.1%).<sup>4</sup>

The YOY inflation rate in the last quarter recorded a growth reaching 1.6% in December. The low inflation pressures were recorded also in the

1. [IMF](#)

2. [Statistical Office of the Republic of Serbia](#)

3. <http://www.stat.gov.rs/WebSite/repository/documents/00/02/40/02/MSB-11-2016.pdf>

4. <http://www.stat.gov.rs/WebSite/repository/documents/00/02/40/02/MSB-11-2016.pdf>

last quarter of 2016. As regards the domestic factors, the low inflation pressures were mostly the result of the effect of fiscal consolidation, relative stability of foreign exchange rates and low inflationary expectations by the finance sector and economy. Despite a certain recovery of the world's oil price which caused a mild inflation growth in the Eurozone, the influence of the prices in the international environment is still relatively minor. At a quarterly level, the prices went up by 0.5% due to the price increase in electricity and oil derivatives, the seasonal growth in the prices of tourist package tours, clothes and footwear and, on the other hand, due to the cheapening of unprocessed food.<sup>5</sup>

In November 2016, as compared to the previous month, the total registered employment rate increased by 0.4% (7,653 persons), of which the employments with legal entities increased by 0.3% (4,450 employees) and employments with entrepreneurs increased by 0.8% (2,566 employees).

As compared to November 2015, the total registered employment rate is higher by 1.8% (35,931 persons), of which the employments with legal entities increased by 1.4% (21,001 persons) and employments with entrepreneurs increased by 6.4% (19,898 employees).

The average salary exclusive of taxes and contributions paid in the Republic of Serbia in November 2016 was RSD 45,767. As compared to the average salary without taxes and contributions paid in October 2016, it is higher by 1.1% in nominal terms and 1.2% in real terms, while, as compared to the average salary without taxes and contributions paid in November 2015, it is higher by 3.6% in nominal terms and 2.1% in real terms.<sup>6</sup>

## BOSNIA AND HERZEGOVINA

The GDP growth in B&H in 2016 was 2.8%.<sup>7</sup> Republika Srpska alone, in the region of former SFRY, recorded a growth that is somewhat higher than in Serbia (a 3.3% GDP growth).<sup>8</sup>

In 2017, the GDP growth in Bosnia and Herzegovina is expected to reach between 3.2% and 3.5%.

5. [http://www.nbs.rs/system/galleries/download/pdf\\_ioi/ioi\\_02\\_2017.pdf](http://www.nbs.rs/system/galleries/download/pdf_ioi/ioi_02_2017.pdf)

6. <http://www.stat.gov.rs/WebSite/repository/documents/00/02/40/02/MSB-11-2016.pdf>

7. World's Bank

8. Statistical Office of Republika Srpska

The unemployment rate in Bosnia and Herzegovina is still rather high amounting to 41%.<sup>9</sup>

The labour market is going to be one of the critical issues of the B&H economy. The rate of registered unemployment in May 2016 was 41.7% i.e. 518,857 unemployed persons. In October 2016, the registered unemployment significantly decreased and was 512,496 unemployed persons.<sup>10</sup>

Republika Srpska had a growth in industrial production of 4% in 2016.<sup>11</sup> Likewise, the export-import coverage in Republika Srpska increased and amounted to 58.1%<sup>12</sup> which has been the best indicator since the time of signature of the Peace Agreement in Dayton.

## MONTENEGRO

According to the final data, the GDP of Montenegro, based on the preliminary data for the first, second and third quarters of 2016 generated the annual growth of 1.1%, 2.7% and 2.4%, respectively.

The prices in December 2016, as compared to the previous month, increased by 0.2%, while the annual inflation rate in December reached only 0.9%.

In 2016, relative to 2015, the industrial production declined by 4.4%. The decline was recorded in the sector of ore and stone mining (-18.1%) and processing industry (-7.8%), while a 3.5% growth was recorded in the supply of electric energy, gas and steam. The number of tourist visits is higher by 5.9% in 2016 compared to 2015, while the number of overnight stays increased by 1.8%. In 2016, a total of 293,594 m<sup>3</sup> of forest sortiments were produced which is 22.4% less than in the previous year. According to the preliminary data, the construction industry in the first nine months of 2016 recorded a 27.8% growth in the value of completed construction works and a 14.4% growth in the number of effective working hours compared to the same period in 2015.

The average number of employees in December 2016 was 177,473, which is 0.5% less than in the previous month and 2.9% more than in December 2015.

9. Trading Economics

10. Statistical Agency of B&H

11. Statistical Agency of B&H

12. Statistical Office of Republika Srpska



The number of unemployed persons in Montenegro in December 2016 was 49,487, which is 3.6% growth as compared to the previous month and a 23.7% growth as compared to December 2015.

According to the estimates of the Ministry of Finance, the fiscal deficit of Montenegro in November 2016 amounted to EUR 24.9 million, while the deficit recorded for the eleven months of 2016 amounted to EUR 45.9 million or 1.2% of the projected annual GDP. The source revenues of the budget of Montenegro in November 2016 amounted to EUR 112.5 million or 3% of the projected annual GDP, which is 5.6% higher than envisaged in the plan for November. As compared to the source revenues generated in November 2015, the generated growth was recorded at 17.3%. The budget expenditures amounted to EUR 137.4 million or 3.7% of the projected annual GDP, which is 4.8% lower than projected in the plan for November 2016, but 25.2% higher than the expenditures generated in November 2015. According to the data of the Ministry of Finance, at the end of September 2016, the state debt (in gross value) amounted to EUR 2,309.2 million or 61.9% of GDP. Out of that amount, the domestic debt was EUR 314 million or 8.4% of GDP, while the foreign debt amounted to EUR 1,995.2 million or 53.5% of GDP.<sup>13</sup>

## Regulatory framework

### Telekom Srbija

In accordance with the Law on Electronic Communications and the licences issued by the RATEL as the competent regulatory body, and upon entry into the Register of Operators of Public Communications Networks and Services kept by RATEL, Telekom Srbija a.d. Beograd performs the activity of electronic communications, which includes: construction or installation, maintenance, operation and granting for use of the public communications networks and the accompanying facilities, as well as provision of electronic communications services.

On 28 July 2006, in keeping with the Law on Telecommunications, the Rules specifying the number of, and the period for which a licence for

13. [http://www.cb-cg.org/index.php?mn1=publikacije&mn2=izvjestaj\\_gu-vernera&mn3=decembar\\_2016](http://www.cb-cg.org/index.php?mn1=publikacije&mn2=izvjestaj_gu-vernera&mn3=decembar_2016)

public mobile telecommunications networks and services is issued, and the minimum requirements for, and minimum amount of the one-off fee for licence issuance, in a procedure of replacing the existing GSM/GSM1800 licence, RATEL issued to the Company a Licence for public mobile telecommunications network and services of the 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 was extended on 18 July 2016 for an additional 10-year period, whereby all rights and obligations that Telekom Srbija assumed under the Licence are extended until 28 July 2026.

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 the public fixed telecommunications network, issued for the period expiring on 9 June 2017. Telekom Srbija filed a request for extending the Licence validity in a timely manner, before the expiry of the relevant deadline. In response to the request filed, the Agency replied that the provision of the publicly available telephone services via the public fixed telecommunications network falls within the scope of general authority and that the Agency *ex officio* recorded all Licencees for the above mentioned services in the Register of Operators, in keeping with the Law and the relevant by-laws. The Agency also stated that it performed, by entering of the Licence holders for the services defined in the Licence into the Register of Operators, all necessary actions related to the continued provision of services after the expiry of the term that the said Licence has been issued for.

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

Beside the above Licences, the Company was also entered in the register of operators of public communications networks and services maintained by RATEL for all the services that it has rendered to

its customers, and, since March 2015, for 4G network, as well upon receiving a licence for the use of radio frequencies in the radiofrequency band 1710-1785/1805-1880 MHz (a new generation of mobile communications - 4G). The records on the operators of the public communications network and services is available on Ratel's web site at <http://registar.ratel.rs/cyr/reg201>.

In keeping with the Law on electronic communications, Ratel passed a Decision, on 7 July 2011, on designating the markets subject to prior regulation to define nine relevant markets, of which, three retail and six wholesale markets. 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) (hereinafter: SMP operator) on 8 out of 9 relevant markets, 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 PRM, Telekom Srbija assumed the relevant regulatory obligations, such as: publishing of the relevant data in a standard offer form, non-discriminatory actions, enabling access to and using of the network elements and associated facilities, price control, application of cost-based accounting, prohibition on excessive pricing, tariff control, etc.

In a repeated analysis of the relevant market, Ratel rendered a Conclusion on adopting the Report on the analysis of the retail market of the publicly available telephone services from a fixed location (PRM 9) No. 1-02-021-89/16-4 of 10 November 2016 stating that said market is oriented towards efficient competition and that there is no need for continuing prior regulation, so that Telekom Srbija will not be deemed as a SMP operator any more on this market.

The particular decision providing Telekom Srbija

with a SMP status on said retail market of the publicly available telephone services from a fixed location ceased to be effective on 5 January 2017, which was the date of entry into force of a new Decision amending the Decision on designating the markets subject to prior regulation. According to this newly adopted decision, 7 markets shall now be subject to prior regulation, while the retail market of media content distribution and retail market of the publicly available telephone services from a fixed location shall not be the subject of ex-ante regulation, anymore, so that Telekom Srbija is now a SMP operator on all of these seven markets subject to prior regulation, in compliance therewith.

Out of the activities related to the regulatory framework with certain implications on the Company's operation in 2016, the following should be mentioned:

Ratel passed a Decision granting the individual licence to the Company for the use of the radio-frequencies for two basic radio-frequency blocks with a 5 MHz width, both (paired), for the provision of public electronic communications services for the IMT system (International Mobile Telecommunications) comprising IMT-2000 and IMT-Advanced, on a technologically neutral basis, for the territory of the Republic of Serbia, on conducting a public bidding procedure.

Ratel conducted the analysis of the retail market for access to the public telephone network on a fixed location (market 1) and rendered a Decision designating again Telekom Srbija as a SMP operator on this market.

Ratel was provided with the Report for 2015 to serve as a basis for determining the prices of regulatory services by the regulatory agency. According to the opinion of the independent auditor, the financial reports of a SMP Operator, with the balance as at 31 December 2015 for the year that ended in that day, are compiled in material aspects, in compliance with the Rules on the application of a cost-based principle, separate accounts and reporting by a SMP operator in the field of electronic communications.

In late 2016, Ratel launched a procedure to define and introduce LRIC (*long run incremental costs*) methodology for the calculation of costs of the provision of services in the fixed and mobile

network based on which the prices on some regulated markets on which Telekom Srbija has a SMP status were to be adjusted. Based on the EU practice, it is expected that the application of this methodology would lead to a significant decrease in the prices of the services that it would be applied to. Ratel has not yet defined which particular services, except for call termination in the fixed and mobile networks, would be subject to the LRIC pricing.

On 9 September 2016, Ratel passed a Decision allowing the mobile operators-holders of the Licence for the public mobile telecommunications network and services of the public mobile telecommunications network in compliance with GSM/GSM1800 and UMTS/IMT-2000 standard, to use all the allocated radiofrequency bandwidths for the provision of electronic communications services on a fixed location by using the CLL (Cellular Local Loop) technology at the places with up to 1,500 citizens according to the officially published data of the Republic Statistical Office on the latest census of population, households and apartments in the Republic of Serbia.

## Mtel

The regulation of the telecommunications market in Bosnia-Herzegovina falls within the competence of the Communications Regulatory Agency (hereinafter: Agency), and is based on the Law on Communications, Political Telecommunications Sectors and the relevant by-laws.

The current regulatory framework in B&H is based on the regulatory framework of the EU which implies permanent monitoring and analysis of the telecommunications markets, rendering the necessary regulatory by-laws with the aim of ensuring a continuous development of the markets, both from the aspect of increasing the number of services, and the aspect of creating marketing and technical innovation.

The market of B&H telecommunications was deregulated in early 2006 and, at the end of 2016, the following entities operated on this 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;

- 12 holders of the Licence for the provision of fixed public telephone services;
- 82 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.

Under Annex I to the Licence for the Provision of Mobile Services in the Universal Mobile Telecommunications Systems of December 2010, Mtel was enabled to provide UMTS services in the GSM frequency band. Under Annex I to Licence for the provision of the GSM services that Mtel was allowed to use the additional E-GSM frequency range of as of June 2012.

Within the process of the telecommunications market deregulation, in compliance with the regulatory framework, the following reference offers of Mtel are in place:

1. Reference Offer for interconnection with the fixed network Mtel,

2. Reference Offer for interconnection and access of a mobile, virtual network operator to the mobile network of Mtel,
3. Reference Offer for interconnection with the mobile network of Mtel,
4. Reference Offer for access to an unbundled local loop,
5. Reference Offer for the wholesale of leased lines.

The most important regulatory activities during 2016 were as follows:

- On 27 January 2016, a set of regulations related to broadcasting entered into force, comprising the following:
  - Codex on commercial communications,
  - Codex on audio and visual media services and radio media services,
  - Regulation 77/2015 on the provision of audio and visual media services (whereupon Regulation 55/2011 and Regulation 57/2011 on the public radio and television stations) ceased to be effective and
  - Regulation 76/2015 on the provision of radio media services (whereupon Regulation 58/2011 ceased to be effective);
- In February 2016, the Agency Council adopted the Decision on the revocation of the Decision on the manner of provision of mobile telephony services between the GSM operators in Bosnia and Herzegovina (the so-called “national roaming services“). The Decision entered into force on 26 February 2016;
- In April 2016, the Agency announced the second round of public consultations on the Amended Draft Analysis of the wholesale market of physical access to the network infrastructure (including the shared and full access to unbundled local loop) on a fixed location and the wholesale market of broadband access (Market Analysis 4 and 5);
- In May 2016, the Agency rendered a Decision on harmonizing the prices in mobile telephony and conditions for the provision of telecommunications services in Bosnia and Hercegovina with the service prices charged by the mobile operators in the region. The Decision envisaged two sets of measures, the first entered into force on 1 June 2016 and the other came into force on 1 July 2016;
- In June 2016, the Agency Council adopted the Regulation amending Regulation 67/2012 on the model of rebalance of the prices of voice telephony services in Bosnia and Hercegovina, to become effective as of 1 January 2017;
- In September 2016, the Agency Council adopted the Regulation amending Regulation 38/2008 on the numbering plan for telephone services in Bosnia and Hercegovina and the Regulation amending Regulation 39/2008 on managing the numbering plan for the telephone services in Bosnia and Hercegovina to become effective as of 1 October 2017;
- In October 2016, the Agency Council adopted Regulation 79/2016 on the licences for the distribution of audio and visual media services and radio media services which entered into force on 26 October 2016;
- In December 2016, the Agency Council adopted Regulation 80/2016 on the fees payable for the licences issued by the Regulatory Agency for Communications integrating the existing provisions and fees for all types of licences issued by the Agency. The Regulation has been in place since 1 January 2017;

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, 0667 78xx 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 Postpaid mobile services, including prepaid, post-paid and VPN tariff plans.

Since 30 April 2016, the EU Regulation has been in place prescribing the maximum prices that any operator may apply in roaming in EU which depend on the prices of services in the national network. In compliance therewith, Mtel Austria adjusted its prices in EU roaming. This represents a transitional solution because EU roaming is expected to be abolished from 30 April 2017.

## mtel

The Law on Electronic Communications which entered into force on 21 August 2013 is still in force.

On 18 January 2017, a Law was adopted to amend the Law on electronic communications.

The Agency for Electronic Communications and Postal Activity (hereafter: Agency) commenced its operation in 2001 as an independent regulatory body for the field of electronic communications and postal activity.

According to the Law on Electronic Communication, the status of an operator in Montenegro shall be granted the basis of a written application.

The number portability was implemented in the fixed and mobile network.

So far, the Agency has started the surveys on 14 markets, of which 12 were completed, and that

resulted in the introduction of relevant regulatory measures.

The first set of market analyses comprises:

- Market 1: Market of access to the public telephone network on a fixed location for individuals and legal entities – retail level;
- Market 2: Market of calls originating from the public telephone network and enabled on a fixed location – wholesale level;
- Market 3: Market of calls terminating in the individual public telephone networks and enabled on a fixed location – wholesale level. The Agency designated 2 SMP operators: Montenegro Telekom and mtel. The price of call termination in the fixed network is set at 0.0094 EUR/min (single transit);
- Market 4: Market of access to the network infrastructure at the wholesale level (including shared and fully unbundled access on a fixed location) – wholesale level;
- Market 5: Market of broadband access – wholesale level;
- Market 6: Terminal or final segments of leased lines regardless of the technology used for the provision of the leased or allocated capacity – wholesale level;
- Market 7: Market of calls terminating in individual mobile networks – wholesale level. The Agency rendered a decision prescribing certain regulatory obligations for Montenegro Telekom, Telenor and mtel as the SMP operators on this relevant market. The price of call termination is 0.0118 EUR/min.

The second set of analyses comprises:

- Market 1 and 2: Retail market of publicly available services of local, local long-distance and international calls for legal entities and individuals which are provided on a fixed location; Market 3: Wholesale market of trunk segments of leased lines;

- Market 4: Wholesale market of access and call origination from the public mobile, telephone networks. The Agency passed a decision prescribing certain regulatory obligations for Telenor d.o.o Podgorica, Montenegro Telekom a.d. Podgorica and mtel d.o.o Podgorica, as the SMP operators. Montenegro Telekom, Telenor and mtel, pursuant to the obligation of transparency, published their reference offers for the access to mobile networks. They assumed the obligation of applying the prescribed system of the cost-based and separate accounting for the wholesale market of calls terminating in individual telephone networks. The second phase of the analysis has been under way.

The third set of analyses includes the market of broadband Internet access on the retail level and the obligation of regulating the prices of retail services was prescribed for Montenegro Telekom, as the SMP operator on this market.

## Roaming

The regulation of the prices of roaming was conducted without any market analysis. The Agency passed a decision on the regulation of roaming prices starting from 30 June 2015 in cooperation with Serbia, Macedonia and Bosnia and Hercegovina. Although the administrative court had abolished the Agency's decision, the regulation of the retail and wholesale roaming prices is still in force. The Agency intends to amend the Law on electronic communications to create the legal grounds for the regulation of roaming.

With the purpose of market regulating, the Agencija conducted a project for the separation of accounting from the cost-based accounting. The obligation of price monitoring and cost-based accounting was introduced both for the wholesale, and the retail market, so as to ensure the methodology for implementing the appropriate model of cost-based accounting. The Revised Regulatory reports for all relevant markets, market segments and services for 2011, 2012 and 2013 were based on historical cost (HCA) and the methodology of fully allocated costs (FAC).

The Revised Regulatory Reports for all relevant markets, the market segments and services for 2014 and for all the years thereafter, were based

on current costs (CCA) as a cost base, and fully allocated costs (FAC), as the accounting methodology.

The Universal Service comprises the provision of Universal Information Service and Universal Directory, as well as the provision of services of access to the electronic communications network, telephone calls and access to Internet.

The operators share the costs of universal services pro rata to revenues.

On completing the public competition procedure for the selection of the universal service operator, a decision was rendered on designating the 2015 operator. The operators of universal service are Montenegro Telekom (for access and provision of services on a fixed location) and mtel for the service of universal operator for the services of telephone directory and universal service for providing information on telephone subscriber numbers.

Mtel was entered into in the Register of Operators:

- The Decision of the Agency for Electronic Communications and Postal Activity on Entering the Company into the Register of Operators, the Approval for the Use of Radio Frequencies and Approval for the Use of Numbering Ranges and/or Addresses No. 01-961/1 of 3 April 2009, whereby MTEL was entered into the Register as:
  - the operator of the public mobile electronic communications network and operator of public mobile electronic communications services;
  - operator of the public fixed electronic communications network based on fixed wireless access and operator of public fixed electronic communications services;
  - operator of publicly available telephone services in the fixed electronic communications network.

Mtel also possesses the following approvals:

- Approval by the Agency for Electronic Media for the provision of audio and visual media service following Request No.O-AVMD-08 of 12 November 2013 (PINK MOBILE);

- Approval by the Agency for Electronic Media for the provision of audio and visual media service following Request No. O-AVMD-12 of 3 April 2015 (KDS).

At the auction of spectrum during June and July 2016, mtel significantly expanded the frequency spectrum for mobile communications, which will enable introduction of LTE technology on almost the entire territory of Montenegro.

Now, mtel possesses the approvals for the use of: 2x10MHz in the bandwidth of 800MHz, 2x10MHz in the bandwidth of 900MHz, 2x20MHz in the bandwidth of 1800MHz, 2x15MHz in the bandwidth of 2GHz and 2x20MHz in the bandwidth of 2.6 GHz.

The Approval for frequencies in the bandwidth of 3.6 GHz (WiMAX) will expire during 2017 and is expected to be extended.

## Telus

Business Company Telus a.d. harmonized its operations with the Company Law and, in keeping with the provisions of that law, the founder passed a Decision on organizing the business company and passing the Articles of Association of the Company.

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 field is governed by the Law on Private Security which entered into fully force and effect on 1 January 2017, the new Law on Weapons and Ammunition. The rights and obligations related to labour relations are mostly governed by the Labour Act and Law on Security and Health at Work.

## TS:NET

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

## mts D.O.O.

Business Company „mts“ D.O.O. Severna Mitrovica, in late 2016, in keeping with the Brussels Agreement and the Action Plan in the field of telecommunications and on completed registration of the capital increase with the relevant authority, undertook the activities related to the commencement of operation of a new business entity in the territory of Kosovo and Metohija.

## HD-WIN

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. In view of the nature of operations (broadcasting of TV programmes) and the client advertising on Arenasport TV channels, the operations in this segment are additionally regulated by the Law on Advertising.

## mts banka

operates in keeping with the regulations of the Republic of Serbia, primarily in the specific domain of banking operations.

## GO4YU

GO4YU operates in keeping with the applicable regulations of the Republic of Serbia.

## mts AntenaTV

„mts AntenaTV“ d.o.o. Beograd operates in keeping with the applicable regulations of the Republic of Serbia.

## The 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.

The telecommunications sector has seen a slight growth, particularly when it comes to the mobile telephony, Internet and pay-TV markets, but a 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. The infrastructure is primarily based on optics.

From the point of view of the structure of operating revenues, there was 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 recorded a substantial increase, so that the revenues from these segments compensated 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.

According to the data obtained by the regulatory agencies of the neighbouring countries, the share of postpaid customers accounts for approximately 45% in Croatia, 50% in Serbia, almost 25% in Bosnia-Herzegovina and 44%<sup>14</sup> in Montenegro in 2016. The European average share of postpaid customers in the total mobile customer base accounts for approximately 50%.

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 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

14. [Ekip, Ratel, Hakom](#)



operating segment since 2006. According to internal estimates, the total share of telecommunications in the GDP of the Republic of Serbia in 2016 remains on a level of almost 5%. Investments in this sector in Serbia amount to hundred millions of EUR a year. Total revenues in the telecommunications market amounts to about EUR 1.5 billion, of which almost 900 million for mobile telephony services.

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.

An increasing number of free applications is available to users, whereas the revenues, primarily relating to fixed telephony, have decreased, but there is a noticeable increase in new sources of revenues, such as financial services connected to mobile phones, which has led to mobile banking and digital banks.

### Fixed telephony

The fixed telephony market can be said to have entered the liberalisation phase. 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. Telekom Srbija has more than half a million users of bundle services. There are almost 3 million subscribers in the Serbian fixed telephony market, generating about 1.3 billion call minutes on a three-month basis.

Apart from Telekom Srbija, the following companies also possess a licence for public fixed telecommunications network and provision of services in Serbia: Telenor d.o.o. and Orion Telekom d.o.o. In addition to these companies, the following companies operate in the fixed telephony market: Serbia Broadband-Srpske kablovske mreže d.o.o. („SBB“), IKOM d.o.o., Invest Inženjering d.o.o., Kopernikus Technology d.o.o., Sat-trakt d.o.o., Beotelnet-ISP, Radijus Vector d.o.o., Telemark Systems d.o.o., Masko d.o.o., ABA TEL d.o.o., ASG NET d.o.o., BPP Ing d.o.o. and JP Pošta Srbije.

The operations of Telekom Srbija in the fixed telephony segment remains dominant, both in financial and technical terms. In 2016, the Company started the ALL-IP transformation of the fixed network, whereby the Internet concept of the entire Serbia will be changed.

### Mobile telephony

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. Apart from three operators in the mobile telephony market (Telekom Srbija, Telenor d.o.o. Beograd and Vip mobile d.o.o. Beograd), two new virtual mobile operators appeared in 2016:

- Globaltel (using VIP network) and
- Mundio Mobile (using VIP network) will provide services under the commercial brand name Vectone Mobile.

All three leading 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.

As regards penetration and access to the most advanced services, the mobile telephony market in Serbia is on the level of developed markets. A wide range of the latest mobile handsets, products and services are available to mobile users. The smartphone trend is supported by natural demand and by mobile operators themselves as they subsidize the purchase of smartphones as part of post-paid contracts offering combinations of voice communication, data and message transfer.

The total number of mobile users in Serbia is almost 10 million and the Company has a market share of over 45%.

The mobile telephony segment is characterized by an increasing use of Internet-based services such as Skype, Viber and WhatsApp, 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.

## Internet services

The Internet and paid TV markets continued to record steady growth.

The development of the IT sector is in line with legal and regulatory activities and the liberalization of the regulatory regime, as well as the introduction of the e-administration program in many government institutions.

In 2016, the Internet market in the Republic of Serbia, where almost 100 internet providers operate, maintained the upward 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.

Telekom Srbija stands out as the best internet provider in Serbia, still developing mobile internet, so that the Company's 4G network is available in more than 120 towns and places at the end of 2016.

## Multimedia

The telecommunications market in Serbia is gradually moving towards integration, with a dominant example of the acquisition of the significant cable operator by the leading operator of digital and analog cable television, broadband

internet and fixed telephony.

In 2016, 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. The digital TV signal covers almost 100% of the population of Serbia.

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.

## 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 continued. These processes have seen a positive growth trend which is reflected in: an increase in the number of Internet service users, an increase in the number of mobile customers, and an increase in the number and type of services offered by the telecom operators.

The telecommunications market in B-H is affected by failure to adopt the Telecommunications Sector Policy for the period 2013-2017 by the B-H Council of Ministers. The adoption of the Telecommunications Sector Policy would enable further strategic development and improvement of the telecommunications sector, the development of a next-generation network, new investments, an increased level of competition, as well as lower prices and a wider range of services.

The sale of BH Telekom and HT from Mostar is expected in the forthcoming period, which fits into the regional trend of merging the telecommunications companies.

Although B-H assumed an international obligation to complete the transition from analog to digital terrestrial broadcasting by 17 June 2015, the deadline was not observed. The problem lies in the legislative and executive authorities which failed to adopt the Action Plan for transition from analog to digital terrestrial broadcasting, which directly affects the broadcasting industry in B-H, calling into question the assumed international obligations of Bosnia–Herzegovina.

The estimated total revenue in the telecommunications market in B-H in 2016 amounts to KM 1,484<sup>15</sup> billion, which is above the 2015 actuals (KM 1,451<sup>16</sup> billion).

The structure of revenues generated in the telecommunications market in 2016 is similar to the 2015 revenue structure.

The estimated mobile telephony revenue generated in 2016 amounts to approximately KM 701<sup>17</sup> million, i.e. 48%<sup>18</sup> of total estimated revenues generated from telecommunications.

The estimated fixed telephony revenue generated in 2016 amounts to approximately KM 416<sup>19</sup> million, i.e. 28%<sup>20</sup> of total estimated revenues generated from telecommunications.

The estimated revenue generated from internet services in 2016 amounts to approximately KM 143<sup>21</sup> million, i.e. 10%<sup>22</sup> of total estimated revenues generated from telecommunications. The estimated share of other revenues (cable

15. [Internal estimate using SAS Visual Analytics forecast tools based on the latest RAK data](#)

16. [www.rak.ba](http://www.rak.ba).

17. [Internal estimate using SAS Visual Analytics forecast tools based on the latest RAK data](#)

18. [Internal estimate using SAS Visual Analytics forecast tools based on the latest RAK data](#)

19. [Internal estimate using SAS Visual Analytics forecast tools based on the latest RAK data](#)

20. [Internal estimate using SAS Visual Analytics forecast tools based on the latest RAK data](#)

21. [Internal estimate using SAS Visual Analytics forecast tools based on the latest RAK data](#)

22. [Internal estimate using SAS Visual Analytics forecast tools based on the latest RAK data](#)

television, data transfer, etc.) accounts for 14%<sup>23</sup>.

## Fixed telephony

At the end of 2016, the public telephone service was provided via fixed line telecommunications network by 15 operators in Bosnia-Herzegovina, of which 3 operators holding a License for a Public Fixed Telephony Operator (BH Telecom d.d. Sarajevo, Mtel i Hrvatske telekomunikacije d.d. Mostar) and 12 operators that have been granted a License for the Provision of Fixed Public Telephone Services.

The three operators that hold a Licence for a Public Fixed Telephony Operator have a significant market share, sales volume and generated revenues and the number of employees.<sup>24</sup>

Most of the activities performed by the public fixed telephony operators in 2016 refer to an increase in the range of various telecommunications services.

In 2016, a declining trend in the number of fixed lines continued as compared to 2015.

As for other services, it is important to note that the operators have launched the Cloud service intended for legal entities and individuals.

The number of fixed subscribers of the operators with significant market power in B-H at the end of the third quarter of 2016 is put at 697,884<sup>25</sup>, and it is estimated that they will amount to 685,183<sup>26</sup> as at 31 December 2016, where the growth rate as compared to 2015 amounts to -2.3%<sup>27</sup>. The declining trend in the number of fixed telephony customers is most visible in operators with a significant market power, but it is mitigated by the migration of customers to integrated services which are provided by using fixed network.

The total number of fixed telephony customers belonging to alternative operators amounted to 91,674 customers<sup>28</sup> at the end of the third quarter

23. [Internal estimate using SAS Visual Analytics forecast tools based on the latest RAK data](#)

24. [www.rak.ba](http://www.rak.ba).

25. [www.rak.ba](http://www.rak.ba).

26. [Internal estimate using SAS Visual Analytics forecast tools based on the latest RAK data](#)

27. [Internal estimate using SAS Visual Analytics forecast tools based on the latest RAK data](#)

28. [www.rak.ba](http://www.rak.ba)

of 2016, and it is estimated that as at 31 December 2016, that number will not change significantly.

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.

It is estimated that at the end of 2016 (31 December 2016) the penetration rate of fixed telephony in B&H will amount to approximately 19%<sup>29</sup>.

## Mobile telephony

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

The operators registered as the providers of mobile public telephone services and which provide mobile services on the basis of commercial contracts concluded with the holders of the Licences for the Provision of the GSM and UMTS Services are the following: Izi Mobil d.o.o. Sarajevo (on 15 November 2016 it ceased to provide mobile services in B-H<sup>30</sup>), Blic.Net d.o.o. Banja Luka, Logosoft d.o.o. Sarajevo, ELTA-KABEL d.o.o. Doboje and TELRAD NET d.o.o. Bijeljina.

There are 3,427,401 mobile subscribers<sup>31</sup> in Bosnia-Herzegovina at the end of the third quarter of 2016 and it is estimated that they amount to 3,456,215<sup>32</sup> as at 31 December 2016.

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 accounts for 23.5%<sup>33</sup> at the end of the third quarter of 2016 and it is estimated that the market share will not significantly change as at 31 December 2016.

The mobile telephony penetration rate in B-H was 89.6%<sup>34</sup> at the end of the third quarter of 2016 and it

29. [Internal estimate using SAS Visual Analytics forecast tools based on the latest RAK data](#)

30. <http://www.izimobil.ba/Aktuelno/obavjestenja-za-korisnike>

31. [www.rak.ba](http://www.rak.ba)

32. [Internal estimate using SAS Visual Analytics forecast tools based on the latest RAK data](#)

33. [www.rak.ba](http://www.rak.ba)

34. [www.rak.ba](http://www.rak.ba)

is estimated that the penetration rate will be 90%<sup>35</sup> at the end of 2016. This mobile penetration rate is still below the current values in the neighbouring countries (Montenegro 168%, Serbia 130%, Croatia 103%<sup>36</sup>). The penetration of mobile telephony in Europe accounts for approximately 125%.

A greater use of applications as substitutes for voice calls (such as Viber, Skype, Gtalk, Whatsapp), as well as substitutes for SMS and MMS (such as Whatsapp, Google Talk, Facebook Messenger, Viber, Skype) led to a drop in international outgoing traffic and number of SMS and MMS messages.

## Internet services

The Internet access service market was marked by the introduction of new access technologies, flat traffic 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 fixed broadband access should be singled out as the generator of this growth. The Internet use rate through fixed network accounted for 74.1%<sup>37</sup> at the end of the third quarter of 2016, and it is estimated that the Internet use rate at the end of 2016 (31 December 2016) will account for 75%<sup>38</sup>.

There were 641,527<sup>39</sup> fixed broadband access service users in B-H at the end of the third quarter of 2016 and it is estimated that they will account for 654,515<sup>40</sup> at the end of 2016 (31 December 2016). It is estimated that the penetration rate of the internet broadband access in fixed networks will account for approximately 17%<sup>41</sup> at the end of 2016.

The use of broadband services is on the increase year in year out, so that the number of broadband

35. [Internal estimate using SAS Visual Analytics forecast tools based on the latest RAK data](#)

36. [Ekip. Ratel. Hakom](#)

37. [www.rak.ba](http://www.rak.ba)

38. [Internal estimate using SAS Visual Analytics forecast tools based on the latest RAK data](#)

39. [www.rak.ba](http://www.rak.ba)

40. [Internal estimate using SAS Visual Analytics forecast tools based on the latest RAK data](#)

41. [Internal estimate using SAS Visual Analytics forecast tools based on the latest RAK data](#)



subscribers reached 99% of the total number of Internet subscribers.

The dominant type of Internet access is xDSL, with 376,187<sup>42</sup> users at the end of the third quarter of 2016, and it is estimated that as at 31 December 2016, there will be 384.091<sup>43</sup> users.

The number of users with cable access to the Internet amounted to 207,983<sup>44</sup> at the end of the third quarter of 2016, and it is estimated that as at 31 December 2016, there will be 209,216<sup>45</sup> users.

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 2016, the number of users of such service packages significantly increased.

In 2016, there was further improvement in data services, primarily in the provision of ADSL services, by increasing access bitrates while introducing VDSL2+vectoring technology, FTTH installation, introducing new packages aimed at different categories of users.

## Multimedia

The multimedia service market in B-H, from the point of view of operators with a 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 xDSL 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%).

All three dominant operators have improved its offer in the field of multimedia content delivery enabling new services in this segment, as well as improving service access (multiscreen).

42. [www.rak.ba](http://www.rak.ba)

43. [Internal estimate using SAS Visual Analytics forecast tools based on the latest RAK data](#)

44. [www.rak.ba](http://www.rak.ba)

45. [Internal estimate using SAS Visual Analytics forecast tools based on the latest RAK data](#)

## Montenegro

Electronic communications infrastructure in Montenegro is well developed and enables the application of modern technology for the provision of electronic communications services. Major operators are conducting or have conducted the migration of their networks towards an All-IP environment, so that they can provide voice, data and AVM content distribution services over a single IP network.

Taking into account the number of users, the competition degree, the diversity of services and technology advancement, it is considered that the mobile communications networks and services represent the most developed segment of the electronic communications market in Montenegro. Montenegro has a high level of mobile signal coverage. All three mobile operators have implemented LTE technology in their mobile network, whereas Crnogorski Telekom and Telenor have launched 4G network. With regard to the recently completed spectrum auction, the rapid development of LTE technology is expected in the coming years.

In 2016, there was a significant change in the telecommunications market of Montenegro, announcing the merging trend. Hrvatski Telekom, which is majority-owned by Deutsche Telecom, has bought Crnogorski Telekom, whereas SBB has entered the market through existing operators.

In the market of Montenegro in 2016, the following companies directly operated: mtel and HD-WIN, in the segment of mobile telephony, fixed telephony, distribution of media content and provision of transport capacities for the providers of communications services, as well as connection with foreign telecommunications networks.

In the telecommunications market in Montenegro there is an obvious decline in revenues from fixed and mobile telephony. The only operator that recorded growth in revenue and profit in 2016 was mtel, while Telenor and Crnogorski Telekom recorded decline.

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.

In 2016, mtel started the LTE network construction, and after successfully completed participation in the spectrum auction, a rapid development of the LTE network is planned for the next year.

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. A 29% market share was achieved by the Company in this field.

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 2016, it fully integrated the operation of cable operators, the acquisition of which was conducted last year. Therefore, in 2016, mtel achieved a share of 18% in the TV signal distribution market, 26% share in the sphere of broadband internet, as well as a growth in market share in fixed telephony by 7%.

Further development in the segment of cable TV, internet and fixed telephony is directed to „fiber to the home“ solution. In addition, the standard service will include an option to watch TV content on several devices through the application.

mtel has years of experience in the development of digital services/applications. Mtel already has its own version of Viber messaging, the multimedia portal, location based services.

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.

Austria, with 8.5 million inhabitants, has had three dominant mobile operators since 2013. All of them are part of large telecom groups: T-Mobile,

Telecom Austria Group and Hutchison Whampoa Limited. In addition to 3 dominant operators, there are 19 currently active MVNOs on the market. The mobile telephony penetration rate of 156% is among the highest in Europe.

TS:Net headquartered in Amsterdam 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. GO4YU primarily operates in the USA and Canada. It provides the VoIP fixed telephone and TV services all over the world, except in the former Yugoslav countries, whereas the VoIP application service is provided all over the world, except in Europe.



# 03

## Corporate governance



mts  
Tvoj svet

## CORPORATE GOVERNANCE

Owing to corporate governance, Telekom Srbija has achieved optimal 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 2016, the 50th regular session (29 June 2016) and the 51st extraordinary session of the General Meeting (2 December 2016) were held.

#### 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 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.

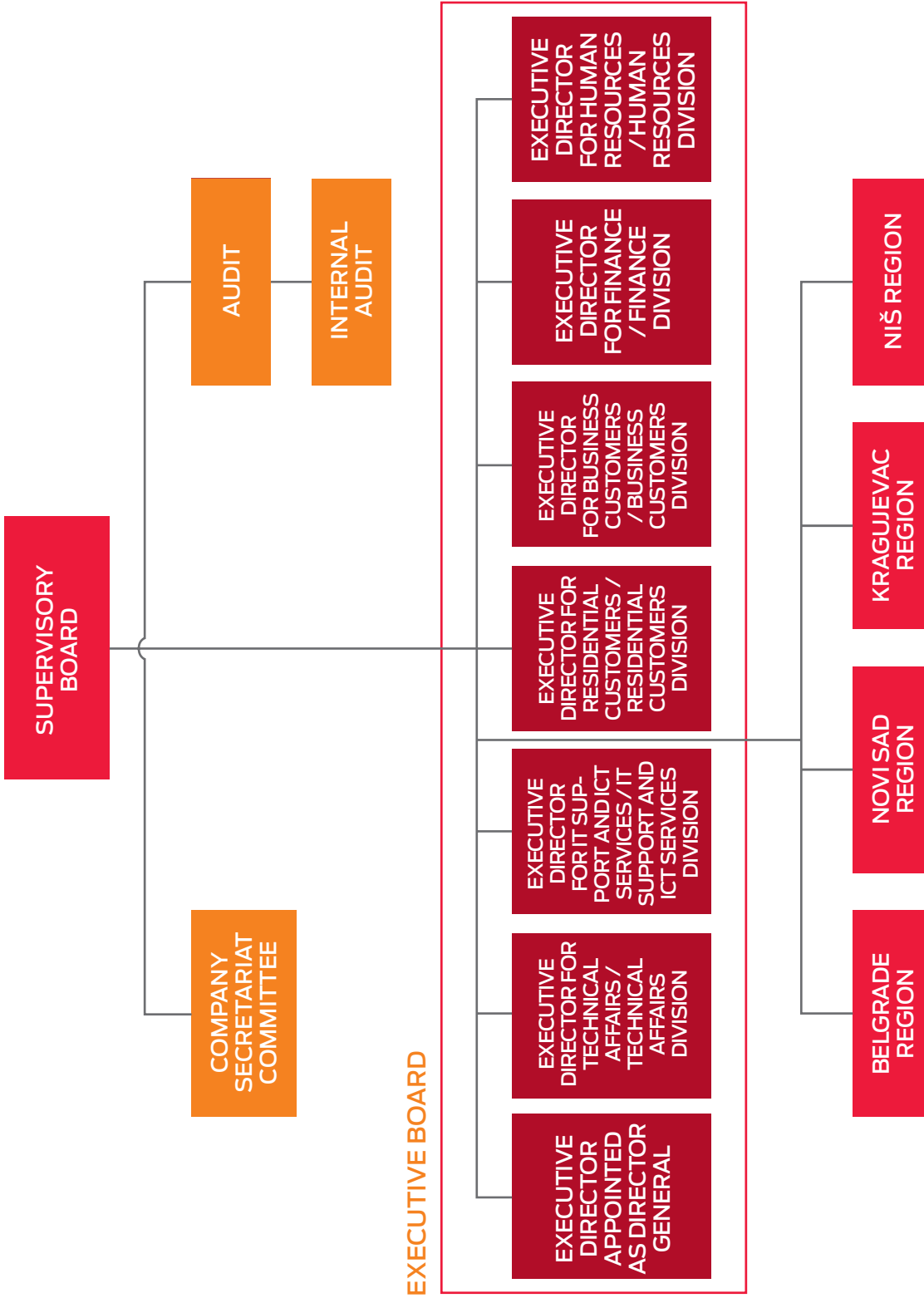
The organization, method of operation and decision-making of the Executive Board are more specifically regulated by the Rules of Procedure which were adopted by the Executive Board in keeping with its legal and statutory competences.

#### 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](http://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](http://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 2016.

## Mtel

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,
- Managing 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.

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 2016, Mtel secured the efficient implementation of the principle of corporate management of the Company through activities that referred to:

- Shareholders rights;
- Equal treatment of the shareholders;
- Role of interested parties – interest holders – in the management of the Company;
- 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, with constant commitment to meeting the corporate governance standards and permanent monitoring the compliance of the good corporate governance principle with the Company's by-laws. The Company will continue to operate with responsibility, observing the interests and positions of other interest holders towards the Company and actively cooperating with all stakeholders.

In 2017, as a socially responsible and market-oriented company, applying the basic principles regarding the transparency of operations, clearly defined procedures for the bodies that adopt important decisions, avoiding conflicts of interest, efficient internal control and effective system of responsibilities, the Company 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 following related legal entities: 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.

## mtel

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

- Board of Directors,
- Executive Director.

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

## Telus

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 Finance.

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

The bodies of TS:NET are:

- General Meeting and
- 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 Royprop Amsterdam B.V. (commercially entitled Dutch Corporate Management), 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 a founder.

## mts D.O.O.

The management of mts D.O.O. is organized as one-tier. mts D.O.O. bodies are:

- The General Meeting and
- The director

## **HD-WIN**

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

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

The Bank bodies include:

- General Meeting of the Bank
- Managing Board
- Executive Board

## **GO4YU**

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 AntenaTV**

The management of mts ArenaTV d.o.o. Beograd is organized as two-tier. The corporate governance bodies, in line with the Memorandum of Incorporation of mts AntenaTV d.o.o. Beograd include: the General Meeting, the Supervisory Board (3 members) and the director.



# 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 as an MVNO, with the intention to exploit the potential for expansion to other markets and business areas. In 2016, in cooperation with JP Emisiona Tehnika i Veze, a new subsidiary AntenaTV d.o.o. was founded, which shortly afterwards started providing the media content distribution services via DTT technology in order to expand our multimedia service offer and enable services even to those users that due to the existing restrictions cannot receive TV content via other technologies.

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 human resources, information capital and organizational effectiveness and efficiency.

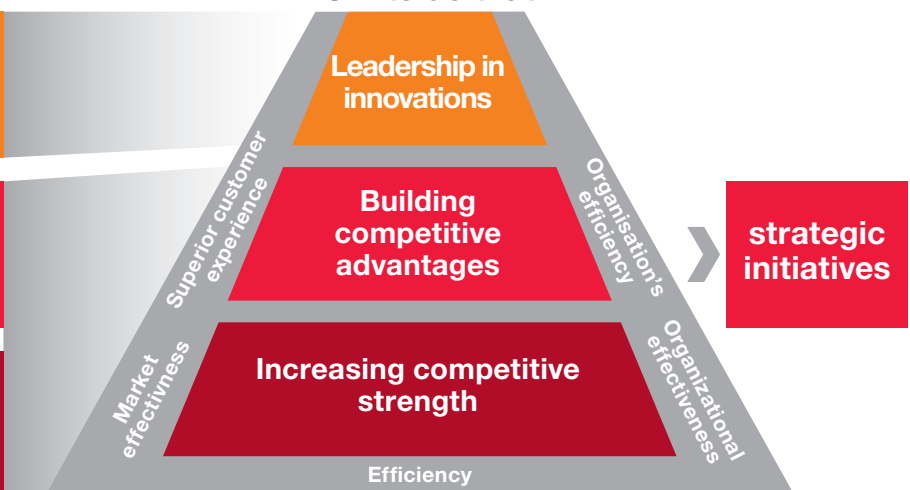
For the purpose of strengthening our market position, improving our organizational effectiveness and efficiency and improving our business performances, during the 2014-2016 period great resources were invested in order to implement the new business strategy adopted in 2014, based on an enhanced vision 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. Defined strategic goals refer to all the key areas of operations, and their achievement is based on the implementation of strategic initiatives.

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

### What TS should do?



### HOW to do that?



Strategic framework and links to the pillars of strategic directions

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:

- 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 2016, the company continued or finished 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 2016, the realization of initiatives related to the transformation of OSS/BSS system continued by implementing ERP, CRM, billing and other advanced application solutions. The first phase of the SAP ERP system implementation was completed and the second phase began, as well as the second phase of the CRM system implementation also began, whereas the implementation of the convergent billing system was completed. 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 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 were implemented. Progress was 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 LTE network expansion continued, as well as the commercial provision of services across LTE network which began in April 2015, thus implementing the initiatives for providing a superior customer experience. In the RATEL public tender the Company ensured the additional frequency bands of 800 MHz, thus improving the conditions for the long term provision of wireless broadband Internet access services of high quality in suburban and rural areas. Preparations for the extensive implementation of WiFi network and upgrading of the Internet access services via WiFi network were made. Through the strong development of LTE and WiFi infrastructure, a necessary basis is created for maintaining the leading position on the mobile telephony market, an increase in ARPU and total revenues from these services. There was an additional increase in the number of IPTV users after the introduction of advanced mts TV service through a new multimedia platform, and the promotional provision of the service related to reception of TV channels on multiple devices (*multiscreen*) continued. Preparations were made for the forthcoming launching of the more advanced OTT service through the new mts TV GO application for mobile handsets and tablets, which will significantly improve the offer in the sphere of multimedia services and enable a more adequate response to the increasingly competitive market of OTT (Over the Top) services. The project for improving the procurement process as part of the



initiatives designed to increase the organizational effectiveness has been finished.

The strategic goals and initiatives for securing a leading position in innovations refer to entry into new market segments with a special focus on the ICT market, the market of mobile financial/payment services and the IoT market. 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 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 and opportunities for generating new revenues in this business segment. In 2016, the project on supporting the business and IT transformation of mts banka and providing synergy with the Parent Company was mostly implemented, thereby creating conditions for launching the first convergent service at the beginning of 2017 (the opening of a multi-currency account and granting of cash microloans in the mts bank affiliates). The project of implementing the mWallet platform and services as part of the strategic initiative which includes the development of mobile payments has been largely implemented, so that the mWallet service can be launched at the beginning of the second quarter of 2017.

In the field of ICT services, the conditions were continuously created for upgrading the *Cloud* services offer and strengthening the partnership business models in this challenging but highly complex area, with the aim of positioning the Parent Company as a significant market participant in this segment.

The potential business models primarily based on LPWA technologies were recognized in the domain of IoT markets and preparations were made to create conditions to start the implementation of the IoT solution in 2017, so that in the near future the Parent Company would be able to secure the leading position on this, globally very promising and fast-growing market.

In 2016, in cooperation with Huawei, the Parent Company launched the biggest infrastructure project of ALL-IP transformation to ensure technological excellence, which should enable the

provision of advanced broadband services in line with the growing customer needs, create conditions for optimization of the network and operating costs. In addition to a better customer experience and the improvement of the Company's operating results on the highly competitive market of Internet access and multimedia content distribution, it can be expected that the scope of this project will have a positive impact on economic development and the improvement of the business environment in Serbia.

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

Considering that 2016 is the final year covered by the three-year cycle of the 2014-2016 business strategy, preparations have been made for drafting and adopting a new business strategy for the next three-year period from 2017 to 2019.

The Parent Company and its related legal entities try to continually identify the possibilities and create synergy effects from the organizational, operational, 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 and price strategy on the level of the Parent Company and its related legal entities, transfer of solutions during the development of new products and services between the related legal entities and centralized management of partnerships, for the purpose of achieving cost optimization and securing a unified brand strategy.

## SERVICES

### Telekom Srbija a.d., Beograd

Concurrently with the development of global trends our Company developed and its range of telecommunications services rendered to our customers expanded. Thus, at present, we provide fixed and mobile, Internet and multimedia services and a wide range of add-on services

which, with the introduction of new standards and the development of new trends, became synonymous with trust, superior performances and innovative technology.

Better communication also leads to better business results!

### Business Customers

In March 2016, one-off roaming tariff add-ons for business postpaid customers of the mobile telephony of Telekom Srbija were experimentally introduced under the name of m:tel RS Packages. By activating these tariff add-ons, business customers may, under more favourable conditions, use outgoing and incoming calls and SMS messages in the m:tel network in Republika Srpska. The tariff add-on offer includes four m:tel RS Packages 50,100,150 and 200. In March 2016, six new service packages Mobile Internet for business customers were introduced: Biz Mobilni Net XS/S/M/L/XL/XXL, with different monthly fees which include a certain amount of national data traffic. As of April, all packages have offered the use of 4G services. Apart from the existing tariff add-ons of 500 Mb and 1GB, introduced was a new tariff add-on of 3GB. Since 15 March, the LTE service has been provided to the users of the Mix S, Mix M and Mix L tariffs, and Mobilni Net S and M tariffs. The service is available to all mts *postpaid* tariff profiles, except Priča and Priča Plus.

A new offer for hotels under the commercial name of HotelTV was introduced in March. The offer has two service provision models. One is the full solution of Telekom Srbija which implies full equipment including STB, and the other implies the supply of stream to a hotel accommodation facility.

In April 2016 the new service for business customers VPC-Virtual Private Cloud was put into operation on the cloud platform. This service is intended for large business customers that wish to manage their infrastructures independently, where the user engages higher HW capacities on the cloud platform of Telekom Srbija on a long-term basis while independently creating virtual servers through the cloud portal, as needed.

In May 2016, a new cloud service was put into operation within the SaaS service - mts Afaria. Mts Afaria is a secure solution for managing and introducing mobile devices into a company of any size in the cloud environment or within the company infrastructure, where IT administrators centrally manage, secure

and introduce mobile data, applications and devices using the central console.

In October, two cloud services were commissioned within the SaaS service:

- IBM MaaS EMM
- BizWeb Hosting

IBM MaaS EMM is a software which ensures an integration of mobile devices into systems and IT technologies within companies and their security environments. BizWeb Hosting ensures lease of disc space and the relevant server resources for the storage of Web pages on the Web server. FTP access to the Web server is provided for the purpose of remote administration and updating of presentations, gaining insight into the statistics concerning a presentation and insight into space occupancy, traffic generated and the number of site visits.

In the course of 2016, the Company launched several key projects in the segment of large business customers, including the project of digital transformation of the health care system in cooperation with the Health Ministry, and the project of networking all primary and secondary schools as a precondition for the implementation of all upcoming ICT projects in the sphere of education in Serbia in cooperation with the Ministry of Trade, Tourism and Telecommunications.

By opening the Premium Business Centre, the Company took the leading role in the segment of small and medium-sized companies.

## Residential customers

The MTS disc is the service of leasing space to the customers in the Company's infrastructure for the purpose of accommodating electronic and/or digital documents. It was launched in February and is intended for prepaid and *postpaid* customers of Telekom Srbija (residential and business) that may use their smart devices to download the application mts Disk or register their account through the Telekom Srbija portal. Using the application or the portal, the customers may organize their memory space, create albums and folders and synchronize the data on their phone with the mts Disc space. The content stored on the mts Disc is protected. In this manner, they can safely keep their photographs, video clips, music, different types of documents and other content.

The first domestic lifestyle channel "Ženska TV" has been broadcast since February 2016, the first

specialized national TV channel devoted to agriculture Agro TV has run since May, and Kitchen TV devoted to cooking, diet, tourism, culture, tradition and education about healthy habits has been broadcast via the Open IPTV platform since July 2016.

In February 2016, the new sports application Teren Fantasy was launched on Google Play as well as an update of the Teren application. Teren Fantasy is a competition for the remainder of the Football Champions League. All users who download the application compose their own teams and receive a certain number of points based on the performance of the selected players. Awards are presented at the end of the competition, too.

In April 2016, the new service Automatic Top-up was started via which an mts customer may schedule a credit top-up for a prepaid customer or the user of the Cost Control.

Since April 2016, available to users have been four new add-ons for the mobile Internet: Mobilni Net Plus S with 150 MB, Mobini Net Plus M with 500 MB, Mobini Net Plus L with 3 GB and Mobilni Net Plus XL with 10 GB. The mobilni Net Plus add-ons may be activated in several ways: by way of the mts *postpaid* guide (\*797#), by way of the „Moj mts“ portal or by sending an SMS in the relevant format to 7888. The Mobilni Net Plus add-on of 1GB is no longer offered. In July 2016, the prepaid mobile Internet package was changed when the 4G LTE USB modem with a 4G SIM card was introduced. Traffic which the customers receive on their SIM cards is of 10GB for data transmission and is available to them for 60 days from the date of activation.

Since October 2016, offered has been the new service Antena PLUS which makes it possible for the customer to receive, using an antenna and the digital terrestrial signal, a package of 26 additional premium TV and 5 radio channels. The greatest advantage of the service lies in mobility and the possibility of using multiple locations (house, cottage), and in the technical preconditions not being necessary.

In December 2016, the sale of the MyKi device (a smart clock for children) was launched. The basic purpose of the device is to facilitate parents' communication with their children and track their location using the MyKi application. Using the clock, one can communicate with 5 predefined numbers which a parent has entered into the MyKi application. The device is offered with the Cost Control 500 tariff profile and a contractual obligation of 24 months.



One of the development goals of Telekom Srbija also includes the connection of financial services to mobile services. It is precisely for this reason that for over a year, together with the mts bank, Telekom Srbija has worked on the project of developing a digital bank development project. At issue is a demanding IT and business project which in 2017 will make it possible for the customers easily to receive some of the banking services apart from the telecommunications services.

## Integrated services

The box packages of Telekom Srbija integrate the fixed, mobile, Internet and digital TV services and offer the possibility of using all telecommunications services with a single bill. In May 2016, the Box package offer was expanded. Currently offered are seven Box packages with different combinations of Internet bitrates and mobile rates so that the customers may choose the Internet bit rate and postpaid package that suits their needs.

## Mtel

In 2016, Mtel services were promoted and improved for the purpose of drawing new customers, and retaining and increasing customer satisfaction. Service improvement implies the new functionalities of the IPTV platform, bundle tariff plans for *prepaid* customers of mobile telephony, introduction of the GO!free tariff model, the opening of the Call Center for FRIEND users, the introduction of the Mpayment services and the Open biz hotel TV services and a wide range of ICT services.

Mtel implemented a new multimedia platform expanded with a large number of functionalities. The customers within the zone of coverage by the Mtel xDSL network are offered the following IPTV services: LiveTV, VoD, SVoD, nPVR, Catch-up TV, Start over (Time-shifted TV), Content pause, Mosaic (promotional and sports), weather forecast, pop-up messages, Facebook, Tweeter and You Tube applications and other functionalities.

The multiscreen service is the service which enables the users to view TV programmes and access TV services and functionalities from multiple devices (TV, PC, tablet and mobile handset) via the Mtel network or the public Internet.

Using the possibilities of the IPTV platform, in July 2016, Mtel included in its offer the IPTV Hotel solution which ensures a much higher quality level as compared to the traditional TV service and is intended for business customers providing accommodation services such as hotels and motels. Within the Open Biz Hotel TV services, the customers are provided with the Basic Package of the „Live TV“ service with over 60 TV channels, management via the EPG (Electronic Program Guide) interactive user interface which appears onscreen, the information about hotel services, the hotel administration portal which provides for the *check-in* and *check-out* of guests and other functionalities.

In the course of 2016, Mtel offered to its prepaid users of the FRIEND tariff part autorenewable tariff plans. Based on the usage and customer needs, 4 FRIEND tariff plans were offered: Powerful, Wise, Adroit and Indefatigable. Depending on their average monthly usage of minutes, messages and the Internet, all FRIEND customers may opt for a suitable tariff plan. By topping up an amount for the selected tariff plan once a month, the user ensures the sufficient amount of traffic for the entire month. A special customer benefit lies in more favourable prices of calls towards the Parent Company and the related legal entities and/or the mts networks in Serbia and mtel in Montenegro.

In line with the trends of using social networks, particularly by the younger prepaid population, Mtel offered to the users of the Powerful and Indefatigable tariff plans free access to Viber and Facebook. Apart from that, offered to all prepaid customers is the Facebook tariff option with 30 days of unlimited access to Facebook.

Offered to the prepaid customers in the region of the B-H Federation is the cheapest tariff in B-H called GO!free, which provides free calls within the network at a minimum connection fee. Apart from the lowest prices of calls towards other mobile and fixed networks in B-H, the GO!free network is the only one in B-H that calculates calls in seconds.

For the users that are constantly on the go and like surfing and being online non-stop, the GO!free network offers the lowest Internet tariff options for a period of 1, 7 or 30 days with an amount of data of 1 GB, 2 GB or 3 GB for the mobile Internet.

With a view to increasing the satisfaction of current users of the FRIEND service, Mtel opened a Call

Center as a new sales channel for such customers. A FRIEND customer who calls the Mtel mobile Call Center is offered certain benefits by the operator, that is, using various Business Intelligence tools, an adequate offer in real time is created depending on its usage.

Using the resources of the Mpayment platform, installed within the Mtel network, in February 2016, Mtel launched m-payment services using the m:pay mobile application.

The m:pay application, available for the iOS and Android platforms, provides for a secure and easy payment of Mtel telecommunications service bills (integrated service bundles, ADSL, fixed and mobile telephony) and prepaid top-ups via a customer's bank account.

The m-payment system is currently integrated in the information system of Nova Banka a.d. Banja Luka and provides for the payment of said services from user accounts opened with this bank.

In this regard, in 2016, with the support of its subsidiary, Logosoft d.o.o., Mtel included in its offer the system of integration solutions such as an analysis of customer needs, and solutions and implementation of solutions. The service itself includes a wider range of IT-based services such as the implementation of the passive and active network infrastructures (LAN/WAN/Data center), IP Security solutions, implementation of visualization solutions, storage solutions and an array of other services as well as the technical support for and maintenance of the information systems.

In 2016, Mtel implemented some cloud-based solutions. The cloud-based services make it possible for business customers, particularly the SMB company segment, to reduce investments in the purchase of expensive IT infrastructure (computers, servers, applications) using the virtual infrastructure on the side of the provider (Mtel) which is leased and/or charged in the form of a monthly subscription fee (lease of virtual resources).

In June 2016, Mtel launched the first XaaS *cloud* services for its customers such as Laas – Infrastructure as a service (Virtual private server) and Paas - Platform as a service. Likewise, in cooperation with Logosoft d.o.o. Mtel launched the sale of Office 365 services. Office 365 integrates the power of Office desktop applications with business email, shared documents, instant messages, video

and web conferences (Exchange Online, SharePoint Online, and Lync Online) into a modern cloud whole supported by Microsoft and some of its leading partners. In the event of the Office 365 system, the data, computer processing and software are located on and remotely controlled by Microsoft servers on the Internet.

Keeping abreast of the trends on the telecommunications market and our customers' needs, Mtel is constantly working towards developing and promoting the existing services. In line with customer needs, Mtel aspires towards a personalized offer of tariff options with adequate benefits.

## Logosoft d.o.o. Sarajevo

Logosoft's business platform integrates the services of permanent Internet links, connection of remote sites – VPN, fixed and mobile services, mobile Internet lease services, Office365 server and office application solutions, and local, global and hybrid solutions and as such, it is an excellent business, information and communications solution.

The creation of different business solutions from the domain of system integrations, software development and the setting up of a new generation Data Centre as well as the implementation of a variety of solutions on Microsoft platforms, helped Logosoft to become a reputable business partner of a large number of companies. Its long-standing experiences in the implementation of Microsoft Dynamics NAV and Microsoft Dynamics CRM solutions, contributed to Logosoft being recognizable both in Bosnia-Herzegovina and the region at large.

Logosoft's information and communications platform, expanded to include the cloud and telehousing services, is recognized as a perfect business solution as it ensures that companies receive all necessary services without additional investments into IT equipment and human resources and at one place.

Logosoft Edukacija is the first Microsoft-certified training centre with the largest number of courses providing technical expertise for IT professionals and programmers. As a certified VUE and Certiport testing center, Logosoft provides the services of staging exams in the programmes of Microsoft and all other vendors.

## Mtel Austria Vienna

The activities of Mtel Austria in 2016 were characterized by the expansion of the distribution network selling services to the customers in Austria, the commercial launch of the sale of mobile handsets and equipment with postpaid packages, the expansion of the roaming partner network and the preparations for the beginning of the provision of the VPN services in the mobile network.

Likewise, in the course of 2016, the start packages of Mtel Austria became widely available in Austria and prepaid top-ups were distributed at Hofer markets, while prepaid cards were distributed via the channels of the Serbian community i.e. through Serbian clubs in Austria.

New prepaid tariff plans were created - Naša Tarifa L and Naša Tarifa XL, as well as new *postpaid* tariff plans - Zajedno S, Zajedno M, and Zajedno L and the purchase of mobile handsets with a package was ensured.

Commercially used is the *prepaid* and *postpaid* m:tel application "Moj Mtel" for Android (Google play) and Iphone (App Store) mobile handsets which include several applications with EX YU content (m:radio, netfilm, Arena sport), the application for free calls and messages (according to Viber app principle) and My services app (self-care).

## mtel

### Mobile Telephony Services

In line with the strategy of Internet usage orientation, new unique tariff packages were launched on the market - Surf Elastik with 2 GB or Super Surf Elastik with 5 GB, which include the possibility of a customer receiving two SIM cards and using the Internet on two devices for a single monthly subscription fee. The advantage of these packages lies precisely in their being tailored to customer needs so that the customer opts for the amount of add-on GBs by itself. Along with said packages, the customers may purchase devices from the mtel offer: modems, tablets and handsets.

Besides, the benefits were introduced for the customers who are in roaming in Slovenia and in Kosovo (in the network of Telekom Slovenia). The customers may activate a ticket for 15 days and the customers who in the course of 2016 planned frequent

trips in Kosovo and Slovenia, had an opportunity to buy an annual ticket.

In March, mtel offered a new prepaid package, m:go plus new, with which the customers receive the following benefits: free calls towards two selected numbers from any network in Montenegro in the next 7 days (2500 minutes), and 1 GB of Internet traffic, with the price of an SMS towards all networks in Montenegro of one percent. The special advantage of this package lies in the possibility of extending free calls towards two selected numbers and the free Internet for the following seven days with each top-up of the prepaid account during the promotional period. The topped up amount may be spent as desired.

Since mid-May, mtel expanded its offer of handsets with iPhone devices at the most favourable prices with postpaid packages from the offer, where particularly interesting is the latest handset iPhone SE.

At the outset of the tourist season, a new prepaid package m:go tourist was introduced. By activating the card, the users of the package receive 500 MB of the free Internet with a possibility of topping it up.

For Internet surfing devotees, m:go tourist offers an additional benefit: 15 days of Internet (5 GB at a maximum bitrate), the first activation being free of charge. An additional benefit of the m:go tourist package is a 50% discount for calls towards foreign networks.

Continued phone sale drives (with special emphasis on smartphones), modems and tablets were aimed at greater popularization of the mobile Internet with higher Internet usage, particularly in view of the growth trend in the use of social networks and mobile applications.

Parallel to the abovementioned drives, MTEL's new portal was launched with a number of novelties in terms of graphics and functionalities.

Taking into account the advantages of belonging to the Parent Company and the related legal entities, mtel maintained its campaign offering benefits for all customers in roaming in Serbia in the mts network called m:roaming tickets. The customers could choose one of the m:roaming tickets for 15 days or the "Prva klasa" annual ticket.

mtel was the first to introduce the mPAY mobile payment service on the Montenegrin market. The



service makes it possible for all of its customers, both prepaid and postpaid, to make payments via a mobile handset. With the assistance of the *data over voice* technology, a handset communicates with terminals. This service ensures that the users make deferred payments through a mobile telephony bill. Apart from the standard payment service, also available to the customers are other advanced services, including giving money to another user as a gift, selecting the method of payment, and topping up prepaid accounts. Currently, the service is available at mtel stores and in several retail chains and catering facilities and is planned to be expanded to include the entire territory of Montenegro.

### Fixed, Internet and television services

Given that apart from Crnogorski Telekom, mtel is the sole operator providing all four telecommunications service at one place, a brand campaign was launched with the aim of informing the public of the corporate advantage. Concurrently, special communication with the advantages of our BOX duo/trio packages continued.

In May, mtel launched the discounted sale of TV devices with BOX packages, which the customers may buy at a retail price or based on deferred payment.

Mtel ensured for the users of cable tv free use of add-on TV: HBO and HBO Cinemax (30 days from entering into a contract), and the Russian and Balkan TV package (60 days from the date of entering into a contract).

In the cable television segment, small and medium-sized companies are offered a new BOX business 10 package. This package is a combination of fixed, Internet and mobile services. The customers receive one bill tailored to their needs. The package also includes the unlimited Internet with a bit rate of 25Mbps. It is also possible to activate up to 10 fixed lines (TEL BOX 2 package) and up to 20 mobile lines (BUSINESS 6.8 package).

Since 1 November 2016, the mtel company increased the Internet bitrate for the users of the BOX trio packages without changing the amount of the monthly subscription fee. Thus, the users of the BOX trio packages 1 received the download rate of 4Mbps instead of 2Mbps, of the BOX trio 2 packages received 15Mbps instead of 8Mbps, and the users of

the BOX trio 3 packages received 25Mbps instead of 15Mbps. The users of the BOX all package, instead of the download rate so far of 8Mbps, received 40Mbps.

## Telus a.d. Beograd

Within its registered activity, Telus provides the following services:

- Security of facilities and property (FTO, PPZ and money escort)-some 51% of the total scope of services
- Hygiene maintenance of business premises and facilities – some 45% of the total scope of services
- Auxiliary services (non-qualified workers' services) – some 4% of the total scope of services

Since 2008 Telus has held a certificate of the established and applied standard SRPS ISO 9001 – Quality Management System and since 2012, OHSAS 18001 – Occupational Health and Safety Assessment Series. In 2013 also introduced was the quality standard ISO 14001 – Environment Protection Management system, whereas currently underway is the introduction of the standard SRPS A.L2.002.

## HD-WIN

At the end of 2016, Arenasport channels were included in the distribution networks of 44 operators in the territory of Serbia, whereof 24 in the territory of Bosnia-Herzegovina, 3 in Montenegro and 1 in Macedonia and Croatia each – a total of 72 operators. On all of the aforementioned markets, Arenasport channels are presented on the platforms of all major telecommunications operators (Telekom Srbija, T-Com Crna Gora, BH Telecom, m:tel RS, T-Com Makedonija, HT Eronet and T-Com Hrvatska).

Arenasport prepares and broadcasts the following channels:

- Arenasport 1 for the territories of Serbia, Montenegro, Bosnia-Herzegovina and Macedonia
- Arenasport 2, 3 and 4 for the territories of Serbia, Montenegro, Macedonia and B-H

- Arenasport 5 for the territories of Serbia and Montenegro
- Arenasport 1, 2, 3, 4, 5 and 6 for the territory of Croatia and
- Arenasport WEB channel exclusively for the needs of the www.go4yu.com service

All channels are available in both SD and HD formats (1920x1080i), and the entire production process, from the ingest of the signal through its processing and/or post-production to its delivery to end-users is projected and realized in high resolution. The basic elements of the play-out are based on the automation systems of distinguished producers of broadcasting equipment such as Snell, Harmonic, Omneon, Miranda, Rorke and the like, and the entire system is linked via the Cisco server and switches. As of the first round of the Champions League of the 2012/13 season operative has been the virtual studio For-A which, at the same time, is one of the most contemporary virtual studios in the country.

From the very beginning of broadcasting 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 that result from negotiations and direct bargaining with the right holders. UEFA is the exception as it has strong rules and procedures due to which telco operators from this region managed to win the bids for 2015-2018 seasons. With the operation of the studio, the programme is expanded to include studio shows covering the UEFA Champions' League and the European League, as well as the events linked to the Serbian Super League, French League and Italian League. Also broadcast is a show following the developments in the world of basketball and the daily news bulletin Arena News.

Arenasport is engaged in the production of various sporting events in the territories where it is present (SL, ABA, BPL, KLS, LŠ and LE). All important competitions are covered by studio shows and special shows in own production. Arenasport 1 channel is distributed at all operators within the basic offer and the remaining channels form part of the payTV package, whether as an independent package of Arenasport or part of some other payTV package. Promotionally, some operators are allowed to direct their channels towards the users within the basic package. The distribution of the channel to the operator is conducted either by way of the Polaris (BulSat) DTH platform (reception with Polaris receivers or Tandberges only in the SD format), by IP transfer or by optics.

## INVESTMENTS

### PARENT COMPANY AND RELATED LEGAL ENTITIES

The total capital investments in 2016, on the level of the Parent Company and related legal entities amount to 28.5 billion dinars and are by 3.8% lower as compared to the capital investments in 2015. The correlation table of capital investments generated per individual company in 2016 and 2015 is shown in the following table:

In million RSD	2016	Growth rate	2015
Telekom Srbija	15.065	-25,1%	20.122
Mtel	6.760	-3,1%	6.977
mtel	6.628	165,3%	2.498
Telus	5	257,8%	1
HD-WIN	16	48,8%	11
mts banka	10	13,1%	9
TS net	25	-	0
<b>Total</b>	<b>28.508</b>	<b>-3,8%</b>	<b>29.619</b>

*Total investments*

Observed per company, the most massive investments in 2016 were made by the Parent Company (15 billion dinars), and the lowest were made by the related legal entity Telus (5 million dinars).

### Telekom Srbija

The most significant capital investments of Telekom Srbija were made with the aim of ensuring business continuity in all operating segments. The implementation of cutting-edge technological solutions is recognized as a way to offer new services to the customers in the most quality fashion.

The total capital investments were realized in the amount of 15.1 billion dinars, which is by 25% less as compared to the previous year when the licences for the provision of the LTE service was obtained.

For the purpose of modernizing the information and communications infrastructure, the fixed network

ALL IP transformation was launched. In 2016, the investments into the ALL IP transformation pilot project was completed in the region of Aleksinac. Likewise, the investments into the expansion of the access network capacities continued, whereby the customers are ensured the services of broadband (BB) access of higher bitrates. In the part of the switching systems, the IMS systems were enhanced and upgraded as they represent the central switching hub for the fixed and mobile network of a more recent generation.

In the mobile telephony sphere, Telekom Srbija continues to have a dominant role as the most widespread mobile network, providing its customers with a quality signal and fast mobile Internet in all parts of the country. At the end of 2016, the 4G network was present in over 120 towns, villages and tourist destinations in Serbia. In the course of 2016, investments were made into the continuation of the development of the RAN network for the purpose of expanding, modernizing, optimizing and enhancing the coverage zone and network capacity. Likewise, the PS Core network was upgraded through the implementation of add-on functionalities and increasing the capacities of the core networks which made possible the provision of services using the LTE technology.

In the Internet sphere, the investments are directed towards the development of the IP/MPLS network and OTN/DWDM transport network with the aim of supporting the growth of Internet traffic and increasing the number of access network elements through the implementation of the best solutions on the market and with a view to providing the capacities for all future network and user needs.

In the sphere of multimedia services, the migration of customers from the old to the new multimedia platform was conducted. Capital investments are directed towards further expansion of IPTV multi-media platform capacities and add-on services with the aim of increasing the number of customers who avail of higher quality multimedia services. Also made were investments into the HeadEnd platform whereby Telekom Srbija wishes to upgrade its appearance in this market segment offering attractive multimedia content in a quality fashion, and investments into the CAS system for the purpose of entering the DVB-T2 market.

The most important IT projects in this period pertain to the continuation of the IT transformation programme through the consolidation of Billing

platforms, expansion of the CRM system for the purpose of monitoring customer experience, further standardization of the ERP system, digital bank and the support for the new sources of revenues through the offer of payment and cloud services to end users.

Investments into the logistic support primarily refer to the adaptations and installation of radio base stations, space refurbishment and procurement of labour instruments. For the purpose of ensuring an unhindered work process in the Company, the fleet of cars was modernized as well.

## MTEL AND RELATED LEGAL ENTITIES

Mtel's total investments into the related legal entities of Mtel Austria and Logosoft in 2016 amount to 6.8 billion dinars. (107 million KM).

### Mtel

The wireless transport network was modernized (protection and migration to the IP), and intensively conducted is the optimization of mobile backhauling through the replacement of radio relay systems with the optical transport network and the optimization and expansion of the radio relay systems where optics is not possible to ensure. Also made was the expansion of the PS Core network, the modernization of the customer base was completed through the function of the georedundant HLR/HSS, and the core of the mobile network was modernized and ready for the introduction of LTE.

Besides, the services and service systems were upgraded through the new functionalities on the IN platform, the signalization monitoring system was expanded and the project of procuring and installing the VAS platform for the convergence of the messaging system was implemented.

Also significant are investments into the cable transport and access networks, that is, the shortening of the subscriber loop along the existing cable infrastructure (VDSL2+vectoring) and construction of the optical access network which ensure the implementation of the GPON

technology or direct Internet access for business customers.

In the fixed network core, drawn up were the projects of modernizing and expanding the IMS, STP and LRPN systems, and the SBC system was modernized and upgraded using the georedundant solution. The application service for business customers which provides the IP Centrex service was moved to a new platform and the fixed network IN was replaced with a new system (NGIN), which provided for a more reliable service provision.

The procurement of terminal equipment for business and residential customers was important as was the commissioning of the terminal equipment system management TMS (TR69). Besides, in the course of 2016, the ISP network core was modernized and installed were AntiDDoS devices of high performances whereby it is possible directly to defend the resources and provide the services of protection to the clients and sub-providers. One of the most important procurements in 2016 refers to the procurement of equipment for the Cloud DC Infrastructure, and the commissioning of the service telco cloud hybrid structure relying on the MPLS network and the Internet. The Service cloud will provide for a faster and easier integration of the new services by combining the virtualization of the infrastructure and well-devised links towards IP/MPLS through the virtualization of the network functions (NFV).

During 2016, the migration of all customers to the new IPTV platform for the distribution of multimedia content, which provided for new services apart from linear TV, was completed.

In the capital investment structure, also implemented were investments into the user software and licences and/or application solutions which are to reduce the time of the launch of the new services on the market, and upgrade and secure the work of the employees in the Company. The system for the optimization of the work of on-site services was implemented with a view to increasing customer satisfaction. The implementation of the new Contact Centre and its integration into other IT systems was completed.

Also implemented were two systems intended for business customers: CA Advanced Authentication and CA API Gateway. CA Advanced Authentication

is a system that ensures service provision of advanced authentication for the needs of business customers, and CA API Gateway is a system which ensures the connection of different web services and protocols that may translate from one application „language“ into another.

In the safety sphere, installations were set up which are compliant with the obligations in accordance with the ISO 27001 standard.

## Logosoft d.o.o. Sarajevo

The most significant capital investments of the related legal entity, Logosoft d.o.o Sarajevo, in 2016, include the Data Centre and the development of the access and transport networks, which paved the way for the promotion of the existing services and expanding the business scope to local and regional markets of business, information and communications solutions.

## Mtel Austria Vienna

The most important capital investments of the related legal entity Mtel Austria in 2016 include the investments into the core mobile networks and include the investments into the core mobile network and/or procurement of licence upgrades in the HLR system. Besides, in 2016, investments were made into IT and/or expansion of the Billing system and the clearing system and the procurement of equipment for the Customer Care.

## mtel

The total investments of the related legal entity, mtel, in 2016 amounted to 6.6 billion dinars (EUR 53.8 million) and are by 165% higher as compared to the investments made in 2015.

In 2016, investments were directed towards the development of the cable infrastructure. At issue is the major mtel project which dynamically developed depending on the situation in the field. The development of the HFC network began in 2015 so that construction in all towns in Montenegro continued in 2016. In 2016, the network was developed underground in the cable ducts of mtel and Crnogorski Telekom, and above the ground on the poles owned by Elektroprivreda Crne Gore. These investments ensured the



comparative advantage of mtel over competition and consequently emphasis was laid on the development of the HFC cable infrastructure, particularly in the suburban zones.

Investments into the mobile network continued as well by ensuring better coverage in the 2G and 3G networks. Investments in the development of 4G signal coverage began in 2016. Likewise, investments were made in the expansion of the capacities in the Core and RAN networks in line with the expected increase in traffic and additional hardware and software upgrade of the system for packet traffic of the PS Core.

Investments were made into the licences for the 4G network that is purchased from the state was the right of use of radio frequencies for the introduction of the 4G network.

Likewise, investments were made into the mobile access network due to the previous results in the preparation of the construction of the mobile network in 2017. At issue are projects, fees, licences, construction, environmental studies and the like. Also realized are investments into the switching system management of the mobile and fixed networks due to an upgrade of part of the HLR and IMS systems.

Also implemented in 2016 was the replacement of the billing system – more precisely, two of the three phases of the project were completed.

## Telus

In 2016, the total value of capital investments of the related legal entity, Telus, amount to 4.8 million dinars and pertain to the procurement of two off-road vehicles and labour instruments (cleaning devices, photocopiers, computer equipment and other electrical devices). The capital investments made were by 3.4 million dinars higher as compared to the preceding year.

## TS: NET

In 2016, the capital investments of the related legal entity, TS:NET, amounted to 24.9 million dinars, including the procurement of OTN/DWDM equipment for the stations Timisoara and Sofia.

## HD-WIN

In 2016, no significant investments were made into equipment and the total value of capital investments of the related legal entity, HD Win, amount to 16 million dinars. Most of the capital investments pertain to the expansion of the archives, procurement of encoders, new satellite antennas and purchase of vehicles from leasing. The capital investments were higher by 5.3 million dinars as compared to the preceding year.

## mts banka

The capital investments made by the related legal entity mts Banka in 2016 amount to 10 million RSD and mostly pertain to the investments into the licences and IT equipment.

## CUSTOMERS

### PARENT COMPANY AND RELATED LEGAL ENTITIES

At the end of 2016, the Parent Company and related legal companies have a total of 9.9 million customers. In 2016, at the level of the Parent Company and related legal entities there was an increase in the number of Internet and multimedia service users and a decrease in the total number of users in fixed and mobile telephony.

#### Fixed telephony users

The fixed telephony services of the Parent Company and related legal entities are used by 2.6 million customers. At the Parent Company, Telekom Srbija, and its related legal entity, Mtel, the number of fixed telephony users in 2016 is lower as compared to the number of customers in 2015, whereas at the related legal entity, mtel, that number is higher.

The total number of fixed telephony users per

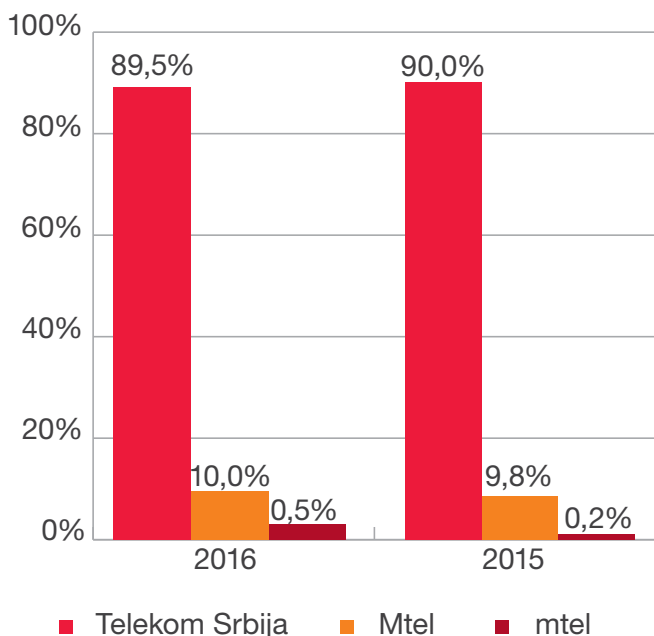
# Business operations

member of the Parent Company and related legal entities is shown in the table below:

In thousands	2016	Growth rate	2015
Telekom Srbija	2.282	-6,5%	2.440
Mtel	256	-4,1%	267
mtel	12	129,3%	5
<b>Total</b>	<b>2.550</b>	<b>-6,0%</b>	<b>2.712</b>

*Total number of fixed telephony users*

The percentage of the share of the Parent Company and related legal entities in the total number of fixed users is featured in the following graph:



*Share of the members of the Parent Company and related legal entities in the total number of fixed users*

In 2016, the Parent Company and related legal entities have 2.3 million residential customers and 291 thousand business customers.

In thousands	2016	Growth rate	2015
Residential	2.259	-6,7%	2.422
Business	291	0,2%	290
<b>Total</b>	<b>2.550</b>	<b>-6,0%</b>	<b>2.712</b>

*Total number of fixed telephony users*

## Mobile telephony users

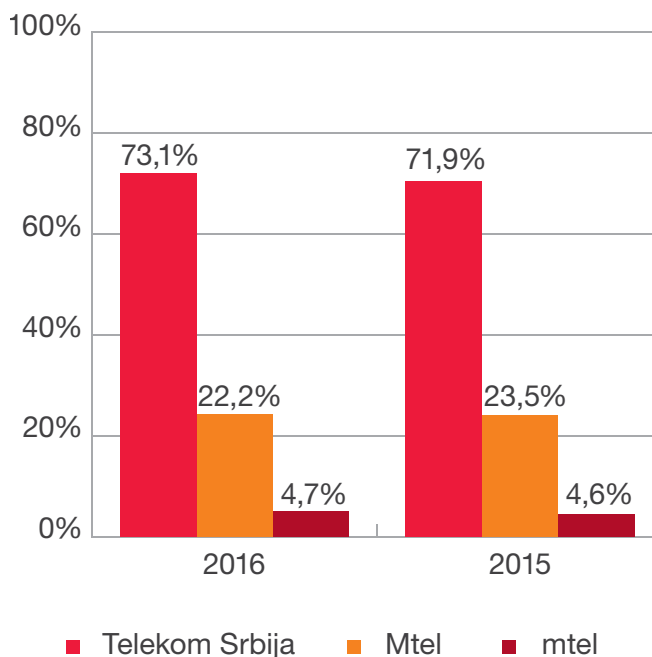
The total number of mobile telephony users at the level of the Parent Company and related legal entities in 2016 is 5.9 million. In all the companies there is a decrease in the number of prepaid customers and an increase in the number of postpaid customers as compared to the preceding year.

The total number of mobile customers per member of the Parent Company and related legal entities is shown in the following table:

In thousands	2016	Growth rate	2015
Telekom Srbija	4.334	0,7%	4.303
Mtel	1.317	-6,2%	1.404
mtel	279	1,7%	275
<b>Total</b>	<b>5.930</b>	<b>-0,9%</b>	<b>5.982</b>

*Total number of mobile telephony customers*

The percentage of the share of the members of the Parent Company and related legal entities in the total number of mobile telephony users is featured in the following graph:



*Share of the members of the Parent Company and related legal entities in the total number of mobile telephony users*



In 2016, there were 3.2 million prepaid customers, which makes up 57% of the total number of customers, whereas there were 2.8 million postpaid customers with a share of 43% in the total number of customers.

In thousands	2016	Growth rate	2015
Prepaid	3.156	-7,0%	3.392
Postpaid	2.774	7,1%	2.590
<b>Total</b>	<b>5.930</b>	<b>-0,9%</b>	<b>5.982</b>

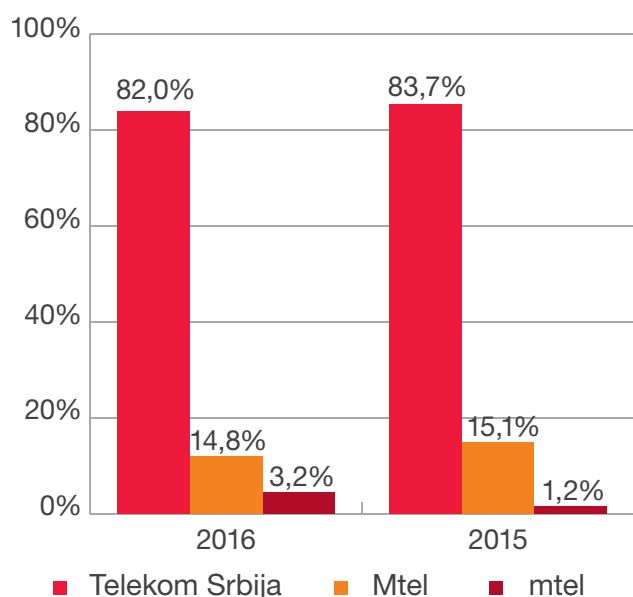
*Total number of mobile telephony users*

### Internet and multimedia users

The total number of Internet users at the level of the Parent Company and related legal entities in 2016 amounted to 926 thousand and includes the ADSL users of the Parent Company and the related legal entity, Mtel, which use the Internet via cable and wimax technologies.

In thousands	2016	Growth rate	2015
Telekom Srbija	760	2,3%	743
Mtel	137	1,8%	134
mtel	30	172,8%	11
<b>Total</b>	<b>926</b>	<b>4,3%</b>	<b>888</b>

*Internet*

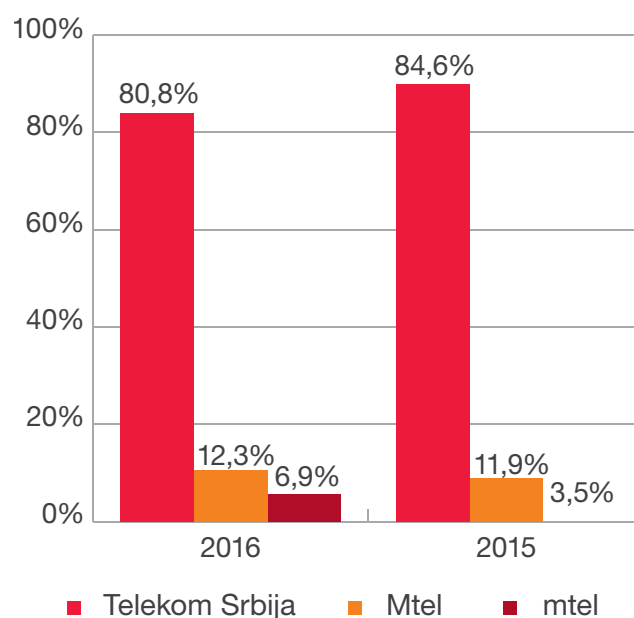


*Share of the members of the Parent Company and related legal entities in the total number of Internet users*

At the end of 2016, there were 513 thousand users of multimedia services. The users of the multimedia services of the Parent Company and related legal entities include IPTV users of the Parent Company and the related legal entity, Mtel, and cable users of the related legal entity, mtel.

In thousands	2016	Growth rate	2015
Telekom Srbija	415	4,0%	399
Mtel	63	12,1%	56
mtel	35	114,8%	17
<b>Total</b>	<b>513</b>	<b>8,9%</b>	<b>472</b>

*Multimedia customers*



*Share of the members of the Parent Company and related legal entities in the number of multimedia service users*

## TELEKOM SRBIJA

Fostering innovative spirit, Telekom Srbija continually develops new technological solutions to the benefit of its customers and takes care of the high quality of communications through its rich service offer.

Despite the challenges of strong competition in all operating segments, Telekom Srbija still has a significant number of customers in both fixed and mobile telephony and an increasingly large number of IPTV, Internet and IP telephony users. The intensive growth of the number of users of convergent packages has been seen since 2016 because the customers recognized the advantages offered by Telekom Srbija through convergent packages. The share of convergent packages in the total revenues for 2016 amounts to 19%, which is by 3% more as compared to 2015.

There is a decrease in the number of fixed users, which is mostly due to the existence of alternative communications forms, such as mobile telephony and the Internet and the number portability service.

The fixed telephony services of Telekom Srbija at the end of 2016 are used by 2.3 million customers. With the development of IP technology, there is a drop in the number of ISDN customers, as well as a greater interest in the IP Centrex and Business Trunking services due to the advantage of use. The number of users of the IP Centrex and Business Trunking services is by 32.6% higher as compared to 2015.

In thousands	2016	Growth rate	2015
POTS	2.218	-6,5%	2.372
ISDN	41	-18,5%	50
IP Centrex & Business trunking	23	32,6%	17
<b>Total</b>	<b>2.282</b>	<b>-6,5%</b>	<b>2.440</b>

### *Fixed telephony customers*

In 2016, too, Telekom Srbija saw an increase in the number of postpaid customers with the highest share on the mobile telephony market,

whereas the number of prepaid customers fell by 5% as compared to 2015. One of the reasons for this fall lies in the transition of a certain number of customers to postpaid accounts.

The advantages of a number of companies and new tariff profiles introduced with a view to meeting the needs of different user groups had a positive impact on the total number of mobile postpaid customers.

In thousands	2016	Growth rate	2015
Prepaid	2.030	-5,3%	2.144
Postpaid	2.304	6,7%	2.159
<b>Total</b>	<b>4.334</b>	<b>0,7%</b>	<b>4.303</b>

### *Mobile telephony customers*

At the end of 2016, Telekom Srbija had 77 thousand users of the mobile Internet via a USB modem.

In thousands	2016	Growth rate	2015
Fixed Internet - retail	655	3,4%	634
Fixed Internet - wholesale	104	-4,4%	109
IPTV	415	4,0%	399
<b>Total</b>	<b>1.175</b>	<b>2,9%</b>	<b>1.142</b>

### *Fixed Internet and multimedia*

On the Internet market, there is an increasing demand of the customers for the broadband Internet, which points to the customers' interest in the service which provides for a higher quality and easily accessible content.

At the end of 2016, Telekom Srbija had 760 thousand fixed Internet users in retail and wholesale and as compared to the past year, there has been an increase in the number of customers of 2%.

In 2016, IPTV customers rose by 4%, which was due to the offer of convergent packages. In 2016, the number of IPTV users amounted to 415 thousand.

Available to the users of the IPTV service is the multiscreen functionality which provides access

to video content irrespective of the type of device (a TV set, computer, tablet or a smart phone) and the method of access.

The customers are also provided with the OTT service which implies an offer of video, audio and other multimedia content via the Internet (*unmanaged* network), which the customers access using the mobile and web applications.

## Mtel

As a result of the promotion of the service portfolio and a number of marketing drives, 2016 saw an increase in the number of users of the integrated, ADSL and IPTV services, as well as an increase in the number of VPN customers.

### Fixed Telephony

As at 31 December 2016, there were a total of 256 thousand fixed users, which is by 4.1% less as compared to 2015. The share of Mtel in the total number of fixed users amounts to 251 thousand or 98.2%, whereas Logosoft participates with 5 thousand customers, which accounts for 1.8%.

In thousands	2016	Growth rate	2015
Residential customers	222	-5,3%	235
Business customers	34	5,0%	32
<b>Total</b>	<b>256</b>	<b>-4,1%</b>	<b>267</b>

#### *Total number of fixed telephony customers*

In 2016, there was a reduction in the number of customers as compared to 2015 as a result of the negative effects of the number portability service, the substitutive relationship between fixed and mobile telephony, a decrease in the scope of demand for the fixed services, price non-elasticity and the lower payment power of the customers.

Logosoft provides fixed telephony services to its residential customers through integrated LoGO packages: LoGO Trio, LoGO Trio+, LoGO Quadro and LoGO Quadro+. Apart from this, the fixed telephony service is available to business customers outside the integrated packages and it

is primarily created as the fixed telephony service for legal entities.

### Mobile Telephony

As at 31 December 2016, there were a total of 1.3 million mobile users, whereof 73.7% are prepaid customers and 26.3% are postpaid customers. As compared to 31 December 2015, the total number of mobile users is 6.2% lower. Mtel's share in the total number of mobile customers is 1,304 thousand or 99%, Mtel Austria's share is 12 thousand or 0.9%, whereas Logosoft's share is 1 thousand or 0.1%.

In thousands	2016	Growth rate	2015
Prepaid	970	-10,2%	1.080
Postpaid	347	7,2%	324
<b>Total</b>	<b>1.317</b>	<b>-6,2%</b>	<b>1.404</b>

#### *Total number of mobile telephony customers*

In the total number of mobile users, the most significant fall was seen in prepaid customers bearing in mind one of Mtel's goals in the mobile telephony segment, this being the migration of prepaid customers to postpaid.

In 2016, apart from the postpaid services, Mtel Austria also began to provide the services in the prepaid segment. At the end of 2016, launched were the activities towards the implementation of the VPN service.

Logosoft renders its mobile services exclusively on the prepaid basis, where apart from the classic postpaid customers, the structure of the total number of customers also includes M.net, VPN and Quadro customers.

### Internet

The total number of ADSL users (independent and within integrated service packages) as of 31 December 2016 amounts to 137 thousand, which is by 1.8% more as compared to the past year. In 2016, there was a prominent trend of transition by residential customers from independent ADSL packages to Open packages.

# Business operations

In thousands	2016	Growth rate	2015
ADSL residential customers	123	1,3%	122
ADSL business customers	14	6,8%	13
<b>Total</b>	<b>137</b>	<b>1,8%</b>	<b>134</b>

*Total number of ADSL customers*

The structure of ADSL customers is made up of 129 thousand or 94.5% customers of Mtel and 8 thousand or 5.5% customers of Logosoft.

## Integrated Service Users

On the B-H market, Mtel has the largest portfolio of integrated services which is tailored to the needs of its customers and structures as follows: Open duo, Open trio and Open Quadro. These packages, through a variety of combinations, integrated fixed and mobile services, IPTV services and Internet access via ADSL services.

The total number of customers of Mtel and its related legal entities within the integrated service package as of 31 December 2016 is 90 thousand, whereof 85 thousand or 94.2% are Mtel customers and 5 thousand or 5.8% are Logosoft customers.

In thousands	2016	Growth rate	2015
Residential customers	89	8,3%	82
Business customers	0,5	34,4%	0,4
<b>Total</b>	<b>90</b>	<b>8,5%</b>	<b>83</b>

*Total number of customers of integrated services*

Logosoft renders integrated services through Logo packages. U 2016, a characteristic phenomenon was migration from old to new Logo packages of integrated services.

The total number of IPTV users (independent and within integrated service packages), as at 31 December 2016 is 63 thousand or up by 12.1% on 2015.

In thousands	2016	Growth rate	2015
Residential customers	62	12%	56
Business customers	1	33%	0,8
<b>Total</b>	<b>63</b>	<b>12,1%</b>	<b>56</b>

*Total number of IPTV customers*

## mtel

### Fixed Telephony

Since July 2015, the mtel subsidiary launched the provision of fixed telephony services via the optical network and continued with intensive development in 2016 as well. Network development led to an increase in the number of customers, so that the number of fixed users rose from 5 thousand at the end of 2015 to 11.6 thousand at the end of 2016.

In thousands	2016	Growth rate	2015
Residential customers	9,8	109,1%	4,7
Business customers	1,8	371,6%	0,4
<b>Total</b>	<b>11,6</b>	<b>129,3%</b>	<b>5,1</b>

*Total number of fixed telephony customers*

The market share at the end of December 2016 accounted for 7.34%, in line with the definition of the Telecommunications Agency.

### Mobile telephony

The market share at the end of December 2016 accounted for 29.01%, with a penetration of 167.85% on the mobile market of Montenegro (according to the definition of the Telecommunications Agency).

The number of mtel customers at the end of 2016 amounts to 279 thousand whereof 56% refer to prepaid customers whereas y customers' share in the total number of mobile telephony users is 44%.

In thousands	2016	Growth rate	2015
Prepaid	157	-6,8%	168
Postpaid	123	15,1%	107
<b>Total</b>	<b>279</b>	<b>1,7%</b>	<b>275</b>

*Total number of mobile telephony customers*

## Internet

The development of the optical network and the purchase and fusion of business entities in 2016 resulted in an increase in the total number of Internet users by 173%, from 10.9 thousand customers at the end of 2015 to 29.8 thousand customers at the end of 2016.

In thousands	2016	Growth rate	2015
Wimax internet	2,7	-27,2%	3,7
Cable internet	27,1	274,0%	7
<b>Total</b>	<b>29,8</b>	<b>172,8%</b>	<b>10,9</b>

*Total number of Internet customers*

## Multimedia

The total number of tv users at the end of 2016 amounts to 35.5 thousand, whereas at the end of 2015 that number accounted for 16.5 thousand.

In thousands Pay TV (cable TV)	2016	Growth rate	2015
Residential customers	34,6	115,7%	16,0
Business customers	0,9	85,1%	0,5
<b>Total</b>	<b>35,5</b>	<b>114,8%</b>	<b>16,5</b>

*Total number of multimedia customers*

## Telus

Apart from Telekom Srbija as the Parent Company and PE Pošta "Srbija" as the largest buyer on the market, Telus has begun to more significantly draw new customers on the market, particularly in the period from 2010 and to develop primarily on the hygiene maintenance service market.

The security services are predominantly provided to the Parent Company and PE Pošta "Srbija".

In public procurement procedures conducted in the period from 2010, concluded have been service provision contracts with a number of customers, including: PE PTT Saobraćaja "Srbija" (JP Pošta Srbije), the Serbian government, the Flight Control Agency of Serbia and Montenegro, the City Council of Novi Beograd and Savski Venac, JKP Beogradske Elektrane, Drinsko-limske HE, Republic Geodetic Institute, Power Supply Company, branches of the Finance Ministry – Treasury Administration and Tax Administration, EMS facilities.

On the basis of the internal procurement procedures conducted by the service users, contracts were concluded with: DDOR Novi Sad, Delta Generali osiguranje, Piraeus banka a.d., Alfa banka a.d., Oportunity banka a.d., branch offices of Dunav Osiguranje a.d.o.

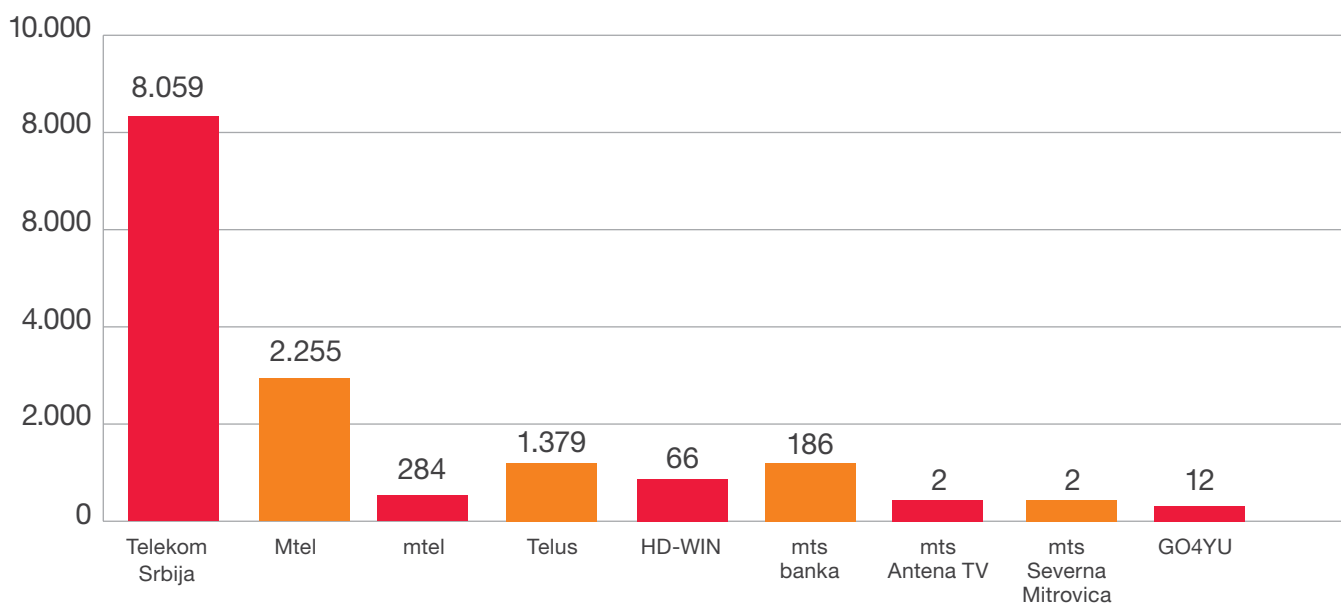
## EMPLOYEES

### PARENT COMPANY AND THE RELATED LEGAL ENTITIES

The management and development of human resources are among the top goals and tasks of Telekom Srbija and its related legal entities. The care of employees involves care of the overall satisfaction of employees, encouraging their motivation and the feeling of belonging to the company in which they work. Telekom Srbija and its related legal entities are always trying to provide its employees with adequate working conditions, equal treatment, safety and protection at work, health protection and a possibility of further professional development and education.

The total number of employees in the Parent Companies and the related legal entities is 12,245, taking into account the employees with dormant employment relationship (28 on the level of the Parent Company and the related legal entities). Of the said number, the largest percentage refers to Telekom Srbija (65.8%), 18.42% to Mtel, 11.26% to Telus, 2.32% to mtel, 1.52% to mts bank, 0.54 % to HD-WIN, 0.1% to GO4YU, while 0.02% refer to MTS Antena TV and 0.02 % to MTS d.o.o. Severna Mitrovica.

Due to the nature of the business, nine employees of Telekom Srbija have been seconded to the related legal entities, which is why they are shown in both 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 2016 is shown in the following graph:

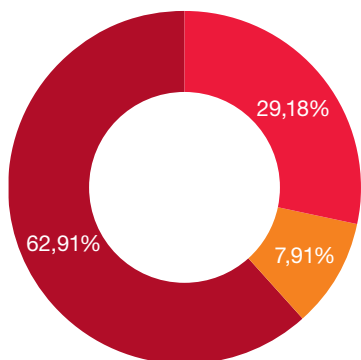


Apart from the employees engaged for a definite and indefinite period of time in the Parent Company and the related legal entities, a total of 2,320 persons are engaged based on various contracts on engagement outside of employment contract (leased workers – leasing, temporary and occasional jobs, persons engaged through the youth employment agency, etc.), the largest number of which are employed in Telekom Srbija (55.3%), Telus 33.41%, 3.88% in Mtel, 3.32% in HDWIN, 3.71% in mtel, 0.3% in mts Bank and 0.04% in G04YU and MTS Antena TV each.

Regarding the educational structure of employees in the Parent Company and the related legal entities, the largest number of employees have high school education – 62.91%, followed by employees with university education – 29.18%, which includes specialists and employees with master and PhD degrees.

The smallest share belongs to employees with college education – 7.91%.

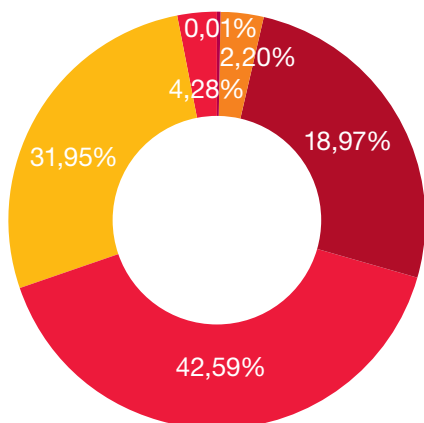




■ university degree ■ college degree ■ secondary school

*Educational structure of employees in the Parent Company and related legal entities*

When it comes to the age structure of employees in the Parent Company and the related legal entities, employees between 40 and 49 years of age account for the largest share (42.59%), followed by employees between 50 and 59 years of age (31.95%), employees between 30 and 39 years of age (18.97%), employees who are 60 and over 60 years of age (4.28%), employees who are between 20 and 29 years of age (2.20%), while the employees who are up to 20 years of age make up only 0.01%.



■ up to 20 years of age 0,01%  
 ■ 20 - 29 years of age 2,20%  
 ■ 30 - 39 years of age 18,97%  
 ■ 40 - 49 years of age 42,59%  
 ■ 50 - 59 years of age 31,95%  
 ■ over 60 years of age 4,28%

*Age structure of employees in the Parent Company and related legal entities*

## Telekom Srbija

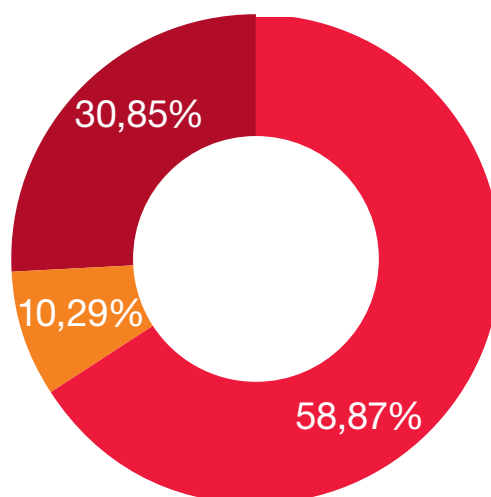
The management and development of human resources are among the top goals and tasks of Telekom Srbija. Care of employees involves care of the overall satisfaction of employees, strengthening their motivation and the feeling of belonging to the Company. Telekom Srbija is always trying to secure a better future for its employees, adequate work conditions, equal treatment of employees, safety and protection at work, health protection and a possibility of further professional development and education.

There was a total of 8,059 employees in the Company as at 31 December 2016. Of the said number, and due to the nature of the business, nine employees have been temporarily seconded to other related legal entities.

Apart from the said number, there were 1,283 persons engaged through the employment agency (labor leasing) as at 31 December 2016.

Pursuant to the Voluntary Layoff Program, 268 employees left the Company in 2016.

The educational structure of employees engaged under employment contract (excluding the employees with dormant employment relationship) is shown in the graph below.



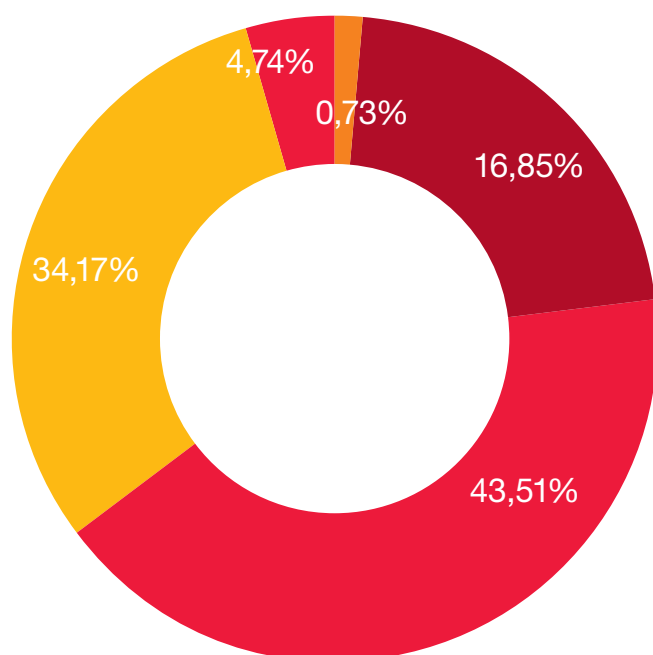
■ university degree ■ college degree ■ secondary school

*Educational structure of employees*

Regarding the educational structure of employees on the Company level, it is noted that the largest share belongs to employees with high school education (58.87%), followed by employees with university education (30.85%), while the smallest share belongs to employees with college education (10.29%).

Regarding the age structure of employees, employees between 40 and 49 years old account for the largest share (43.51%), followed by employees between 50 and 59 years of age (34.17%), employees between 30 and 39 years of age (16.85%), employees who are 60 and over 60 (4.74%) while employees between 20 and 29 years of age account for only 0.73%.

The age structure of employees is shown in the graph below.



■ up to 20 years of age	0,00%
■ 20 - 29 years of age	0,73%
■ 30 - 39 years of age	16,85%
■ 40 - 49 years of age	43,51%
■ 50 - 59 years of age	34,17%
■ over 60 years of age	4,74%

*Age structure of employees*

## IMPLEMENTATION OF NEW PROJECTS OF THE HUMAN RESOURCES DIVISION

### PERFORMANCE ASSESSMENT AND TRANSFORMATION OF CORPORATE CULTURE IN 2016

Based on the project entitled Employee Performance Management Model and Corporate Culture Transformation implemented in cooperation with a consultant in 2015, in 2016 the Company implemented the initial, zero procedure of Performance Management. In the middle of the year, the company planned and for the first time launched the procedure of Performance Assessment on the level of the entire company according to a newly adopted Methodology, for the semi-annual period from 1 July to 31 December 2016 for the purpose of evaluation of the applied model (its elements, rules and principles).

Given that according to the Methodology this procedure is a multiple phase project, the company as of June 2016 successfully implemented the first phase of defining key objectives/performance indicators (KPIs) of the Company management and then implemented them through the hierarchical levels to all employees, in all business functions, in the Head Office and on the Territory. This process was simultaneously and information wise implemented in cooperation with the Division for IT Support and ICT Services so that by the end of 2016 all the envisaged phases of this process were completed, and all the defined evaluation segments (objectives/KPIs and the competencies envisaged by the Employee Grouping Methodology) were integrated in the information application by the end of 2016. The implementation of the following phases of the process was envisaged during the first quarter of 2017, when all the employees in the role of evaluators will, based on the data on the implementation of objectives/KPIs, evaluate the work performance of their colleagues and subsequently give them feedback on their performance.

The zero phase of implementation of the new performance evaluation model, apart from the

invested resources of the project team of the Human Resources Division and the IT Support and IST Services Division, largely engaged the Company's management during 2016 on all hierarchical levels and at the same time raised many important issues related to the possibilities and restrictions of the practical application of the new methodology on a sample of all employees in the Company. It will be possible to systematize the evaluation results upon the completion of the first quarter of 2017, as a basis for appropriate adjustment of the Methodology and information support, primarily to the needs of Telekom's managers who should be able to use it as an instrument for managing human resources.

Regarding the implementation of the project of the Company's Corporate Culture Transformation, a number of activities were implemented during 2016, which were aimed at creating an appropriate organizational context, promoting and providing support to the adoption of a new, desired corporate culture, defined values and leadership behaviours through intense internal communication and education of managers.

The following activities were undertaken to achieve this aim:

- Continued communication of the main values and new leadership behaviours via Newsletter (a total of 12) and via corporate culture banner placed on the first page of the new internal portal;
- Promoting the new corporate values via posters featuring employees (a total of 2,450 posters were placed in all the important business facilities in Serbia);
- Implementation of two-day long training programs from Management Skills in the corporate culture function with managers of the 3rd and 4th level of management in the head office and on the territory, implemented in cooperation with the Mokra Gora School of Management and the internal corporate culture team, as support to managers in their transformation, since it is exactly managers who are the key players in introducing changes. The said programs included a total of 460 managers.

In addition, the development of corporate values was recognized as one of the goals from the development perspective delegated to managers of all levels in the Company, which is measured

by the percentage of accession to the desired corporate culture. To this aim, a repeated poll was conducted during December in accordance with the previously applied methodology of the BCG consulting company, in which a total of 3,167 employees took part.

## EDUCATION

### External education in the country and abroad

During 2016, a total of 2,204 employees were sent on external education in the country and abroad, who spent there a total of 6,297 days, which equals approximately 2.86 days per employee.

External education in the country was attended by 1,350 employees, of which 213 employees attended relevant seminars, 416 participated in expert training programs and seminars, 152 underwent training programs prescribed by the law, 415 attended business skills training, 153 participated in teambuilding programs and one employee attended general knowledge and skills training programs. The employees spent 3,319 days on training programs in the country, which amounts to 2.46 days per participant.

In accordance with a contract concluded for the provision of English language classes with an external school – Ilija M. Kolarac Endowment, in 2016, English language classes were organized for 117 participants of group classes (3,744 hours i.e. 468 days) and 63 attendees of individual classes, who spent a total of 252 days on professional education, which amounts to 4 days per participant. Educational events abroad were attended by a total of 337 participants, of which 238 attended conferences, congresses and seminars, 17 were sent on training programs for handling equipment pursuant to contracts concluded with the suppliers of equipment and services, 56 attended forums, 10 attended training programs and workshops and 16 attended fairs. The participants spent 858 days on educational events abroad, which equals 2.55 days per participant.

Employees who are sent on various training programs in the country and abroad have to conclude contracts containing an obligation that they have to stay in the Company for 14, i.e. 24 months, so that the number of participants with a contractual obligation as at 31 December 2015

equals 318 (300 contracts for training programs implemented in the country and 18 contracts for training programs abroad under the contracts with suppliers which were implemented abroad). Of the above said, there were a total of 231 beneficiaries of active contracts in 2016, of which 219 in the country and 12 abroad.

The beneficiaries of training programs under the contracts concluded with the suppliers (with and without an obligation to stay in the Company) in 2016, spent 1,326 days on training programs in the country, which amounts to 4.14 days per participants, while the 17 beneficiaries of the training programs abroad on the same grounds, spent 74 on training, which amounts to 4.35 days per participant. The 337 beneficiaries of training programs under the contracts concluded with the suppliers spent a total of 1,400 days on training programs, which amounts to 4.15 days per participant.

## Internal education

In the organization of the Training Center of the Human Resources Division, in 2016, a total of 606 participants took part in the internal education programs and spent 936.6 days on internal education programs, which amounts to 1.5 days per participant.

The internal expert education programs were attended by 240 participants, the training programs from business skills were attended by 204 participants, while the internal English language education included 82 participants (54 – group classes and 28 – individual classes with division directors).

In addition, in 2016, the company continued to implement internal teambuilding programs, which were attended by 80 participants from the Company.

## Education

Employees who are sent to additional education have to conclude contracts which regulate the mutual rights and obligations during the course of their studies and in the period of contractual obligations, so that the number of active schooling contracts as at 31 December 2016 amounts to 32 (4 for vocational studies of the 1st degree, 7 for the academic studies of the 1st degree, 4 master studies, 6 vocational studies of the 2nd degree,

6 MBA studies and 5 master, PhD and specialist academic studies). Of the said, in 2016, the Company approved 15 new schooling programs, as follows: 2 for vocational studies of the 1st degree, 4 for academic studies of the 1st degree, 4 for specialist vocational studies, 1 master, 1 PhD and 3 EMBA studies, 2 contracts were terminated and 12 approved studies were completed.

## Licences, certificates, membership

In 2016, the Company financed various types of licenses, certificates, expert exams and memberships for a total of 621 participants, as follows: renewal of membership in the Serbian Chamber of Engineers for the licenses of the responsible designer and responsible contractor for 505 customers, the acquisition of new licenses for 7 customers, expert exams for 4 customers, the acquisition of CISCO and other expert certificates for 25 customers, the recertification of GIAC certificates for 2 customers, the PMI membership for 30 customers, the recertification of PMP certificates for 5 customers, membership in the International Institute of Business Analysis for 7 customers, membership in the Internal Auditors Association for 6 customers, membership in the Accountant and Auditor Association for 21 customers, membership in the Authorized Auditors Chambers for 1 customer, membership in the Serbian Journalists Association for 2 customers, exam in the Authorized Auditors Chamber for 2 customers, bar examination for 1 customer and the exam from safety at work for 3 customers.

## Expert practices

In 2016, expert practice in the Company was done by 119 students. Within activities in the sphere of cooperation with Belgrade University, a competition was held by the Career Development Center and expert practice was granted to 67 students of Belgrade University (Faculty of Electrical Engineering, Faculty of Organizational Sciences, Faculty of Political Sciences, the Philosophical Faculty and the Faculty of Economics).

## RECRUITMENT AND SELECTION

In 2016, 138 external candidates were engaged in the Company (of which 96 on the tasks with a high fluctuation rate and 42 candidates on engineer jobs in the IT Support and ICT Services Division).



Pursuant to internal competitions, six employees were allocated to new positions based on completed internal selections with 28 employees. Of the 26 selected candidates, six candidates were allocated to new positions (75%).

## EMPLOYEES' BENEFITS

### The implementation of the policy of financial, social and health protection of employees

Jubilee awards – In accordance with the Collective Agreement of the Company jubilee awards are paid out to employees and former employees, who in the period from 2 June of the previous to 1 June of the current calendar year fulfil the requirement of:

- 10 years of uninterrupted work in Telekom Srbija;
- 20 years of uninterrupted work in the PTT System of Serbia;
- 30 years of uninterrupted work in the PTT System of Serbia;
- 40 years of uninterrupted work in the PTT System of Serbia;

The grounds for the payment of jubilee awards is the average gross salary paid in the Company for the month of June for employees who fulfil the requirement of 20 years of uninterrupted work in the PTT System of Serbia, i.e. ½ of the average gross salary for 10 years of service, 2 average gross salaries for 30 years of service and 3 average gross salaries for 40 years of service.

A total of 1,050 employees were granted jubilee awards in 2016.

Collective insurance program – All employees in the Company are insured against the consequences of accidents, serious illnesses and surgical interventions at work and outside of work (24 hours), with an additional insurance of employees, who are allocated to jobs with an increased risk.

The program is implemented pursuant to contracts/insurance policies that the Company, in 2016, concluded with a consortium of insurance companies Generali Osiguranje a.d.o. and AMS

Osiguranje in case of consequences of accidents and serious illnesses and surgical interventions.

A total of 509 applications were made in 2016, of which 304 applications filed by employees or members of their close family were approved and payments made, while 189 applications were rejected, and the procedure is still underway for 16 applications.

Voluntary pension insurance program – All employees in the Company were provided with regular monthly payments against pension contributions for voluntary pension insurance. The program was implemented pursuant to contracts on pension plans which the Company, starting from 2007, has concluded with the joint stock companies for managing voluntary pension funds Generali a.d. and Dunav a.d.

Program of granting solidarity aid and other types of aid – In accordance with the internal by-laws of the Company, which regulates the sphere of granting solidarity aid and other types of aid, the Company in 2016 paid a total of 300 solidarity aid benefits to employees and members of their close family against all grounds for exercising this right.

Program of granting aid for the resolution of the employees' housing needs – In accordance with the internal by-laws of the Company, which regulate the sphere of granting housing loans to employees in the Company, a total of 23 contracts on housing loans were concluded.

Specialist medical check-ups, health rehabilitation and recreation – With the aim of prevention and improving the health condition of employees, the Company organized specialist medical check-ups for 4,372 employees, and health rehabilitation for 359 employees and recreation for a total of 229 employees.

Gift for 8 March – On the occasion of 8 March, Women's Day, the Company, in 2016, in accordance with the internal by-laws, approved the right to a one-off payment of funds – gift for the women and those employed/engaged outside of employment contract.

Gift for the employees' children on the occasion of the New Year 2016 – the Company in 2016 approved the right to a one-off payment of funds – gift to employees/persons, engaged outside of employment contract, for the purchase of New Year parcels for children up to 10 years of age on the occasion of the New Year 2016.



# Business operations

## IMPLEMENTATION OF THE POLICY OF HARMONIZING RELATIONSHIPS WITH EMPLOYEES

All the employees in the Company can get expert support from the sphere of labor law within the Labor Law Advisory Center and the sphere of social work. In 2016, the employees were continually provided with answers to their inquiries via e-mail and by telephone.

## IMPLEMENTATION OF THE POLICY OF INTERNAL INFORMATION OF EMPLOYEES

The implementation of the policy of internal information of employees represents a program of permanent, accurate and timely information of employees via the Intranet and the Company's Newsletter. The Intranet involves regular and continual preparation, processing and publishing of information on the internal Moj Portal website.

The new internal website, the redesign of which started in June 2016, was launched into production on 22 December 2016.

The information posted on the internal portal are classified according to category: ad hoc information

– which refer to important notifications from the sphere of human resources (employees' rights), notifications about current events in the company – which are posted every day (Press Clipping Serbia and Press Clipping Montenegro), and information posted on the monthly level (News from the sphere of culture and sports, telecommunications in the country and abroad, the We Recommend You to Visit column, World, Famous Serbs, Famous Peoples' Thoughts, Psychological Advisory Center, Labor Law Advisory Center, Funny Press Clipping, German and English language tests and New Technologies).

In 2016, a total of 1,908,143 website visits were registered, the Company's Newsletter (a total of 12 issues) containing the latest news from the related legal entities, presentation of new services and current events in the sphere of culture and telecommunications were distributed, and five Official Gazettes of Telekom Srbija were published.

## Mtel

The number of employees, their qualification and age structure as at 31 December 2016 are shown in the following tables:

	Mtel a.d. Banja Luka		Mtel Austria GmbH		Logosoft d.o.o Sarajevo		Mtel Grupa		
<b>TOTAL EMPLOYEES</b>	<b>2.148</b>		<b>10</b>		<b>97</b>		<b>2.255</b>		
EDUCATION STRUCTURE	DR, MR, BC	817	38,0%	7	70,0%	31	32,0%	855	37,9%
	COLLEGE	85	4,0%			2	2,1%	87	3,9%
	SECOND. SCHOOL	1195	55,6%	3	30,0%	63	64,9%	1261	55,9%
	SKILLED	50	2,3%					50	2,2%
	UNSKILLED	1	0,0%			1	1,0%	2	0,1%
AGE STRUCTURE	<21-30	132	6,1%			23	23,7%	155	6,9%
	31-40	528	24,6%	5	50,0%	55	56,7%	588	26,1%
	41-50	836	38,9%	5	50,0%	13	13,4%	854	37,9%
	> 50	652	30,4%			6	6,2%	658	29,2%

\*\*\* Note:

-The number of employees includes 5 employees with a dormant labor status

-The number of employees does not include 3 employees who have been seconded from Telekom Srbija

Placing the focus on the importance of an adequate management of employees, training programs were organized which enabled: the improvement of business processes, better team cooperation, personal and expert enhancement of employees, and creating an efficient and productive business environment. By developing these competences, we show our commitment to making Mtel a regional leader when it comes to following and implementing modern trends of positive practices in the sphere of business operations.

In 2016, a Team Building program was for the first time organized for new employees. Mtel employees who started work in the previous year were asked to participate in this program as well as in the program of electronic training (LMS), and certifying employees at the Logosoft Educational Center.

With the aim of harmonizing the corporate culture and values on the level of Telekom Srbija and the related legal entities, the company, in 2016, together with the representatives of Telekom Srbija confirmed the compatibility of conclusions on corporate culture, and harmonized the names and structure of corporate values. Regarding the said conclusion, a Program for the change of the Company's organizational culture was created, which was adopted by the Executive Board on 29 September 2016. The program includes conclusions related to the organizational culture and corporate values, and involves a three-year long plan of activities with the aim of launching and supporting the change of the organizational culture in the desired direction.

The following activities were implemented in 2016 according to this program:

- Creation and production of a Code of Conduct brochure entitled "Doing Business Our Way",
- Communication of corporate values through video education for all employees on the internal portal of the company,
- Team building internal events of management representatives with employees of the Executive Units of the company,
- Corporate values in the company processes – processes of selection, granting awards and the introduction of new employees into business,

- Creation and adoption of the Guidelines of Internal Communication.

In 2017, the Company will continue to promote its corporate values and implement activities from the Program of changing the organizational culture.

## Mtel

During the incorporation of Telecommunications Company Mtel d.o.o., in April 2007, employment was done through public job announcements through the Employment Agency or by secondment agreements. A total of 33 public job announcements were made and 39 secondment agreements were concluded, and a total of 158 persons received an employment contract. A personnel database of employees in the Company and personal files were established. Apart from this, a procedure of reporting all employees in the Funds for health and pension and disability insurance was performed, and a personnel data base was established through the Navison application. Collective insurance was provided for all employees.

The employees who entered into employment contracts for jobs that require special working conditions, established by the Rules on safety and protection at work, did regular medical check-ups for establishing their special health abilities. The procedure of attaining membership in the Montenegrin Employer Union was also conducted. Apart from this, a Collective Agreement between the employer and the representative Trade Union was signed in 2011.

The number of employees constantly changed to reach 282 at the end of 2016.

Mtel's employment policy is to regulate the labor status of the employees who have been engaged for a definite period of time for more than one year and who have shown good results, by granting them permanent employment contracts.

Apart from this, the company started and implemented Manage Services, by which 34 employees from the Technical Department and 2 from the Marketing, Sales and Customer Care Department were taken over by Ericsson.

The number of employees in mtel as at 31 December 2016 was 282 (+ 2 employees with a dormant labor status), 31 persons were engaged outside

# Business operations

of employment contract, while 55 persons were engaged through the Agency for the Assignment of Employees Gi Group.

The age structure of employees as at 31 December 2016:

Age structure of employees as at 31 December 2016					
Age	20-29	30-39	40-49	50-59	Over 60
/	37	145	76	25	1

Age structure of employees engaged through the Gi Group and Gi Group Outsourcing agencies					
Age	20-29	30-39	40-49	50-59	Over 60
/	21	26	6	/	2

Age structure of persons engaged under service contract					
Age	20-29	30-39	40-49	50-59	Over 60
/	20	6	3	1	1

Educational structure of employees				
Education	Qualified worker	High School	College	University
No of employees	14	146	21	103

Educational structure of persons engaged through the Gi Group and Gi Group Outsourcing agencies					
Education	Qualified worker	High School	Highly Skilled	College	University
No of employees	1	48	1	3	2

Educational structure of persons engaged under service contract				
Education	Qualified worker	High School	College	University
No of employees	/	30	/	1

In the qualification structure of mtel, employees with high school education account for the largest share of 51.40% or 146 employees, while employees with university education account for 36.26% or 103 employees.

According to the age structure, employees between 30 and 39 years of age account for the largest share of the total number of employees or 51.05%, or 145 employees, while employees between 40 and 49 years of age account for 26.76 % or 76 employees.

After the completion of a restructuring procedure by merging ELTA-MONT D.O.O. Nikšić, Fibernet D.O.O. Podgorica, Cabling DOO-Podgorica and MEDIA-NET D.O.O. Podgorica, the Company regulated the labor status of employees from the said companies.

The most important projects in the previous business year from the sphere of human resources were:

- Organizational change in the structure of mtel
- Door to door project
- Larger training of employees due to cable activities.

## Telus

Telus' policy toward its employees is largely determined primarily by market conditions, and fully committed to respecting the high standards established by the founder.

The rights and obligations of employees are regulated by the Collective Agreement, by which the employees are guaranteed more rights than the rights envisaged by the law (increase for night shifts, number of days of the annual leave, paid leave, higher percentage of salary increase for past service, severance payment in case of being declared redundant, etc.).

	Dec. 2015.	Dec. 2016.
No of employees (employment contract)	1,487	1,379
No of persons engaged under temporary engagement contracts	819	775
<b>Total</b>	<b>2,306</b>	<b>2,078</b>

## HD-WIN

At the end of 2016, HD-WIN Beograd had 53 employees and 65 persons engaged outside of employment contract (technical staff, commentators and production), while HD-WIN Arenasport Zagreb had 13 employees and 12 persons engaged outside of employment contract.

Apart from excellent technical and technological equipment of the television itself and an automated broadcasting system, a special emphasis in the operation is placed on the overall satisfaction of employees, their feeling of belonging to the television, motivation and professional development in the job they are doing. HD-WIN is trying to provide safe and adequate work conditions, health and personal

protection at work, equality of all employees and the possibility of further development and education.

After the accession of HD-WIN to the Parent Company, the entire production process within the company was reorganized and systematized and the operational standards were established. All employees in the Company were insured against the consequences of accidents and serious illnesses and surgical interventions at work and outside of work (24 hours). This program is implemented based on the Contract/insurance policies with the insurance company Generali Osiguranje.

### mts bank

As at 31 December 2016, the mts bank had 186 employees and seven persons engaged outside of employment contract. The number of those employed for an indefinite period of time is 141, while 45 persons are employed for a definite period of time, of which 27 persons are employed for a definite period of time full-time, while 18 persons are employed part-time with a 2 hour engagement in the mts bank, and 6 hours in the Dunav Osiguranje company, and they perform cashier/administrator jobs for the Bank at the administrative border crossings with Kosovo and Metohija: Merdare, Končulj, Mutivode and Depce and the Zaječar office.

DESCRIPTION	31 Dec 2016	31 Dec 2015	% increase/decrease
No. of employees employed for an indefinite period of time	141	137	2,9
No. of employees employed for a definite period of time	45	35	28,6
No. of employees engaged on service contract and consulting services	7	4	75,0
No. of employees – Youth Employment Agency	-	2	-100,0
<b>TOTAL</b>	<b>193</b>	<b>178</b>	<b>8,4</b>

#### Overview of the number of structure of employees

Qualification degree	Years of age	Up to 30 years of age	31-40 years of age	41-50 years of age	51-60 years of age	Over 60 years of age	TOTAL
Qualified, High school/III		-	1	-	-	-	1
Highly qualified/V		-	-	-	-	-	-
High school/IV		14	17	28	12	4	75
College/VI			5	3	5	1	14
University/1/VII		15	27	24	23	5	94
University/2/ VII Master, Specialist		-	1	1	-	-	2
<b>TOTAL:</b>		<b>29</b>	<b>51</b>	<b>56</b>	<b>40</b>	<b>10</b>	<b>186</b>

#### Qualification and age structure of mts bank as at 31 December 2016

On the grounds of engagement outside of employment contract, the bank engaged 7 persons on service contract for the provision of consulting services, as follows: 1 from the sphere of legal transactions, 1 from the sphere of procurement and general affairs, 1 from the sphere of information technologies, 3 consultants in the sphere of Business and IT Transformation of mts bank.

LIST OF ORGANIZED AND CONDUCTED TRAINING OF EMPLOYEES of the mts bank (with the name of the training and references of the lecturers) in 2016:

- The Compliance Function in Banks seminar organized by the Serbian Bank Association at Palić, 1-3 June 2016;
- The Introduction to MasterCard-Voltero seminar, Belgium, held in the period from 19 October to 21 October 2016;
- The Bankinfo 2016 seminar, organized by the Serbian Bank Association at Palić, in the period 22-25 November 2016;
- The Closing Statement seminar organized by the Serbian Bank Association at Palić on 30 November 2016;
- Training for the cash processing procedure – organized by the National Bank of Serbia in the period 20-21 December 2016.

INTERNAL EDUCATION IN 2016:

- Education from the sphere of Prevention of Money Laundering and Electronic Control of the Compliance of Operations in December 2016, in which all employees took part;
- Education in the sphere of Prevention of Money Laundering and Financing Terrorism and Compliance – Control of the Harmonization of Operations for newly employed workers in December 2016, in the electronic manner;
- Training of Bank employees on the topic of Improving the Sales of Products to Legal and Physical Entities;
- Training of employees of the mts bank – on the topic of using the LB application in the Project of Bank Integration with Telekom Srbija.

## REPORT ON CORPORATE AND SOCIAL RESPONSIBILITY

The activities of Telekom Srbija in the sphere of socially responsible behaviour, in 2016, were largely dedicated to the promotion of entrepreneurship. In Serbia and the region, the Company marked the 160th anniversary from the birth of Nikola Tesla, our celebrated inventor who left a mark on the scientific thought of the 20th century. By a unique artistic project „Tesla’s Time Machine“, shown in the seven cities, Telekom Srbija reminded the citizens of the anniversary of birth of the most famous scientist from this region who indebted the humanity with his inventions. This anniversary symbolically coincided with the fact that the year of 2016 in our country was declared a year of entrepreneurship, since Nikola Tesla can be considered one of the initiators of entrepreneurship in the spheres that he dealt with.

It is exactly support to technological entrepreneurship that was at the center of attention of the Company, by which the initiators of innovations in the sphere of communication and information technologies obtained a strategic partner for further development of their business solutions. Telekom Srbija as a reliable partner in 2016 to numerous organizations that tried to improve the living conditions by their activities and make significant progress in their specific spheres of action. Support to projects in education, culture and science, as well as those in the sphere of health care were the predominant activities in the sphere of corporate philanthropy in which a total of 72 initiatives were supported. Telekom Srbija is proud of the fact that this kind of activities of the Company is becoming more visible and that it has a leading position in the sphere of socially responsible operations, since almost a half of the citizens, according to the results of the poll conducted by the Faktor Plus agency recognized Telekom Srbija as a company which is investing most in the social welfare of the communities in which it operates. The leading position has been confirmed by the placement of the Company on the prestigious CSR Index list for companies that stand out by their social responsibility in Serbia and the Virtus award for long-term partnership with the non-profit sector for cooperation with the National Child Line.



In its operations Mtel is clearly dedicated to building a relationship of friendship and trust with the community in which it operates, which is proven every year by its commitment to the idea of true social philanthropy and fostering its relationship with the environment. Mtel's sincere desire to be a true friend of the community has been confirmed by the valuable and important recognitions that it received in 2016: Recognition for the contribution to the development of corporate social responsibility from the Chamber of Commerce of Republika Srpska, Recognition for the contribution to the improvement of safety of traffic for partnership in the campaign entitled "Be Smarter than the Phone", Charter for the best friend and partner, the "Kapetan Miša Anastasijević" recognition, the regional "Biznis Partner 2016" award for achieving good business results and a Plaquette of the Faculty of Electrical Engineering in Eastern Sarajevo as a sign of successful and long-term cooperation and support.

From its very establishment mtel respects high professional and ethical standards and takes care of the community, which is why socially responsible operations are a very important segment of the corporate strategy. The local community can at all times count on the active role of mtel in its development. The principle of corporate management is based on investment in long-term and stable relationships with everyone: employees, business partners, customers and fellow citizens, on one hand, and the company's commitment to have an active, everyday role in the development of society, on the other.

### Travelling with Tesla's Time Machine

By the artistic project "Tesla's Time Machine" Telekom Srbija marked the 160th anniversary of the birth of one of the most celebrated scientists of all times, Nikola Tesla. Organized by Mtel Banjaluka and mtel Montenegro, unusual 4D projections were screened on the facades of buildings on the central squares of Belgrade, Novi Sad, Niš and Kragujevac in Serbia, as well as in 3 cities in the region - Banja Luka, Herceg Novi and Budva - in which Tesla "personally" showed the spectators his scientific formation, and the process of birth of an idea which later becomes an invention.

As a synthesis of art and modern technologies, the Tesla's Time Machine was implemented in cooperation with Aleksandar Protić, the director of the Tesla memorial project and professor at

the Sorbonne, one of the greatest connoisseurs of Tesla's character and work, while the concept of a 4D show, based on scientific material, was designed by a young artist Dušan Jovović. Authentic projections, originating from Tesla's memoirs and notes, made it possible for the audience to set on a journey through the unusual life story of the great man from the village of Smiljane who indebted the whole world.

The projections of Tesla's Time Machine in the seven cities in the region were seen with delight by over a million people, either live, either through social networks, portals and mts TV.

The proof that Tesla's Time Machine, after regional presence, acquired a wider, European audience is the fact that it was chosen among the five best projects at the European "Excellence Awards" competition for the outstanding achievements in the sphere of communication in the Science and Education category. Tesla's Time Machine was also awarded a silver plaquette of the Serbian Market Communications Association in the best corporate event category.

During the year of marking the jubilee, apart from Tesla's Time Machine, screenings of an educational film about Nikola Tesla were organized for the youngest audience at the Duško Radović Children's Theater. The film acquaints children in the best way possible with Tesla's inventions and his contribution to the modern way of life.

### Mts startup acceleration

Telekom Srbija has intensified its support for technological entrepreneurship in Serbia by launching a program entitled "mts startup acceleration" which envisages tutor support, cloud service, Internet and a monetary reward of EUR 20,000 for the three selected startups. The Company developed and launched this program in cooperation with the non-profit association SEE ICT, which has been successfully organizing the Startup Academy, an educational platform for entrepreneurship teams in the sphere of information and communication technologies (ICT) for five years. Telekom Srbija, namely, shares the commitment of the SEE ICT association, to through its programs by the year 2020, train 100,000 IT experts who will develop their business solutions in the country, so that the Company also supported the work of Startit Center by the introduction of the necessary telecommunications infrastructure. In this

way, Telekom Srbija wishes to offer an additional incentive to the local startup community and entrepreneurs, who are willing to compete with their innovative products on the global market. The “mts startup acceleration” program is intended exactly for the entrepreneurs who attend the Startup Academy, while the monetary part of the award will be shared between up to three teams who make the greatest progress during the Academy. Apart from the allocation of the monetary reward to the startups in order to accelerate their entry on the market, mts will provide all participants of the Academy mentors and relevant lecturers in certain spheres.

The Company previously supported the opening of Startit Centers, also in cooperation with the SEE ICT organization in which educational programs for entrepreneurs and meetings with possible investors from the country and abroad are held. In order to allow as many participants as possible to access these programs, the Company opened its centers in Belgrade, Indija, Novi Sad, Majdanpek, Vršac, Zrenjanin and Valjevo.

## Mts app competition

Telekom Srbija has been organizing the mts app competition for the creation of applications for mobile devices since 2011, with the aim of contributing to informal forms of education, the development of entrepreneurship spirit among the youth and connection with the main activity of the Company. The sixth competition cycle was published in June 2016. The students of mathematical and IT high schools in Senta, Novi Sad, Belgrade, Sremska Mitrovica, Šabac, Valjevo, Kragujevac, Kraljevo, Požega and Niš.

A team of employees in the Company visited the high schools in these cities and acquainted the students with previous experiences, the idea and terms of the competition, which, apart from a large number of schools, allowed the possibility for students to program applications not only in the Android™ operating system, but also in iOS-u.

According to the proposition of the competition, in the process of decision making, the jury valued the idea, the complexity of the solution – the manner of implementation, independence in the creation, functionality and the general impression, and an outstanding innovativeness in the category for the special award “The power of innovation – Igor Osmokrović”.

The important encouragement for the students were certainly the awards – smart mobile phones, tablets and iPhones, while the winners of the competition received a visit to the World Mobile Telephony Congress in Barcelona as an award. The sixth mts app competition was won by a team of students of the IT High School in Belgrade, and the “Walkie Talkie” application which makes it possible to use a mobile phone as a walkie talkie through a LAN network or a mobile hotspot, in situations and in places where it is not possible to use the phone in the usual way.

The success of the mts app competition is shown by the fact that since 2011, during six competition cycles, 1,700 students have become acquainted with the idea of the competition, 86 teams have presented 90 applications, of which the best were placed on Google Play. The competition was presented on the website of the European organization CSR Europe as an example of good practice.

## Responsible approach toward mobile phone radiation

The “Choose How You Communicate” socially responsible campaign of Telekom Srbija whose aim is the education of citizens about the sources of electromagnetic radiation, continued with the educational activities intended for high school students and students as advanced users of mobile phones. At the Modern Management Academy organized by the ESTIEM student organization from the Belgrade Faculty of Organizational Sciences, the interested students are given advice on how to minimally expose themselves to mobile telephony radiation. This was at the same time an opportunity to present the results of the Lexnet scientific project, which provided a scientific base for this socially responsible project. Another lecture intended for young people was held at the Belgrade Student Cultural Center where students and pupils of various educational profiles had the chance to hear everything they wanted to know about the mobile network from employees in the Company and representatives of the Faculty of Electric Engineering in Belgrade. Apart from the relevant ministry of trade, tourism and telecommunications, the Faculty of Electrical Engineering is a partner of Telekom Srbija on this project.

All the information about mobile telephony radiation can be found on the website of the “Choose How You Communicate” campaign on [www.kakokomuniciras.rs](http://www.kakokomuniciras.rs), and on the social networks where interesting video content and polls related to this topic are posted.

## Telekom Srbija and UNICEF for the youngest

Within the cooperation program between UNICEF and the Ministry of Health Care, dedicated to the improvement of children's development in early childhood, Telekom Srbija donated didactic materials to the development consulting centers of the Health Care Centers in Subotica, Sremska Mitrovica and Kruševac. The sets contain 32 elements each which pediatricians, psychologists, speech therapist, special needs educationalists and other health care workers and associates will be able to use for checking and encouraging certain skills in children's development.

Improving cooperation with UNICEF, the Company activated the humanitarian SMS number 9656 for help and support to programs that UNICEF is implementing in our country. The users of the mts network can via an SMS message determine an amount of 100 or 200 dinars which will each month be automatically redirected to the account of the UNICEF office in Serbia, with a possibility to at any time cancel the service with a free SMS message.

In this way, the users of the mts network become members of the UNICEF Friends Club, a community of regular donors connected by their dedication to improving the conditions for the growth and development of children in Serbia, as well as other programs that this organization is implementing in Serbia with the aim of quality and inclusive education, appropriate social protection, and the social inclusion of marginalized children and adolescents.

In 2016, the Company organized the participation of employees in the traditional UNICEF Fair Play tournament in basketball, at which the Telekom Srbija team won the first prize in the competition of 24 other companies. Thanks to the funds raised from registration fees for the participation in the tournament, aid was provided to the functioning of the Parent Telephone Line (0800 007 000) – a free service which allows parents expert help in overcoming everyday problems in children's upbringing.

## Youth and education

As a responsible partner of the community, the Company pays special attention to projects in which the youth and education have a crucial place. When it comes to formal education, the Company helped procure the procurement of computers and IT equipment and thus improved the educational process

in a large number of elementary and high schools in Serbia and created better conditions for the adoption and development of knowledge.

During 2016, Telekom Srbija continued its long-term cooperation with the Mathematical High School in Belgrade, the school of a special national importance. Apart from participation of high school students in the mts app competition, cooperation is reflected in support for the attendance and participation of students in international competitions in mathematics, physics and information science. In this way, young talents from Serbia are connected with talents from other countries and able to follow world achievements in science, which is aimed at improving the quality of education. Cooperation between the Company and the Mathematical High School defines the modern approach to preparations and attendance of students at international competitions at which they become the true ambassadors of knowledge and represent their country abroad in a dignified manner. The students of the Mathematical High School had the chance in 2016 to participate in several international competitions – the KAMACHallenge tournament in Perm, the Open Championship in Programming in the Republic of Tatarstan in Russia and the Zhautyukov Olympiad in Kazakhstan.

Telekom Srbija also helped the holding of the summer mathematical camp in Šabac and Tulba near Požarevac, which were open for young talents in the sphere of mathematics.

Mtel continued its cooperation with the faculties of electrical engineering in Bosnia-Herzegovina and donated 40 computers to the High School in Banjaluka. Once again, in 2016, foreign students did practice in Mtel, which makes it possible for students from B-H to attend professional training abroad according to the principle of reciprocity. By publishing another, seventh competition in a row for m:scholars, the Company continued its tradition of providing scholarships for the best students of the faculties of electrical engineering in Banjaluka, Sarajevo and East Sarajevo, and the Faculty of Electrical Engineering in Tuzla, the Faculty of Mechanical Engineering and Computing and the Faculty of Information Technologies in Mostar.

In 2016, mtel continued to support the "Knowledge Factory" project, which is organized every year as part of the Open Days of Science festival and offers a chance to students and pupils to become acquainted with the latest trends from the sphere of information technologies through education and entertainment.



This year's "Knowledge Factory 2016" marked a great jubilee – the 160th anniversary of the birth of the most famous personage from the world of science, Nikola Tesla.

mtel has continually contributed to the promotion of the safe and responsible use of Internet and modern technologies. A special emphasis is placed on the youth at the Safe Internet Day event, because young people as the most numerous users of the Internet should be educated on how to use the modern technologies.

## Support to informal education

Apart from investment in formal education, one of the priorities in the social responsibility of Telekom Srbija is investment in the informal forms of education. Young and educated people represent a very important link in the progress of society and having this in mind, the Company is trying to support the organizations and projects that share these values and allow pupils and students to acquire knowledge and experience that will be useful to them in their careers in an easier and more successful way.

Telekom Srbija has a yearlong practice in cooperation with student organizations. In 2016, the Company supported the holding of two big events of the student organization ESTIEM from Belgrade's Faculty of Organizational Sciences – Case Study Show and the Academy of Modern Management. Employees of the Company take part in the preparation and implementation of lectures, within the seminar. They try to convey to the students the experiences and practice from the business environment and thus allow them to prepare better for their future employment and work in companies. A conference of ESTIEM's local office in Novi Sad, at which the results and action plans of this association were presented, was also held with the support of Telekom Srbija.

As an additional encouragement to pupils and students from the capital, who are exceptional in scientific and creative work, Telekom Srbija supported the activities of the Regional Talent Center from Belgrade. During 2016, within long-term cooperation with the Youth Achievement organization, which develops student entrepreneurship, a great national finale of the Business Challenge program in Belgrade, was held thanks to the Company's support. In order to draw the public's attention to the importance of the protection of the environment and educate the public in relation to this topic, a "Little School of Ecology" was organized

in cooperation with the Center for the Popularization of Science from Kladovo. The Company also enabled the establishment of an ecological workshop in Bor, Brestovac, Donji Milanovac, and a camp in Boljevac, intended for the promotion of healthy life styles for children and youth without parental care.

## Investment in health care and improvement of living conditions

Continuing the tradition of investing in healthcare, Telekom Srbija joined the Blic Foundation campaign – "Heart for the Children" and provided the donation of three devices for early diagnosis of hearing impairment in newborns, for birth centers in KC Vojvodina, Kragujevac and Arandjelovac. The previous year, this device was provided for the maternity ward of the General Hospital in Subotica, so that support for the Blic Foundation campaign is the continuation of the Company's activities with an aim to allow the youngest patients in Serbia to get the necessary and quality health care.

The donations for the procurement of the necessary medical instruments, equipment and the improvement of the work conditions were provided for a large number of health care institutions, among which are the Special Hospital for Cerebral and Vascular Diseases 'St. Sava', the Serbian Institute for Oncology and Radiology, the General Hospital in Čuprija, the General Hospital „Stefan Visoki" from Smederevska Palanka, the Health Care Centers in Kragujevac, Sopot, Petrovac na Mlavi, Batočina, etc. A donation was paid to the National Association of Parents of Cancer-Stricken Children- NURDOR to cover a part of the expenses for building a new hemato-oncological ward within the Clinic for Children's Internal Diseases in Niš, and traditionally, the Company supported the activities of the Center for Palliative Care and Palliative Medicine-Belhospice.

In 2016, the Company made it possible to send children treated for cancer on rehabilitation through the Humanitarian Organization "Friend in Need", and holiday for inmates of the Home for Children and Youth "Duško Radović" from Niš, the Home for Children and Youth with Developmental Difficulties "Veternik" from Novi Sad and the SOS Children's Village from Kraljevo. With the support of the Company, an info line was launched for the parents of children with special needs, who are, or will be included in inclusive education, and the "Parental Line", through which parents can get advice on how to deal with the challenges they are facing in the process of young people's upbringing.

The largest project that Mtel implemented in 2016 referred to humaneness. The year began with a noble and humane wish that fulfilled regarding the competition for the most original celebration of New Year's Eve, and which made the holidays nicer for the inmates of the Institute for the Protection of Girls and Youth from Višegrad, and led to the cooperation in the procurement of furniture necessary for the smooth functioning of this institution.

After launching the "Good Deed" project, in 2016, Mtel donated a children's playground to the municipality of Prnjavor, from which the largest number of reported good deeds came from. For a third year in a row, Mtel implemented a campaign entitled "The Month of Friendship", on the occasion of the International Friendship Day which is marked on 30 July. Once again, the entire month of August was dedicated exactly to celebrating friendship and granting awards to the authors of the best wishes. In 2016, like before, the company supported the work of the Blue Phone, a free advisory line for children, Safer Internet Day, and the campaign "Be Smarter than the Phone".

Mtel is continually supporting the activities that raise the citizens' awareness about the vital issues for people's health care. This time, this was the "Right Story", a specialized educational campaign about prevention as the main way of fighting breast cancer. In addition, as a responsible business entity, which cares about the total population of a community and all its members, mtel supported the Montenegrin Association of Pensioners – by donating funds and organizing a special course for making the representatives of this vulnerable population Internet literate.

As a responsible and active member of the community within which it operates, mtel, on the ninth anniversary of its operation, made a donation for the Nikšić municipality and the Podgorica Utility Company in the form of two special-purpose vehicles, which will facilitate the everyday life of the citizens of these two cities.

Mtel supports the development of tourism as a vital industry. World Tourism Day, within the campaign "Tourism for Everyone" whose aim was to emphasize the importance of promoting active holidays and enjoying nature, was organized with the support of mtel. Important funds were also donated to tourist organizations in Herceg Novi, Cetinje, Bijelo Polje – which strengthened the tourist offer on the local level.

## FROM THE HEART Association

The humanitarian association of employees in the Company called "From the Heart" has been active for a number of years and primarily deals with voluntary blood donation, but its activities have been expanded to other activities that concern a wider community: providing social aid to vulnerable groups, children without parental care and the provision of humanitarian aid in emergency situation. This humanitarian network connects more than 1000 members who are active in raising awareness on the importance of blood donation, organ donation and the protection of the environment.

In 2016, 1,600 blood units were connected in 22 towns in Serbia, in cooperation with the Serbian Blood Transfusion Institute, the Military Medical Academy, the local transfusion services, state institutions and other enterprises. The employees' association "From the Heart" performs its humanitarian activity with pride believing that its actions contribute to strengthening human ties within a society.

## Support to projects in the sphere of culture

Given the fact that fostering the right values in culture is of true importance for the identity of a people, Telekom Srbija, as a large national company, tries to make a significant contribution to the community in this sphere. Each year the aim of the Company is to enrich and increase the library funds, so that editions adjusted for the elementary school age were provided for twelve schools in Serbia, including two schools in Kosovo and Metohija. Young children, along with the older ones, were told that it was necessary that they take care of their language and tradition through the activities within the Foster the Serbian Language project, which the Company has supported for a second year in a row.

Support was provided to numerous traditional events, such as Nušić Days, Actor Festival "Milivoje Živanović", Zmaj Children's Games, Children's October Salon and others. The Prince's Serbian Theater from Kragujevac awarded Telekom Srbija a Medallion featuring Joakim Vujić for support to developing the work of the oldest theater in Serbia, while a recognition in the form of a Plaque for extraordinary merits in the program activity was granted to the Company on the 138th anniversary of the Kolarac Endowment. During the cooperation with this institution which has lasted for almost two decades, Telekom Srbija has supported a hundred concerts from the Music's Great Personages



cycle, two concert seasons of the Kolarac Your World of Music cycle and many other ceremonies that the Endowment has organized.

Telekom Srbija emphasizes with great pride its support to the exhibition entitled Pupin – From Physical to Spiritual Reality. Due to a large interest of the audience, the duration of the exhibition was extended twice. The exhibition, which thanks to the use of modern technologies and augmented reality, made a breakthrough in Serbian museology, was visited by almost 74,000 people, and over 533 guided tours were organized for pupils and students of elementary schools, high schools and faculties, and for the students and pupils from abroad.

Mtel's long-term friendships with culture institutions continued in 2016, such as cooperation with the Academy of Arts in Banjaluka, the National Theater of Republika Srpska, the Children's Theater of Republika Srpska, the Jazavac City Theater, the Museum of Modern Art of Republika Srpska and many others. Among other things, the company supported Teatarfest, the International Young Artist Zaplet Festival, the work of the First Ballet School, the Vlada S. Milošević Days festival, cultural and entertaining events for children and adults "Snješkovo", the holding of the Swan Lake performed by the Russian State Ballet, the Belgrade play "Indigo" in Mostar, and a unique fashion show of persons with and without disability entitled "See a Woman in Me". The "m:bluger" competition was designed and implemented in order to support the blogger community in B-H, and encourage the bloggers to take a more serious approach to creative writing. Musical events and concerts in 2016 were a nice gift to the community in which Mtel operates.

Special attention of the mtel company was dedicated to cultural initiatives on the micro level, so that significant funds were earmarked for projects of the Bijelo Polje Youth Office, the Rožaje Cultural Center, the Agency for the Development and Building of Herceg Novi and the Culture Secretariat of the Municipality of Herceg Novi, through the construction of children's playgrounds and financing the Street festival. Mtel is a traditional friend of the Theater City Budva, and it also supported the International Alternative Theater Festival – FIAT 2016. This year's Sea Dance festival was held with the financial support of mtel.

Supporting the development of media and various forms of research activities and publishing, mtel earmarked funds to support the Montenegrin Media

Council, the Local Broadcasters Union and the Prometej publishing company. As a contribution to activities of mutual importance for Serbia and Montenegro, mtel supported the activities of the Embassy of the Republic of Serbia in Montenegro and the Serbian-Montenegrin Business Club. The company also continued its financial support for the Matica Srpska institution, which implements numerous cultural and scientific projects.

## Sports and youth

As a responsible corporate player, Telekom Srbija tries to simultaneously with investing into younger generations, in cooperation with partners and well-directed campaigns, contribute to the development of the sports spirit and fair play among youth. The company is very proud of its cooperation with and support to the Women's Basketball Movement Marina Maljković where it is possible for the girls of elementary school age to practice basketball according to the program of Marina Maljković, foster a good relationship with their friends and coaches and prepare for the equally important "school of life" which awaits them, completely free of charge. The training sessions of the Women's Basketball Movement are adjusted to the age of the girls and they are held at seven schools in Belgrade, and in a high school in Požarevac. The number of girls who are joining the training sessions of the Movement is continually increasing, which is another proof that the partnership is on the right path and strengthens the common commitment to investing in fostering healthy life habits and sports.

Within the Radivoj Korać Cup, Telekom Srbija organized a humanitarian campaign in which a donation was made to the young citizens of Niš for each point achieved in the tournament in the amount three euros in the dinar counter value. Seven matches were played at the Čair hall at which a total of 1,098 points were scored and a donation was thus provided in the amount of EUR 3,294. In addition, the students of the schools for whom the donation was intended had the chance to try out their basketball skills, and it was decided to add the points scored in this way to the number of points scored in the official matches. Thus, the total amount of the donation reached EUR 4,000 and it was evenly distributed among the following institutions in Niš – the "Bubanj" Special School, the "Mara" Social Protection Institution, the "Duško Radović" Home for Children without Parental Care and the "14 October" Special School for Elementary and High Education.

A third "Sports Festival" organized by the Holy Serbia Orthodox Sports Society, which Telekom Srbija supports, had the characteristics of a big family gathering, because it gathered a large number of children and their parents through participation in a sports and entertainment program. Since this event is intended primarily for them, the children had the chance to try out numerous sports skills and take part in the competitions organized for them. This traditional event gathered many public personages, and a large number of volunteers who gave their contribution to the implementation of the event. The story about life and work of Nikola Tesla served as the inspiration of the third Sports Festival, which is why a video projection of the multimedia project of Telekom Srbija, Tesla's Time Machine was screened. During the two-day festival, the event gathered over 30,000 children and their parents, while children from the village of Pasjane in Kosovo and Metohija were special guests.

Mtel was a friend to numerous sports events, by which it emphasized the importance of a healthy life style and the fostering of true values, especially for young people.

Mtel is a true friend of sports activities that gather young people and raise the awareness of the importance of sports and healthy living and it is well known as an important partner in this segment. Mtel financially supported various sports: from basketball, through water polo and football to tennis.

### Protection of the environment

The task of all of us, and especially the large corporations is to not only make their contribution to society, but also to responsibly, conscientiously and intelligently use their resources, invest in sustainable development and in that way give back to society and the community. In accordance with this, Telekom Srbija and its related legal entities, as active and responsible members of society, respect the law and the generally accepted ethical principles of doing business and reject and condemn the forms of illegal and inappropriate behavior to achieve business objectives, which the company achieves only by the quality of products and services. When it comes to the external public, Telekom Srbija and its related legal entities make sure that the market, suppliers and the public be informed about the Company's activities respecting fair competition, because it is in the interest of both the company and its customers and shareholders.

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 aspects of environmental protection, such as rational consumption of energy, prevention of waste, proper disposal of waste material and its recycling. By investing and installing the most up to date telecommunication technologies the company contributes to the implementation of pure technologies and technologies which consume less power, and emit less noise as compared with the devices used in previous decades.

Telekom Srbija generates various kinds of waste, which is properly disposed according to the legal regulations. The Company has concluded contracts for the purchase of hazardous and non-hazardous waste with 28 companies authorized for this kind of activity. During 2016, the company disposed of 716 tons of waste, of which 199 tons of hazardous and 517 tons of non-hazardous waste, which is 55 % less waste generated than in 2015.

The noise emitted into the environment is mostly created by air conditioning chillers installed in the Company's facilities. If it is suspected that the level of noise emitted into the environment is higher than legally prescribed values, measurements are undertaken. In 2016, noise was measured in two locations and the allowed noise level was not exceeded due to the application of new technologies. The emission polluting substances in the air (flue gases as the products of combustion in boiler rooms) is regularly measured in 16 boiler rooms and the prescribed values are not exceeded.

The electro-magnetic radiation emitted into the environment mostly comes from mobile telephony radio-base stations. Before installing a base station, a study of its impact on the environment is done which contains all the technical data and protection measures for the said base station. Upon obtaining approval of the study on the assessment of impact on the environment, the base station is launched into operation. There are regulations and standards which regulate the permitted level of radiation. The level of radiation is measured before the first commissioning of equipment, and if there is a complaint to the radiation level by a third party, an institution is engaged to measure the level of radiation. According to the Law on the protection from non-ionizing radiation, the measurements of

the level of electro-magnetic radiation of radio-base stations are done every two years. The Company has never exceeded the permitted radiation level so far. In 2016, the measurement of the level of non-ionizing radiation was performed on 628 base stations, on 332 locations. There is a total of 57 base stations which were declared sources of radiation of special interest (depending on their location) and they are to be measured every two years.

Against the imported electronic and electrical products which become the special flows of waste after use, the Company paid a fee in the amount of RSD 6,426,723, and these funds will be used for the improvement of environmental protection.

## RISK MANAGEMENT

The Parent Company and the related legal entities are in their regular operations, to 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 long-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 2016 and 2015 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 trade off 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 fulfil 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 and bad debt 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 stakeholders. 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



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## FINANCIAL RESULTS

### CONSOLIDATED STATEMENT

In million RSD	2015	2016
<b>Operating revenues</b>	<b>127.786</b>	<b>125.845</b>
Fixed telephony	41.461	39.038
Mobile telephony	59.372	60.436
Internet retail	10.710	10.719
Multimedia	7.856	9.700
Other operating revenues	8.387	5.952
<b>Operating expenditures</b>	<b>(111.839)</b>	<b>(108.409)</b>
Salaries and remunerations	(21.110)	(20.131)
Operator expenses	(14.294)	(13.852)
Material and maintenance	(19.559)	(20.914)
Depreciation and amortization	(27.534)	(24.904)
Lease expenses	(6.655)	(6.718)
Other operating expenses	(22.687)	(21.890)
<b>EBIT</b>	<b>15.947</b>	<b>17.436</b>
EBIT rate	12,5%	13,9%
<b>EBITDA</b>	<b>43.481</b>	<b>42.340</b>
EBITDA rate	34,0%	33,6%
Financial expenses, net	(677)	(745)
Share in the loss of affiliates	(22)	(43)
Profit tax, net	(575)	(1.698)
<b>Net profit</b>	<b>14.673</b>	<b>14.950</b>
Net profit margin	11,5%	11,9%

Consolidated P & L

In 2016, the total operating revenues amounted to 125.8 billion dinars and are by 1.5% lower compared to 2015. In the relevant period, operating expenses decreased by 3.1% equalling 108.4 billion dinars.

Financial expenditure, net, increased by 68 million dinars. Foreign exchange losses, net, increased by 370 million dinars, while the interest expenses, net, fell by 347 million dinars.

In 2016, the generated net profit amounted to 15.0 billion dinars (1.9% growth), with 11.9% margin. *EBIT* amounts to 17.4 billion dinars (9.3% growth), and *EBITDA* 42.3 billion dinars (2.6% decline) with 33.6% margin.

The operating revenues decreased by 1.9 billion dinars. Fixed telephony decreased by 2.4 billion dinars mostly due to lower traffic revenues (by 1.5 billion dinars) and monthly fees (by 1.2 billion dinars). On the other hand, multimedia increased by 1.8 billion dinars. Mobile telephony increased by 1.1 billion dinars: *postpaid* increased by 2.3 billion dinars, the sale of handsets and devices increased by 0.9 billion dinars, while *prepaid* declined by 1.8 billion dinars. Other operating revenues declined by 2.4 billion dinars largely due to the revenues based on collected damages from insurance as a result of fire (1.3 billion dinars) and cancellation of deferred income based on granted funds (1.0 billion dinars) in the Parent Company in 2015.

Operating expenditures decreased by 3.4 billion dinars. Depreciation costs decreased by 2.6 billion dinars partly due to the effects of reconstruction of the fixed asset register in the Parent Company in the amount of 1.8 billion dinars for 2015. The fire-inflicted damage on property in 2015 equalled 1.3 billion dinars. The costs of salaries and remunerations decreased by 1.0 billion dinars mostly due to lower severance pays for voluntary layoff in the Parent Company (by 0.7 billion dinars). Besides, the operator costs are lower by 442 million dinars and the agency fees by 354 million dinars. On the other hand, the costs of sold handsets and devices within the bundles increased by 1.4 billion dinars and the costs of purchased TV content by 0.9 billion dinars.

# Financial results

In million RSD	31-12-2015	31-12-2016
<b>NON-CURRENT ASSETS</b>	<b>207.322</b>	<b>214.074</b>
Intangible assets	68.970	70.239
Real estate, plants and equipment and advance payments	127.374	132.084
Other	10.978	11.751
<b>CURRENT ASSETS</b>	<b>54.462</b>	<b>47.327</b>
Inventories	6.902	7.142
Receivables and other current assets	22.065	23.407
Cash and cash equivalents	17.127	8.732
Other	8.368	8.046
<b>TOTAL ASSETS</b>	<b>261.784</b>	<b>261.401</b>
<b>Owner's capital</b>	<b>146.618</b>	<b>149.667</b>
Equity capital	100.000	100.000
Other	46.618	49.667
<b>Shareholdings without control rights</b>	<b>18.978</b>	<b>18.542</b>
<b>TOTAL CAPITAL</b>	<b>165.596</b>	<b>168.209</b>
<b>LONG-TERM LIABILITIES</b>	<b>28.699</b>	<b>36.360</b>
Long-term loans	24.343	32.210
Other	4.356	4.150
<b>CURRENT LIABILITIES</b>	<b>67.489</b>	<b>56.832</b>
Current payables under long-term loans	29.566	22.096
Liabilities from business operations	15.831	24.467
Other short-term liabilities	22.092	10.269
<b>TOTAL LIABILITIES</b>	<b>261.784</b>	<b>261.401</b>

Consolidated Balance Sheet

In million RSD	2015	2016
<b>Profit before taxation</b>	<b>15.248</b>	<b>16.648</b>
Profit adjustment	33.263	20.866
<b>Net cash-in from business activities</b>	<b>48.511</b>	<b>37.514</b>
<b>Net cash-out from investments activities</b>	<b>(25.964)</b>	<b>(23.755)</b>
<b>Net cash-out from financing activities</b>	<b>(26.923)</b>	<b>(22.154)</b>
Net (outflow)/inflow of cash and cash equivalents	(4.376)	(8.395)
Cash and cash equivalents at the beginning of the year	21.503	17.127
<b>Cash and cash equivalents at the end of the year</b>	<b>17.127</b>	<b>8.732</b>

Consolidated Cash Flows

In million RSD	31-12-2015	31-12-2016
Total debt	53.910	54.306
Net debt	36.782	45.574
Net debt / EBITDA	0,85	1,08
Total liabilities / EBITDA	2,21	2,20
Debt ratio	18,2%	21,3%
Quick ratio	0,80	0,65

Ratio analysis of consolidated business results

At the end of 2016, the indebtedness on consolidated level grows largely due to the growth of net debt.

# FINANCIAL STATEMENTS OF THE PARENT COMPANY AND ITS RELATED LEGAL ENTITIES

## BASIC FINANCIAL INDICATORS

### Telekom Srbija a.d., Beograd

In million RSD	2015	2016
<b>Operating revenues</b>	<b>93.368</b>	<b>89.488</b>
Fixed telephony	35.608	32.691
Mobile telephony	39.169	41.103
Internet retail	9.121	9.023
Multimedia	3.544	4.024
Other operating revenues	5.926	2.647
<b>Operating expenditures</b>	<b>(80.143)</b>	<b>(74.926)</b>
Salaries and remunerations	(13.923)	(12.955)
Operator expenses	(13.512)	(13.107)
Material and maintenance	(13.029)	(13.982)
Depreciation and amortization	(18.155)	(14.884)
Lease expenses	(5.325)	(5.179)
Other operating expenses	(16.199)	(14.819)
<b>EBIT</b>	<b>13.225</b>	<b>14.562</b>
EBIT rate	14,2%	16,3%
<b>EBITDA</b>	<b>31.380</b>	<b>29.446</b>
EBITDA rate	33,6%	32,9%
Financial revenues, net	3.188	1.961
Profit tax, net	(96)	(1.362)
<b>Net profit</b>	<b>16.317</b>	<b>15.161</b>
Net profit margin	17,5%	16,9%

*Profit and Loss Account*

In 2016, total operating revenues were generated in the amount of 89.5 billion dinars and they increased by 4.2% compared to 2015. Operating expenditures decreased by 6.5% and they amount to 74.9 billion dinars.

A faster decline of operating expenses versus the revenues contributed to the growth of EBIT which reached 14.6 billion dinars (10.1% growth) with 16.3% margin. *EBITDA* amounts to 29.4 billion dinars (6.2% decline) with 32.9% margin. Net profit amounts to 15.2 billion dinars (7.1% decline) with 16.9% margin.

Financial revenues, net, amounted to 2.0 billion dinars and they decreased by 38.5% mostly due to lower revenues from dividends by 1.2 billion dinars from the subsidiary company Mtel.

Operating revenues decline by 3.9 billion dinars. Fixed telephony revenues declined by 2.9 billion dinars (decline of revenues from national traffic, net settlement and monthly fees). The Internet retail declined by 98 million dinars. On the other hand, mobile telephony revenues increased by 1.9 billion dinars. The revenues from *postpaid* monthly fees increased by 2.5 billion dinars, while *prepaid* declined by 0.7 billion dinars. Multimedia revenues increased by 480 million dinars. A decline of other operating revenues by 3.3 billion dinars is largely due to the revenues from 2015, which are non-existent in the current year. The damage from the insurance for fire-inflicted damage upon the property in 2015 was collected in the amount of 1.3 billion dinars. Besides, as a result of the reconstruction of fixed asset register (FAR) the revenues based on granted funds are recognized in the amount of 1.0 billion dinars.

Operating expenses declined by 5.2 billion dinars. Operating expense in 2015, non-existent in the current year, have also partly influenced the decline of operating expenses. Depreciation declined by 3.3 billion dinars. The effects of FAR reconstruction to the cost of depreciation for 2015 amount to 1.8 billion dinars. The damage upon the fire-inflicted damage on property in 2015 amounted to 1.3 billion dinars. The costs of severance pays for 268 employees who left the Parent Company in 2016 through voluntary layoff program amounted to 0.8 billion dinars (2015: 1.4 billion dinars for 512 employees). Based on a lower number of employees, savings in the costs of gross salaries were made in the amount of 0.8 billion dinars (2015: 406 million dinars). The operator costs declined by 405 million dinars largely due to lower interconnection costs in fixed telephony. On the other hand, the costs of sold handsets and devices increased by 1.0 billion dinars due to the growth of the number of customers and versatile offer of top-segment cell phones. The costs of purchased TV

# Financial results

content increased by 0.7 billion dinars partly due to larger number of IPTV users.

In million RSD	31-12-2015	31-12-2016
<b>NON-CURRENT ASSETS</b>	<b>164.765</b>	<b>165.808</b>
Intangible assets	8.957	9.064
Real estate, plants, equipment and advance payments	84.385	83.748
Share in the capital of subsidiaries and affiliates	62.149	63.774
Other	9.274	9.222
<b>CURRENT ASSETS</b>	<b>36.737</b>	<b>27.587</b>
Inventories	4.203	3.905
Receivables and other current assets	14.653	14.599
Cash and cash equivalents	12.830	4.739
Other	5.051	4.344
<b>TOTAL ASSETS</b>	<b>201.502</b>	<b>193.395</b>
<b>CAPITAL</b>	<b>129.530</b>	<b>132.435</b>
<b>LONG-TERM LIABILITIES</b>	<b>21.190</b>	<b>23.781</b>
Long-term loans	18.994	21.661
Other	2.196	2.120
<b>CURRENT LIABILITIES</b>	<b>50.782</b>	<b>37.179</b>
Current payables under long-term loans	25.529	16.861
Liabilities from business activities	8.822	13.703
Other short-term liabilities	16.431	6.615
<b>TOTAL LIABILITIES</b>	<b>201.502</b>	<b>193.395</b>

## Balance Sheet

Changes in investments in subsidiaries and affiliates in 2016 are described in the section Development and Environment /History of this Report.

Credit commitments as at 31 December 2016 are lower by 6.0 billion dinars. In 2016, the remaining portion of the syndicated loan was repaid from Unicredit bank in the amount of 18.6 billion dinars (EUR 151 million). On the other hand, new financial facilities have been withdrawn from local banks in the total amount of 14.6 billion dinars.

Considerably lower other short-term liabilities as at 31 December 2016 are subject to recognizing of

non-invoiced liabilities (for the performed services and works/delivered goods, and the supplier invoice has not been received) within the account payables instead of calculated costs (change due to the implementation of SAP ERP solution in May 2016). Besides, on 31 December 2015, other short-term liabilities include the liability for individual licence for additional 4G frequencies in the amount of 4.3 billion dinars, which was paid in January 2016.

In million RSD	2015	2016
<b>Profit before taxation</b>	<b>16.413</b>	<b>16.523</b>
Profit adjustment	19.624	13.178
<b>Net cash-in from business activities</b>	<b>36.037</b>	<b>29.701</b>
<b>Net cash-out from investments activities</b>	<b>(12.742)</b>	<b>(13.744)</b>
<b>Net cash-out from financing activities</b>	<b>(23.210)</b>	<b>(24.048)</b>
Net (outflow)/inflow of cash and cash equivalents	85	(8.091)
Cash and cash equivalents at the beginning of the year	12.745	12.830
<b>Cash and cash equivalents at the end of the year</b>	<b>12.830</b>	<b>4.739</b>

## Cash flows

In addition to the payment of loans and frequency fees, shareholder dividends from 2015 profits were paid in July and August 2016 in gross amount of 12.3 billion dinars.

In million RSD	31-12-2015	31-12-2016
Total debt	44.522	38.522
Net debt	31.692	33.783
Net debt / EBITDA	1,01	1,15
Total liabilities / EBITDA	2,29	2,07
Debt ratio	19,7%	20,3%
Quick ratio	0,76	0,60

## Ratio analysis

A slight increase in the debt ratio on 31 December 2016 was a result of the net debt growth (faster decline of cash versus the debt).

## Mtel

In million RSD	2015	2016
<b>Operating revenues</b>	<b>29.258</b>	<b>29.021</b>
Fixed telephony	7.281	6.973
Mobile telephony	16.997	16.702
Internet retail	1.447	1.413
Multimedia	2.723	3.085
Network equipment and IT services	440	284
Other operating revenues	370	564
<b>Operating expenditures</b>	<b>(24.168)</b>	<b>(24.574)</b>
Salaries and remunerations	(5.053)	(4.853)
Operator expenses	(2.660)	(2.489)
Material and maintenance	(5.415)	(5.405)
Depreciation and amortization	(5.923)	(6.506)
Lease expenses	(862)	(1.099)
Other operating expenses	(4.255)	(4.222)
<b>EBIT</b>	<b>5.090</b>	<b>4.447</b>
EBIT rate	17,4%	15,3%
<b>EBITDA</b>	<b>11.013</b>	<b>10.953</b>
EBITDA rate	37,6%	37,7%
Financial revenues, net	180	148
Profit tax, net	(557)	(470)
<b>Net profit</b>	<b>4.713</b>	<b>4.125</b>
Net profit margin	16,1%	14,2%

### Profit and Loss Account

Operating revenues in 2016 amounted to 29.0 billion dinars and they slightly declined (by 0.8%) compared to last year. Operating expenses amounted to 24.6 billion dinars and they grew by 1.7% compared to 2015.

Net profit in 2016 amounted to 4.1 billion dinars (12.5% decline) with the margin of 14.2%. *EBIT* amounted to 4.4 billion dinars with the margin of 15.3% and it decreased by 12.6% dinars. *EBITDA* amounted to 11.0 billion dinars with the margin of 37.7% and it declined by 0.5%.

Operating revenues declined by 237 million dinars. The revenues from fixed telephony decreased by 308 million dinars. Mobile telephony revenues declined by

295 million dinars: *prepaid* fell by 541 million dinars, whereas *postpaid* grew by 176 million dinars. The revenues from the sale of IT services and equipment of the subsidiary Logosoft declined by 156 million dinars. On the other hand, multimedia revenues increased by 362 million dinars.

Operating expenses increased by 406 million dinars. Depreciation costs increased by 583 million dinars due to activation of larger funds. The rental costs increased by 237 million dinars mostly due to the rental of business premises. On the other hand, the costs of salaries and remunerations fell by 200 million dinars and the operator costs by 171 million dinars.

In million RSD	31-12-2015	31-12-2016
<b>NON-CURRENT ASSETS</b>	<b>43.925</b>	<b>45.256</b>
Intangible assets	6.138	5.826
Real estate, plants and equipment and advance payments	31.811	32.878
Share in the capital of affiliate legal entities	4.772	5.037
Other	1.204	1.515
<b>CURRENT ASSETS</b>	<b>10.404</b>	<b>9.310</b>
Inventories	1.499	1.259
Receivables and current assets	4.269	4.512
Cash and cash equivalents	2.932	1.969
Other	1.704	1.570
<b>TOTAL ASSETS</b>	<b>54.329</b>	<b>54.566</b>
<b>CAPITAL</b>	<b>41.857</b>	<b>42.228</b>
<b>LONG-TERM LIABILITIES</b>	<b>2.437</b>	<b>3.036</b>
Long-term loans	1.947	2.574
Other	490	462
<b>CURRENT LIABILITIES</b>	<b>10.035</b>	<b>9.302</b>
Current payables under long-term loans	806	1.015
Liabilities from business operations	4.600	5.142
Other short-term liabilities	4.629	3.145
<b>TOTAL LIABILITIES</b>	<b>54.329</b>	<b>54.566</b>

### Balance Sheet



# Financial results

In million RSD	2015	2016
<b>Profit before taxation</b>	<b>5.270</b>	<b>4.595</b>
Profit adjustment	4.799	4.791
<b>Net cash-in from business activities</b>	<b>10.069</b>	<b>9.386</b>
<b>Net cash-out from investments activities</b>	<b>(5.841)</b>	<b>(5.084)</b>
<b>Net cash-out from financing activities</b>	<b>(6.779)</b>	<b>(5.265)</b>
Net outflow of cash and cash equivalents	(2.551)	(963)
Cash and cash equivalents at the beginning of the year	5.483	2.932
<b>Cash and cash equivalents at the end of the year</b>	<b>2.932</b>	<b>1.969</b>

## Cash Flows

In 2016, total of 4.6 billion dinars (exclusive of tax) was paid against shareholder dividends, of which 2.7 billion dinars to the Parent Company.

## mtel

The 2015 data include the data for merged companies for the period until September 2015 (where the merger was done), which influenced the growth rate of key performance indicators.

In 2016, the operating revenues amounted to 6.9 billion dinars and they increased by 30.2%. Operating expenses amounted to 6.3 billion dinars and they increased by 25.8%.

*EBIT* amounts to 570 million dinars with 8.3% margin (2015: 269 million dinars). *EBITDA* grew by 38.9% and amounted to 2.1 billion dinars with 31.1% margin. Net profit amounted to 391 million dinars with 5.7% margin (2015: 127 million dinars).

Operating revenues increased by 1.6 billion dinars. Multimedia revenues (mostly cable TV and sold TV devices) increased by 0.8 billion dinars. The revenues from fixed telephony and other services grew by 0.7 billion dinars mostly due to the revenues from sale of fibre optics in the amount of 587 million dinars. Internet retail revenues (mostly cable Internet) increased by 155 million dinars. On the other hand, mobile telephony revenues declined by 429 million dinars mostly due to lower prepaid revenues, while the revenues from the handset sale increased. Other operating

revenues increased by 422 million dinars mostly due to higher revenues from capitalization of the salary expenses of the employees engaged on the network construction and software development, reduced liabilities towards suppliers, as well as the gifts from suppliers.

In million RSD	2015	2016
<b>Operating revenues</b>	<b>5.292</b>	<b>6.890</b>
Fixed telephony	87	762
Mobile telephony	4.499	4.070
Internet retail	128	283
Multimedia	135	910
Other operating revenues	443	865
<b>Operating expenditures</b>	<b>(5.023)</b>	<b>(6.320)</b>
Salaries and remunerations	(529)	(743)
Operator expenses	(1.104)	(1.150)
Material and maintenance	(867)	(1.332)
Depreciation and amortization	(1.276)	(1.576)
Lease expenses	(309)	(369)
Other operating expenses	(938)	(1.150)
<b>EBIT</b>	<b>269</b>	<b>570</b>
EBIT rate	5,1%	8,3%
<b>EBITDA</b>	<b>1.545</b>	<b>2.146</b>
EBITDA rate	29,2%	31,1%
Financial expenses, net	(83)	(166)
Profit tax, net	(59)	(13)
<b>Net profit</b>	<b>127</b>	<b>391</b>
Net profit margin	2,4%	5,7%

## Profit and Loss Account

Operating expenses increased by 1.3 billion dinars. Depreciation costs increased by 300 million dinars due to higher volume of activating the equipment for cable business. The costs of sold TV devices within bundles amounted to 219 million dinars (in 2015 there wasn't any). The costs of salaries

and remunerations grew by 214 million dinars mostly due to increased number of employees and workers hired through the agency. The costs of mobile handsets and devices increased by 137 million dinars. The costs of charges against the purchased TV content increased by 126 million dinars.

In million RSD	31-12-2015	31-12-2016
<b>NON-CURRENT ASSETS</b>	<b>7.919</b>	<b>13.661</b>
Intangible assets	2.687	4.749
Real estate, plants and equipment and advance payments	5.217	8.863
Other	15	49
<b>CURRENT ASSETS</b>	<b>3.877</b>	<b>7.045</b>
Inventories	1.190	1.953
Receivables and other current assets	1.945	3.824
Cash and cash equivalents	13	48
Other	729	1.220
<b>TOTAL ASSETS</b>	<b>11.796</b>	<b>20.706</b>
<b>CAPITAL</b>	<b>4.516</b>	<b>4.976</b>
<b>LONG-TERM LIABILITIES</b>	<b>2.569</b>	<b>7.365</b>
Long-term loans	2.402	7.161
Other	167	204
<b>CURRENT LIABILITIES</b>	<b>4.711</b>	<b>8.365</b>
Current payables under long-term loans/short-term loans	829	1.166
Liabilities from business operations	2.554	6.217
Other short-term liabilities	1.328	982
<b>TOTAL LIABILITIES</b>	<b>11.796</b>	<b>20.706</b>

#### Balance Sheet

Total liabilities against loans as at 31 December 2016 amounted to 8.3 billion dinars and they increased by 5.1 billion dinars due to new financial loans from commercial banks drawn for the needs of financing investment activities (mostly

the development of cable business). Besides, the liabilities towards suppliers are higher by 3.7 billion dinars and they reached 6.2 billion dinars.

In million RSD	2015	2016
<b>Profit before taxation</b>	<b>186</b>	<b>404</b>
Profit adjustment	565	(1.186)
<b>Net cash-in from business activities</b>	<b>751</b>	<b>(782)</b>
<b>Net cash-out from investments activities</b>	<b>(1.194)</b>	<b>(3.070)</b>
<b>Net cash-out from financing activities</b>	<b>443</b>	<b>3.887</b>
Net outflow of cash and cash equivalents	-	35
Cash and cash equivalents at the beginning of the year	13	13
<b>Cash and cash equivalents at the end of the year</b>	<b>13</b>	<b>48</b>

#### Cash Flows

In million RSD	31-12-2015	31-12-2016
Total debt	3.231	8.327
Net debt	3.218	8.279
Net debt / EBITDA	2,08	3,86
Total liabilities / EBITDA	4,71	7,33
Debt ratio	41,6%	62,5%
Interest expenses / operating revenues	1,81%	2,60%
Quick ratio	0,58	0,55

#### Ratio analysis

The growth of debt ratio up to 62.5% as at 31 December 2016 was predominantly affected by new financial borrowings in the course of the year.

# Financial results

## Telus

In million RSD	2015	2016
Operating revenues	1.646	1.550
Operating expenditures	(1.541)	(1.491)
<b>EBIT</b>	<b>105</b>	<b>59</b>
EBIT rate	6,4%	3,8%
<b>EBITDA</b>	<b>110</b>	<b>61</b>
EBITDA rate	6,7%	3,9%
Financial revenues, net	33	18
<b>Net profit</b>	<b>116</b>	<b>63</b>
Net profit margin	7,0%	4,1%

### Profit and Loss Account

Operating revenues in 2016 amounted to 1.6 billion dinars and they are lower by 5.8% compared to the previous year. The revenue decline was mostly caused by lower maintenance revenues from the Parent Company.

Operating expenses amounted to 1.5 billion dinars and they dropped by 3.2%.

Net profit amounted to 63 million dinars and it fell by 45.7%. *EBIT* amounted to 59 million dinars (43.8% decline) and *EBITDA* 61 million dinars (44.5% decline).

In million RSD	31-12-2015	31-12-2016
<b>NON-CURRENT ASSETS</b>	<b>16</b>	<b>16</b>
<b>CURRENT ASSETS</b>	<b>1.036</b>	<b>1.027</b>
Receivables and other current assets	942	898
Cash and cash equivalents	85	123
Other	9	6
<b>TOTAL ASSETS</b>	<b>1.052</b>	<b>1.043</b>
<b>CAPITAL</b>	<b>854</b>	<b>871</b>
<b>LONG-TERM PROVISIONS</b>	<b>66</b>	<b>55</b>
<b>CURRENT LIABILITIES</b>	<b>132</b>	<b>117</b>
<b>TOTAL LIABILITIES</b>	<b>1.052</b>	<b>1.043</b>

### Balance Sheet

## TS:NET

In million RSD	2015	2016
Operating revenues	47	51
Operating expenditures	(42)	(40)
<b>EBIT</b>	<b>5</b>	<b>11</b>
EBIT rate	10,6%	21,6%
<b>EBITDA</b>	<b>38</b>	<b>44</b>
EBITDA rate	80,9%	86,3%
<b>Net profit</b>	<b>4</b>	<b>9</b>
Net profit margin	8,5%	17,6%

### Profit and Loss Account

Operating revenues completely reflect the revenues from leasing the equipment to the Parent Company. In 2016, they amounted to 51 million dinars and they increased due to higher monthly fees for leasing the equipment.

Operating expenses mostly refer to depreciation costs, which accounts for more than 80% of overall operating expenses.

In million RSD	31-12-2015	31-12-2016
<b>NON-CURRENT ASSETS</b>	<b>152</b>	<b>146</b>
<b>CURRENT ASSETS</b>	<b>59</b>	<b>103</b>
Cash and cash equivalents	44	88
Other	15	15
<b>TOTAL ASSETS</b>	<b>211</b>	<b>249</b>
<b>CAPITAL</b>	<b>210</b>	<b>222</b>
<b>CURRENT LIABILITIES</b>	<b>1</b>	<b>27</b>
<b>TOTAL LIABILITIES</b>	<b>211</b>	<b>249</b>

### Balance Sheet

**HD-WIN**

In million RSD	2015	2016
<b>Operating revenues</b>	<b>2.509</b>	<b>3.322</b>
The sale of licences and TV rights	2.341	3.087
Other operating revenues	168	235
<b>Operating expenditures</b>	<b>(2.378)</b>	<b>(3.035)</b>
Purchased licences and TV rights	(1.638)	(2.158)
Other operating expenses	(740)	(877)
<b>EBIT</b>	<b>131</b>	<b>287</b>
EBIT rate	5,2%	8,6%
<b>EBITDA</b>	<b>173</b>	<b>329</b>
EBITDA rate	6,9%	9,9%
Financial expenses, net	(102)	(77)
<b>Net profit (loss)</b>	<b>29</b>	<b>210</b>
Net profit margin	1,2%	6,3%

*Profit and Loss Account*

Operating revenues in 2016 amounted to 3.3 billion dinars and they increased by 32.4% mostly due to the growth of revenues from sale of TV rights and licences caused by higher number of end users in Serbia and the region.

Operating expenses increased by 27.6% and they reached the amount of 3.0 billion dinars. They mostly refer to the purchased TV rights and licences and they account for 71% of total operating expenses.

In 2016, net profit was generated in the amount of 210 million dinars. *EBIT* amounted to 287 million dinars and *EBITDA* 329 million dinars.

In million RSD	31-12-2015	31-12-2016
NON-CURRENT ASSETS	162	135
CURRENT ASSETS	4.791	4.363
<b>TOTAL ASSETS</b>	<b>4.953</b>	<b>4.498</b>
<b>TOTAL LIABILITIES</b>	<b>4.953</b>	<b>4.498</b>

*Balance Sheet***mts banka**

In million RSD	2015	2016
Revenues from interest, commissions, fees and FX gains/losses, net	354	381
Other operating revenues	143	160
Expenditures against impairment of investments, net	(451)	(239)
Other operating expenses	(553)	(579)
<b>Net loss</b>	<b>(500)</b>	<b>(271)</b>

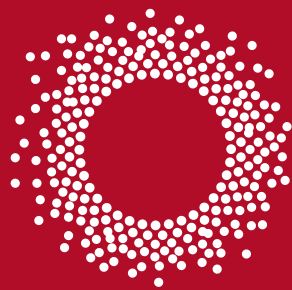
*Profit and Loss Account*

The lower expenditures of provision for risky investments, net, in 2016, predominantly caused the Bank's better operating results.

**mts**

In million RSD	2016
<b>Operating expenditures</b>	<b>(12)</b>
Fees for TK activity	(10)
Salaries and remunerations	(2)
<b>Net loss</b>	<b>(12)</b>

*Profit and Loss Account*



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