

CONSOLIDATED ANNUAL BUSINESS REPORT FOR 2018



Telekom Srbija

CHIEF EXECUTIVE OFFICER'S INTRODUCTORY SPEECH

Dear all,

The Telekom Srbija Group (TSG), consisting of Telekom Srbija as the Parent Company, along with the subsidiaries, in 2018, continued its trend of positive business performances, growth and development on the regional markets where it operates and generated a 1.4% growth in the operating revenues, operating profit (EBITDA) in the amount of 328 million euros, i.e. a net profit of 92 million euros. A stable portfolio of some 10 million business and residential users of a wide range of services was achieved.

A stable decline in the number of fixed telephony customers continued in an almost entirely liberalized fixed telephony market with a reduced volume of traffic over fixed networks due to the "cannibalization" of traffic by mobile telephony, as well as Internet technologies and applications based on the Internet. All the internal trends and phenomena, which are noticeable on more developed markets, required an adjustment of our strategy and directing our agility towards a faster growth in our customer base, primarily in the part of Internet and multimedia services. This is why in the second half of 2018, we largely defined our corporate strategy by the framework of the Adapted Strategic Business Plan of the Parent Company for the period 2018 - 2021. We performed a redefinition of the leading priorities and the strategic development was directed at a fast and very significant increase of the volume of the customer portfolio of the Internet and Multimedia for the purpose of securing a large and sustainable growth of revenues and a leading strategic position in the country and the region.

A program called "Million+" was adopted, which essentially includes a plan for generating over one million customers in the segment of Internet services and the distribution of TV and media content. Three crucial pillars for achieving these ambitious aims are further development and more efficient use of own infrastructure, the acquisition of cable operators and improvement of the content offer, including the creation of own television channels and production. The company has made a significant result in all these segments. We have intensified sales activities when it comes to the sale of services on our infrastructure with a special emphasis on optics as a result of implementation of the ALL IP project, which we launched earlier. At the end of the year we acquired the second largest cable operator, followed by the third largest cable operator that we purchased at the beginning of 2019. With the acquisition of several smaller cable operators, Telekom Srbija became a significantly more powerful market player in this segment. Through cooperation with the Astra



company, one of the world leaders in the sphere of satellite services, we allowed the customers to use the services of satellite television under the brand m:SAT TV in the entire region. We launched a new film and entertainment channel under the Superstar brand that quickly became very popular. All these results allow us to be optimistic when it comes to achieving the aims defined by the new Strategic Plan.

We are implementing similar activities through our subsidiaries in Bosnia and Herzegovina and Montenegro, where we are also becoming an increasingly more significant and respectable player in all market segments. We consider all this very important in securing long-term sustainability of our business performances, given that fixed telephony, as the traditionally largest contributor in profits, ceases to be a service that the customers need.

In the segment of mobile telephony, the Telekom Srbija Group in 2018 recorded a slight decline in the number of customers and created a customer portfolio of 5.7 million, with an increased network quality and service offer, and a better ratio of postpaid and prepaid customers. The company's focus was on increasing network capacity for mobile broadband services in order to fulfil the expectations of the customers and improve customer experience, so that based on this, they could differentiate between service packages according to generated data transmission traffic. In the earlier years, voice and SMS were dominant in scaling the tariff packages, and as of 2018 GB data traffic included in the package has become more dominant. In 2018, for the first time, postpaid tariff profiles were introduced in which national voice traffic toward any network is not longer charged. A change in customer behavior and market trends resulted in further significant growth of the total mobile data traffic, which directed our investments toward the development of a 4G network in order to increase geographic coverage, as well as network capacity and throughput, especially in large cities. I would like to emphasize that 2018 was a record year according to the number of new radio base stations that were launched into operation. At present, only mtel BiH does not have a 4G network, which is to start operating in 2019 after obtaining a license.

Telekom Srbija is the first operator in Serbia which during 2018 presented a new, strategically important, fifth mobile telephony network whose advanced features will significantly increase the quality level of global digital communications. The 5G network will allow gigabyte data transmission speeds with a possibility of transmitting video content of very high resolution (4K). In cooperation with the Ericsson company, we showed the potentials of 5G technology that comes with mobile cloud robotics, Internet knowledge and other possibilities. In 2018, we also launched revolutionary technological projects, I would say, which are aimed at transferring network functionalities onto the usual IT server infrastructure which is to create numerous advantages in the long term.

In 2018, we were committed to the building and advancement of the basic telecommunications infrastructure. We continued to build optical networks whose capacity is now some 25,000 km of laid optical cables. By the implementation of the said strategic development of infrastructure, the company will create technical conditions for the provision of innovative ICT services to customers, primarily via IP protocol and fast Internet, and a basis for future development of 5G networks.

We continued to improve business performances through increasing the efficiency, effectiveness and optimization of the business processes, and a strong cycle of development investment activities of the Telekom Srbija Group. In 2018, the parent company maintained a speedier process of digital transformation, primarily through the capital projects of modernization, expansion and transformation of the company's digital and IT infrastructure, as a precondition and

driver of a comprehensive digital transformation of its operations in the circumstances of strong market pressure from the main competitors. Last year, Telekom Srbija additionally accelerated the activities of digital transformation by the development of a WiFi network, increasing the capacities of the Data centers, wide application of the Cloud solution, and an accelerated development and launching of the new projects: Cloud, Managed Data services and the IoT network.

In the middle of the third quarter of 2018, Telekom Srbija presented the cutting edge LoRa network intended for IoT solutions. It is a network which allows the connection and mutual communication of many different devices and sensors and is a basis for the digital transformation of the entire society. Along with the launching of the LoRa network, we commissioned the first complex IoT service based on this network, which thanks to a thousand sensors installed in our shafts, provides the supervision and management of the cable ducts of Telekom Srbija.

The entry and positioning of Telekom Srbija on the ICT market is predominantly achieved through various forms of both project and strategic partnership with the important global companies in this sphere. In 2018, the Telekom Srbija Group accelerated the development of potentials and increased the level of operations of the subsidiary company "mts sistemi i integracije", based on the synergy effects of knowledge and technical resources of the Group for the provision of services of implementation and maintenance of system integrations, software and business solutions, network integrations and training programs on the ICT market.

Last year, the company maintained a development trend the development of the subsidiary company "mts Bank" as a digital bank, with the expansion of the offer of attractive financial products through an online channel. The completion of the mWallet program and the certification of Telekom Srbija as an institution of electronic money by the National Bank of Serbia will contribute to mts Bank, in synergy with mWallet services, becoming a pillar for the development of digital financial services of the Group.

In 2018, the Telekom Srbija Group kept its leading role in terms of socially responsible operations in all the aspects of social responsibility and care of the wider and narrower social community. The Telekom Srbija Group strengthened the process of permanent support for technological entrepreneurship by launching various projects and programs with a focus on young people and startup companies.

The Telekom Srbija Group achieved successful business results in 2018 with a complete dedication and commitment to customers. Loyal to and bound by our tradition, we achieved our mission to offer our customers a unique digital experience, making their life more beautiful, easier and entertaining through contemporary ICT services, and showing gratitude and respect to our customers for placing their trust in us.

In the implementation of our vision to be one step ahead of the others and the first choice of customers in the digital world of services, we base our strength on our employees, shareholders and business partners, and support for a wider social community.

Best regards,

*Predrag Ćulibrk
Chief Executive Officer of Telekom Srbija a.d. Beograd*

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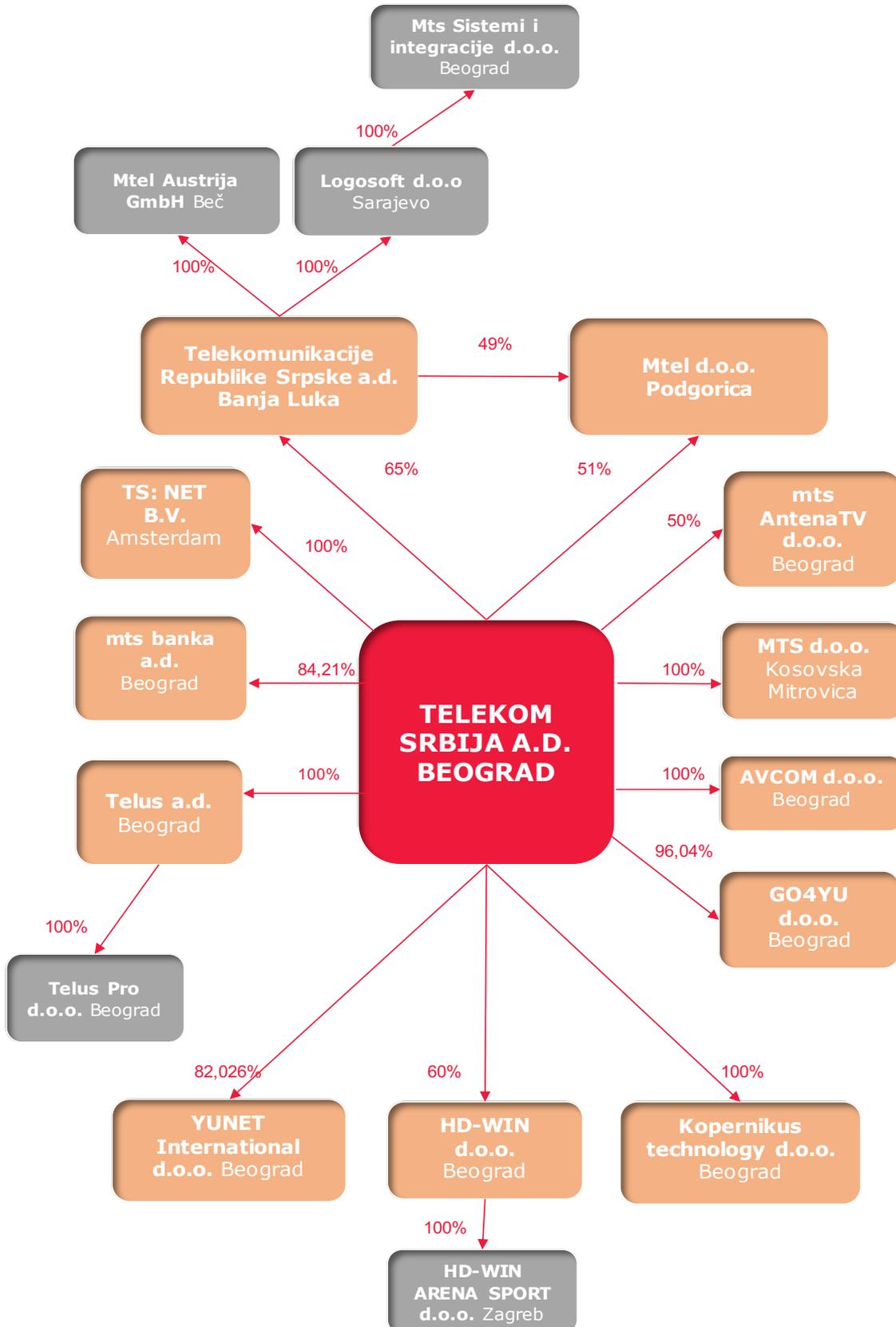
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**PARENT COMPANY,
SUBSIDIARIES AND
AFFILIATED COMPANIES
AS AT 31ST DECEMBER
2018**



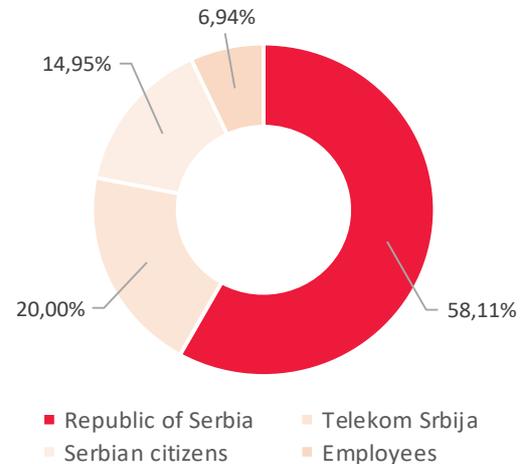
1. PARENT COMPANY, SUBSIDIARIES AND AFFILIATED COMPANIES AS AT 31st DECEMBER 2018



1.1 PARENT COMPANY– BACKGROUND INFORMATION

Preduzeće za telekomunikacije „Telekom Srbija“ a.d. Beograd (hereinafter: Telekom Srbija)

Business name	Telekom Srbija a.d.		
Registered seat	Takovska 2, Beograd		
Date of incorp.	23 May 1997		
Share capital	100,000 million din.		
Issued shares number/type	1,000,000,000 ordinary shares		
web site	mts.rs		
Prevailing activity	cable telecommunications		
Shareholders (equity interests)	Republic of Serbia	58.11%	
	Telekom Srbija - treasury shares	20.00%	
	Serbian citizens	14.95%	
	Employees and former employees	6.94%	



History

May 1997	Company incorporation by PEPTT Srbija as a one-member joint stock company
June 1997	29.00% of shares sold to Stet International Netherlands N.V. and 20.00% sold to Hellenic Telecommunications Organization S.A. (OTE)
February 2003	PE PTT purchased the full package of shares back from Telecom Italia
September 2010	Agreement on the free transfer of Telekom Srbija's shares (gift) concluded between PE PTT and Serbian Government
December 2011	TS Shareholders Meeting passed Decision on the acquisition of own shares along with the conclusion of the Share Sale Agreement between Telekom Srbija and OTE Greece
January 2012	where after Telekom Srbija became the owner of 20.00% of Company shares (treasury shares)
May 2012	After the distribution of free shares, the Company ownership structure changed so that the stake of the Republic of Serbia was 58-11% , Telekom Srbija 20.00%, Serbian citizens 14.95%, and employees and former employees 6.94% of shares

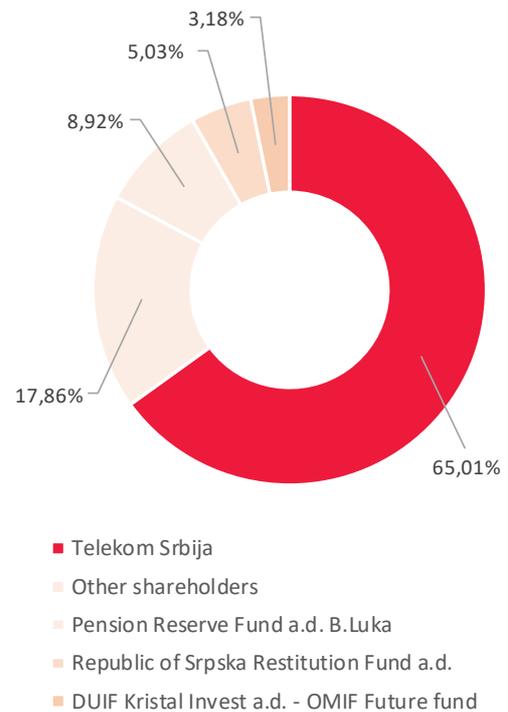
Table no. 1. Structure of Telekom Srbija's equity share in the subsidiaries

Name	Parent Company interest (%)	Share in total investments (000)		% interest
		2017	2018	
"Mtel" a.d. Banja Luka	65%	56.933.380	56.933.380	59,78%
"Kopernikus technology d.o.o. Beograd	100%	-	23.014.534	24,17%
„mtel d.o.o. Podgorica	51%	3.176.711	6.798.471	7,14%
„mts banka“ a.d. Beograd	84%	2.234.569	2.471.364	2,60%
„mts“ d.o.o. Kosovska Mitrovica	100%	1.479.293	1.656.748	1,74%
"AVCOM d.o.o Beograd	100%	-	1.503.008	1,58%
„GO4YU“ d.o.o. Beograd	96%	250.359	1.194.345	1,25%
„HD-WIN“ d.o.o. Beograd	60%	790.476	997.268	1,05%
"Yunet International" d.o.o. Beograd	82%	486.710	491.387	0,52%
„TS:NET“ B.V. Amsterdam	100%	122.487	163.852	0,17%
„Telus“ a.d. Beograd	100%	9.030	9.030	0,01%
„mts AntenaTV“ d.o.o. Beograd	50%	1.234	1.234	0,00%
Total		65.484.249	95.234.621	100,00%
Correction of the value of share:				
„mts banka“ a.d. Beograd		-486.360	-549.220	
"Yunet International" d.o.o. Beograd		-	-174.522	
Total		64.997.889	94.510.879	

1.2 SUBSIDIARIES AND AFFILIATED COMPANIES (hereinafter: subsidiary companies) – BACKGROUND INFORMATION

"Telekomunikacije Republike Srpske" a.d. Banja Luka (hereinafter: Mtel Banja Luka)

Business name	Telekomunikacije Republike Srpske a.d.
Registered seat	Vuka Karadžića 2, Banja Luka
Date of incorp.	20 December 1996
Ownership status	28 June 2007
Share capital	491 million KM
Issued shares No./type	491,383,755 ordinary shares
web site	mtel.ba
Prevailing activity	provision of telecommunications services
Shareholders (equity stakes)	Telekom Srbija - 65.01%
	Other shareholders - 17.86%
	Pension Reserve Fund a.d. Banja Luka - 8.92%
	Republic of Srpska Restitution Fund a.d. - 5.03%
	DUIF Krist. Invest a.d. - OMIF Future fund- 3.18%
Related legal entities (equity stakes):	Mtel Austria Gmbh Vienna - 100.00%
	Logosoft d.o.o. Sarajevo - 100.00% "Društvo za telekomunikacije "mtel" d.o.o. Podgorica - 49.00%

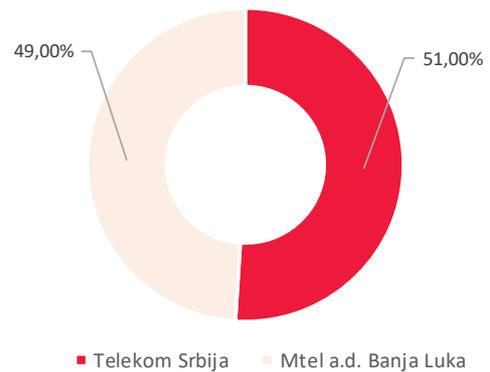


History

20 December 1996	Incorporation of the public state company for telecommunication of the Republic of Srpska
28 June 2007	After several transformations, based on the Privatization Law of the Republic of Srpska and Decision of the Basic Court at Banja Luka, a status change was entered - the ownership transformation by sale of the full state-owned capital (65.01%) to Telekom Srbija
August 2017	Logosoft doo Sarajevo founded the company "mts sistemi i integracije" d.o.o. Beograd
31 December 2018	As of this day, Mtel Banja Luka holds a stake in the ownership of three subsidiaries: - Mtel Gmbh with the seat in Vienna with a 100% ownership stake, - Logosoft d.o.o. Sarajevo with a 100,00% ownership stake and "mts sistemi i integracije" d.o.o. Beograd, - Mtel d.o.o. Podgorica with 49.00% ownership stake

Društvo za telekomunikacije „mTel" d.o.o. Podgorica (hereinafter: mTel Podgorica)

Business name	Društvo za telekomunikacije "mTel" d.o.o
Registered seat	Kralja Nikole br. 27A, Podgorica
Date of incorp.	04.apr.07
Ownership status	04.apr.07
Equity capital	93.07 million €
web site	mtel.me
Prevailing activity	provision of telecommunications services in the mobile and fixed telephony , internet and multimedia
Members (interests in capital)	Telekom Srbija - 51.00% Mtel a.d. Banja Luka- 49.00%

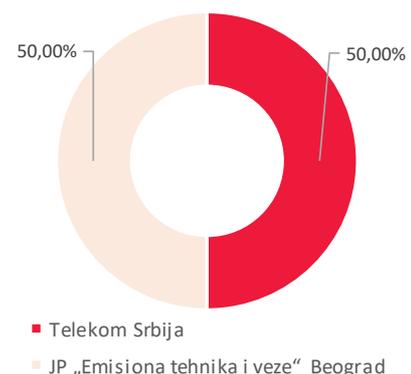


History

04.04.2007	Incorporated as Company mTel d.o.o. Podgorica by Telekom Srbija with a 51% ownership stake and Ogalar B.V. seated at u Amsterdam, the Netherlands with a 49% ownership stake .
1 February 2010	Sale of the ownership stake by the minority founder Ogalar B.V. Amsterdam of Mtel a.d. Banja Luka.
March 2010	Share capital increase in the amount of 40 million € (Telekom Srbija: 20,4 miliona €, Mtel Banja Luka: 19,6 miliona €)
June 2015	Share capital increase (Telekom Srbija: pecuniary contribution - 1.3 million € + Fibernet; Mtel Banja Luka – Cabling)
30 September 2015	Based on the Agreement on the merger by acquisition, mTel d.o.o. took over the following companies : Cabling d.o.o. Budva, FiberNet d.o.o.Podgorica Elta Mont d.o.o. Nikšić and Media Net d.o.o. Podgorica
7 November 2018 13 December 2018	Capital increase in MTEL doo by the Parent Company in the amount of 11 million EUR and 19.6 million EUR.

„mts Antena TV“ d.o.o. Beograd (hereinafter: mts Antena TV)

Business name	„mts AntenaTV“ d.o.o. Beograd
Registered seat	Bulevar umetnosti 16, Beograd
Date of incorp.	21 March 2016
Ownership status	21 March 2016
Share capital	2.467 million din.
web site	mtsantenatv.rs
Prevailing activity	wireless telecommunications
Members (interest in the capital)	Telekom Srbija - 50.00% JP "Emisiona tehnika i veze" Beograd - 50.00%

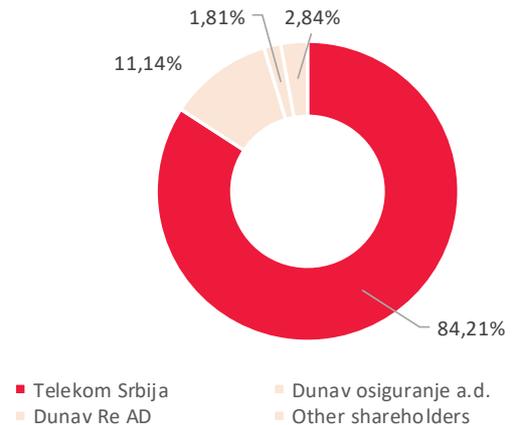


History

2016	mts Antena TV d.o.o. Beograd was founded as a joint venture of Telekom Srbija and JP "Emisiona Tehnika i veze" Beograd to deal with the distribution of media content via DTT, Telekom Srbija - 50.00% and JP "Emisiona tehnika " 50-00%
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„mts banka" a.d. Beograd (hereinafter: mts banka)

Business name	„mts banka" a.d.	
Registered seat	Franša D Eperea 88, Beograd	
Date of incorp.	28 December 1990	
Ownership status	26 December 2014	
Equity capital	2,362 million din.	
web site	mtsbanka.rs	
Prevailing activity	banking operations	
Shareholders (interests in capital)*	Telekom Srbija -	8.21%
	Dunav osiguranje a.d.-	11.14%
	Dunav Re AD -	1.81%
	Other shareholders -	2.84%



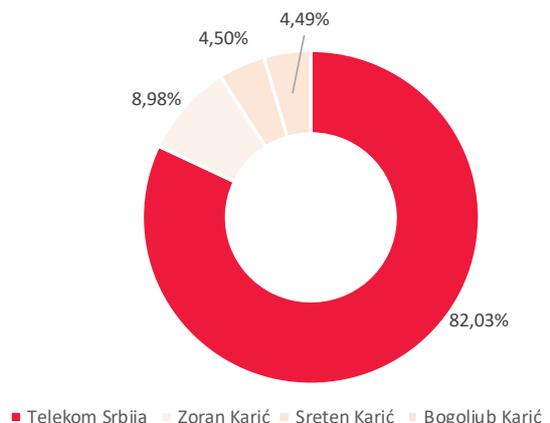
History

28 December 1990	Date of incorporation of mts Banka (Kosovsko-Metohijska banka) a.d.Zvečan
June 2010	Change in the ownership structure - upon the increase in Bank's share capital when Dunav osiguranje became the majority shareholder. From 2010, the bank operated under the name Dunav banka a.d seated at Zvečan, and from December 2012, with the seat in Belgrade
26 December 2014	The Parent Company effected the payment for the increase in share capital and thus acquire ownership over 56% of the shares in mts bank
18 May 2015	The bank changed its business name to "mts banka"
29 October 2015	the Shareholders Meeting of mts banka passed a Decision to delist the stock issue on o from
December 2015 till October 2017	In this period, several payments were made as capital increase by the Parent Company .
28 November 2018	The latest Increase in share capital by Telekom Srbija, whose equity stake increased to 84.21%

*Insignificant differences appear as a result of rounding shareholding to two decimal places.

„YUNET International“ d.o.o. Beograd (hereinafter: YUNET)

Business name	YUNET INTERNATIONAL d.o.o.	
Registered seat	Dubrovačka 35, Beograd	
Date of incorp	January 1992	
Ownership status	May 2017	
Share capital	185 million din.	
web site	yu.net	
Prevailing activity	cable telecommunications	
Members (interest in the capital) Jan.2018	Telekom Srbija -	82,03%
	Zoran Karić -	8.98%
	Sreten Karić -	4.50%
	Bogoljub Karić -	4.49%

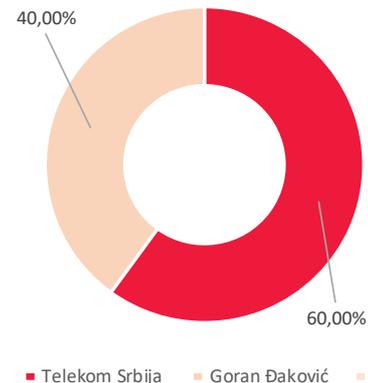


History

January 1992	Company founded under the name "MR Systems".
31.dec.98	Company registered under the name "YUNET INTERNATIONAL" d.o.o.
May 2017	Telekom Srbija became the majority member of YUNET with a 62.22% share in the ownership
December 2017	Based on the Share Transfer Agreement, Telekom Srbija became the 81.22% owner of YUNET
January 2018	Telekom Srbija a.d. increased its ownership share in YUNET to 82.03%

Društvo za telekomunikacije „HD-WIN“ d.o.o. Beograd (hereinafter: HD-WIN)

Business name	Društvo za telekomunikacije "HD-WIN" d.o.o.	
Registered seat	Visokog Stevana 38, Beograd	
Date of incorpor.	13.3.2009.	
Ownership status	2.8.2011.	
Share capital	1,538 million din.	
web site	tvarenasport.com	
Prevailing activity	Production and, broadcasting of tv channels and program production	
Members (interests in the capital)	Telekom Srbija -	60.00%
Related legal entities (interests in the capital) :	Goran Đaković -	40.00%
	HD-WIN Arena sport Zagreb -	100.00%

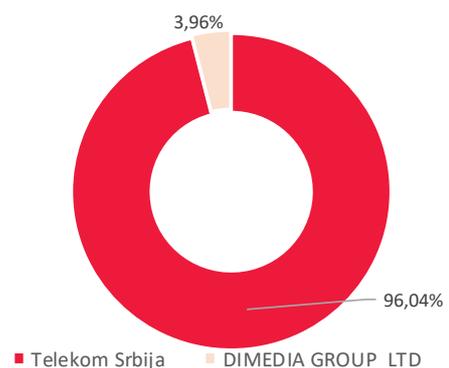


History

13 March 2009	Date of the company incorporation
3 September 2010	Acquired 100.00% ownership of HD-WIN Arena sport in Croatia , which has a broadcasting licence in the territory of Croatia .
2 August 2011	Telekom Srbija paid additional capital in HD-WIN and thus acquired a 51.00% ownership stake
4 July 2014	Under the SPA agreement, an acquisition was made of the agency "Sports ADD Limited", Nicosia, Cyprus (the minority owner of HD-WIN) by the agency "MYD Sports" SA, Geneva, Switzerland , where under a 9.00% stake in HD-WIN d.o.o.was transferred to Myd Sports SA.
20 July 2017	One member of HD-Win was changed, instead of Myd Sports SA, the company "Eiberman Investments" LTD, Cyprus was registered so that the current ownership structure is: Telekom Srbija 51.00%,Goran Đaković 40.00% and Eiberman Investments LTD, Cyprus 9.00%
July/August 2018	Under the Agreement on the purchase of a stake of 25 July 2018, Telekom Srbija purchased a 9% stake in the total capital of HD-WIN, which was formerly held by "EIBERMAN INVESTMENTS" LTD, Cyprus and the new ownership structure now is: Telekom Srbija -60%, Goran Đaković -40%.

„GO4YU“ d.o.o. Beograd (hereinafter: GO4YU)

Business name	„GO4YU“ d.o.o. BEOGRAD	
Registered seat	Franša D Eperea 88, Beograd	
Date of incorpor.	30 May 2014	
Ownership status	August 2015	
Share capital	1,244 milion din.	
web site	go4yu.com	
Prevailing activity	wireless communications	
Members (interest in the capital)	Telekom Srbija -	96,04%
	DIMEDIA GROUP H.KONG LTD-	3,96%



History

30 May 2014	Company was founded by Dimedia Group SA Geneva, Switzerland
August 2015	Telekom Srbija acquired ownership over 50.00% of the equity capital in GO4YU. Dimedia Group Limited Hong Kong holds a 50.00% share in the ownership structure
apr.17	Telekom increased its share in capital in GO4YU to 72.25%
apr.17	Telekom increased its share in capital in GO4YU to 83,57%
June 2018	Telekom increased its share in capital in GO4YU to 91,38%
29 May 2018 and 5 November 2018	Increase in capital on two occasions by the Parent Company, whereby the ownership stake increased first to 91.38% and then to 96.04%

Subsidiaries in the 100% ownership of Telekom Srbija

"Telus" a.d. Beograd (hereinafter: Telus)

Buisness name	"Privredno društvo za održavanje i obezbeđivanje objekata imovine i druge usluge TELUS" a.d.
Seat	Kosovska 47, Beograd
Date of incorpor.	19.apr.05
Ownership status	19.apr.05
Share capital	9 million din.
web site	telus.rs
Prevailing activity	private security

History:

19 May 2005	Telus, a business company engaged in the maintenance and security of facilities and property and other services was founded as a closed joint stock company with the 100% ownership stake held by Telekom Srbija
1 June 2010	Telus entered into agreements with TS on the provision of services, annually. On expiry of the five-year arrangement, JP PTT (JP Pošta Srbije) conducted the open procedures for public procurement of FTO services and services of hygiene maintenance which was followed by the conclusion of the new 3-year agreements with Telus.
February 2018	The related legal entity "Telus Pro" d.o.o. Beograd was founded the prevailing activity of which was regular cleaning of buildings.
December 2018	A two-tier governance structure was established, a Supervisory Board was formed and the SB members were appointed

„TS:NET“ B.V. Amsterdam (hereinafter: TS:NET)

Buisness name	„TS:NET“ B.V.
Seat	Herengracht 493, 1017 BT, Amsterdam, The Netherlands
Date of incorpor.	February 2010
Ownership status	February 2010
Share capital	1,77 miliona €
Prevailing activity	Lease of telecommunications equipment

History:

February 2010	Registration of TS Net B.V. in the form of a closed joint-stock company with limited liability
23 May 2013	The Supervisory Board of the Parent Company passed a decision on the decrease in share capital of TS Net B.V. in order to withdraw the available funds in favour of the Parent Company
19 September 2013	The Parent Company SB passed a decision to grant a prior consent to Executive Board Decision of 28 August 2013 amending EB Decision of 14 May 2013 with respect to the amount of the approved capital decrease in TS:NET B.V.
March 2015	The Parent Company Supervisory Board passed a decision on the decrease in share capital of TS:NET in the amount of 712 thousand EUR
03.apr.18	Capital increase by bringing in a pecuniary contribution in the amount of 350,000 €

„mts" d.o.o. Kosovska Mitrovica (hereinafter: mts d.o.o.)

Buisness name	"mts" d.o.o.
Seat	Kosovska Mitrovica
Date of incorpor.	October 2015
Ownership status	October 2015
Share capital	13.59 million €
web site	mtsdo.com
Prevailing activity	wired telecommunications

History:

October 2015	TS founded a company to perform the telecommunications activity in the territory of Kosovo and Metohija, with TS as the only member with a 100% stake
December 2016	Two procedures for the capital increase in "mts" d.o.o. Kosovska Mitrovica were conducted - first in things and rights, and the second in moneys
28.dec.17	Capital increase by bringing in a pecurinary contribution in the amount of 2,000,000 €
September 2018	Capital increase by a pecuniary contribution in the amount of 1,500,000 €

„Kopernikus technology" d.o.o. Beograd (hereinafter: Kopernikus Technology)

Buisness name	"Kopernikus technology" d.o.o. Beograd
Seat	Bulevar Arsenija Čarnojevića 99b, Beograd - Novi Beograd
Date of incorpor.	10 Aug 1998
Ownership status	05.11.2018
Share capital	347 million din.
web site	www.kopernikus.rs
Prevailing activity	cable telecommunications

History:

August 1998	Foundation of the business company "Kopernikus technology" d.o.o. Beograd
November 2018	1 Nov. 2018 - SPA agreements were concluded for the transfer of a stake of Kopernikus Technology to Telekom Srbija which became the 100% owner of share capital of the Company . On 5 Nov. 2018, the Buisness Register sAgency issued a decision to register Telekom Srbija as the sole member of the Company

„AVCOM" d.o.o. Beograd (hereinafter: AVCOM)

Buisness name	"AVCOM" d.o.o. Beograd
Seat	27 marta, 36/24, Beograd - Palilula
Date of incorp.	17 July 2002
Ownership status	19.12.2018
Share capital	32 million din.
web site	www.avcom.rs
Prevailing activity	cable telecommunications

History :

July 2002	Foundation of the business company "AVCOM" d.o.o. Beograd
December 2018	On 14 Dec. 2018, SPA agreements were concluded for the transfer of a stake in AVCOM to Telekom Srbija where upon TS became the 100% owner of the share capital of the Company . On 19 Dec. 2018, the Buisness Registers Agency issued a decision to register Telekom Srbija as the sole member of the Company,

02

CHANGES IN 2018 AND ON EXPIRY OF THE BUSINESS YEAR



2. CHANGES IN 2018 AND ON EXPIRY OF THE BUSINESS YEAR

The changes in the subsidiaries' equity interests:

- ◇ YUNET, January 2018 – the equity interest changed from 81.22% to 82,03%.
- ◇ TS:NET, April 2018 – increase in capital in the amount of 350,000 euros.
- ◇ GO4YU, 29 May 2018 – the interest in share capital changed from 83.57% to 91.38%.
- ◇ HD-WIN, July/August 2018 - the interest in share capital changed from 51.00% to 60.00%.
- ◇ mts d.o.o., September 2018 – increase in capital by a pecuniary contribution amounting to 1,500,000.00 euros.
- ◇ mts banka, November 2018 – the interest in share capital changed from 82.45% to 84.21193%.
- ◇ GO4YU, 5 November 2018 - the interest in share capital changed from 91.38% to 96.04%.
- ◇ mtel Podgorica, November and December 2018 – increase in capital by a pecuniary contribution amounting to 30,600,000.00 euros.

Acquisitions of business companies finished in 2018:

- ◇ Kopernikus Technology, November 2018, the 100% ownership of Telekom Srbija.
- ◇ AVCOM, December 2018, the 100% ownership of Telekom Srbija.

Acquisitions of business companies finished in the first quarter of 2019:

- ◇ "Radijus vektor" d.o.o. Beograd - January 2019, the 100% ownership of Telekom Srbija. On 3 January 2019, a Share Sale and Purchase Agreement was concluded, followed by the conclusion of the Agreement on the transfer of a stake from Radijus vektor d.o.o. Beograd to Telekom Srbija a.d. Beograd on 11 January 2019, where upon TS became the owner of the 100% stake in the total share capital of the Company.
- ◇ "Citadela komunikacije" d.o.o. Beograd, January 2019, the 100% ownership of Radijus vektor d.o.o. Beograd. On 11 January 2019, an Agreement was concluded on the transfer of a 10% stake in "Citadela komunikacije" d.o.o. Beograd, based on which "Radijus vektor" d.o.o. Beograd became the owner of the 100% stake in the total share capital of the Company, since it had already possessed 90% of the share capital.
- ◇ "Masko" d.o.o. Beograd, January 2019, the 100% ownership of Telekom Srbija. On 3 January 2019, a SPA Agreement was concluded, which was followed by the conclusion of the Agreement on the transfer of a stake on 11 January 2019 from "Radijus vektor" d.o.o. Beograd to Telekom Srbija a.d. Beograd, where upon TS became the owner of the 100% stake in the total share capital of the Company.
- ◇ "Blicnet" d.o.o. Banja Luka, January 2019, the 100% ownership of Mtel Banja Luka.
- ◇ "Telrad Net" d.o.o. Bijeljina, February 2019, the 100% ownership of Mtel Banja Luka.
- ◇ "Link2YU Network" LLL Volnat, USA, the 100% ownership of GO4YU.
- ◇ "Link2YU Network" Gmbh Vienna, the 100% ownership of GO4YU.

03

MACROECONOMIC ENVIRONMENT



3. MACROECONOMIC ENVIRONMENT

According to the World Bank analyses published in January 2019, the global growth of the world economy is slowing down. The year 2017 ended with an increase in the global GDP of 3.1%, which was significantly higher than expected, while a growth of 3.0%¹ was envisaged for 2018. Generally speaking, despite a certain slowdown, the world economy has recovered as a result of growing investments, production and trade. This positive trend is expected to slightly slow down, so that a growth of 2.8% do 2.9%² is expected in the period 2019-2020. The trade war between the United States and China could result in a slower growth of developing countries.

The growth of GDP in the European Union in 2017 reached 2.4%, which is 0.7 percent higher than expected³. Due to an expectation that the domestic demand would slightly decrease, the projected growth of the GDP for 2018 is 1.9%, which is lower than the actual result in 2017, but significantly higher than what has been projected earlier. A growth rate of 1.6% is envisaged for the period 2019-2020. In the longer period, the EU growth rates are largely limited by the fact that the working population in the majority of Eurozone⁴ economies is decreasing in number.

Basic macroeconomic indicators of Serbia, Bosnia and Herzegovina and Montenegro for 2018 are shown in the table below.

Table no. 2. Macroeconomic data of the region for 2018th

Parameters	Serbia	B-H	Montenegro
GDP growth	4,4	3,2	5,0
industrial production growth	2,0	1,6	22,4
retail growth	5,7	8,2	4,6
incoming tourism growth	11,2	12,6	10,2
overnight stay growth	12,1	13,8	8,2
average annual inflation rate	2,0	1,4	2,6
unemployment rate	12,9	18,4	14,1
average net salary	443 €	460 €	511 €
external debt/GDP	58,0	24,6	56,3
credit growth	6,2	6,4	10,1
annual deposit growth	8,5	7,8	10,3
export growth	8,1	7,6	11,3
import growth	13,0	6,0	12,4
growth of foreign direct investments	31,8	1,1	43,7

Note: all data represent the growth rate versus the previous year (in %) unless particularly indicated in the description

The economic growth in Serbia in 2018 is estimated at 4.4% and is mostly based on the temporary high growth in the following sectors: agriculture and production of electrical energy. The public debt has been reduced to less than 60% of the GDP. A decline in the net exports has been recorded due to a significantly higher growth in imports than in exports and a slowdown in the processing industry.

Direct foreign investments have increased as compared with 2017 and equal 3 billion euros. A sustainable long-term growth of the Serbian GDP can only be based on the growth of investments

¹ World Bank: „Global Economic Prospect“, January 2019. – Table 1.1 , Real GDP

² Ibidem

³ Ibidem

⁴ Ibidem

and net exports. The inflation is lower than in 2017, and trends on the labor market are favorable which is also expected in the coming year.

According to the data of the economic portal www.focus-economics.com, in 2017, Bosnia and Herzegovina generated a growth of 2.3%⁵. From the standpoint of macroeconomic trends, the analysts estimate that the unblocked funds from the international credit institutions will have a positive effect on the trends of BiH economy in 2018. The creation of new jobs, more remittances from the BiH citizens who live abroad, and the growing tourism sector, are supposed to encourage the growth of private consumption, while direct foreign investments will significantly influence total investments in Bosnia and Herzegovina. The ethnically divided Government (influences of three peoples) could slow down the important reforms necessary for a stable future of the country. The participants of the "Focus Economics" panels expect that in 2019 as well as in 2018 the actual growth of the GDP will be 3.1%.

According to World Bank analyses, the key challenge of the BiH economy is a disbalance in its economic model: public policies and initiatives are directed at the public rather than the private sector, toward consumption rather than production, and imports rather than exports⁶. Due to a stable growth in the EU, it is still expected that these positive trends would lead to an improvement in the BiH economy.

A record growth of the GDP has been recorded in Montenegro (according to the data for the third quarter of 2018 the growth rate is 5%). It is envisaged that the public debt will equal some 70% of the GDP which is an obstacle for the growth of salaries in the state sector. The bank deposits have reached some 3.5 billion euros, while direct foreign investments have generated a net revenue of some 303 million euros over the first 11 months in 2018, which is a growth rate of some 40%. The largest investments are in the sector of tourism and infrastructure projects. The foreign trade exchange has increased by 12% as compared with 2017, while Bosnia and Herzegovina's largest trade partner is Serbia.

Based on the macro-economic and other parameters which are relevant for the comparison of the business and investment environment on the international level, the countries in the region are ranked differently on the international lists (Table no. 3.)

Table no. 3. Credit rating of countries in the region according to international lists

Parameters	Serbia	B-H	Montenegro
DOING list	48 ↓	89 ↓	50 ↓
Moody's Investors Service	Ba3 ↑	B3 ●	B1 ●
Standard&Poor's	BB ↑	B ●	B+ ●

According to the World Bank rating, Serbia was ranked 48th of the 190 countries according to the ease of doing business index. The main reason for the decline in our rating is faster progress that the other countries have made regarding the regulation of their business environment, the World Bank has said.

Of the countries of former Yugoslavia Serbia is preceded on the Doing Business list by Macedonia (10th place) and Slovenia (40th), while Montenegro is ranked 50th, Croatia 58th and Bosnia and Herzegovina 89th.

S&P has raised our credit rating from “stable” to “positive” and confirmed Serbia's BB rating, thanks to a strong economic growth and maintenance of price and financial stability. The conditions for the further growth of rating is further reduction of the public debt and keeping the payment balance deficit within the sustainable limits.

⁵ www.focus-economics.com/countries/bosnia-and-herzegovina

⁶ www.worldbank.org/en/country/bosniaandherzegovina/overview

04

REGULATORY FRAMEWORK



4. REGULATORY FRAMEWORK

The regulatory framework is very important because it is only after the establishment of the regulatory bodies that all regulatory and institutional conditions for the undertaking of activities in the sphere of faster development of the sector and liberalization of the telecommunications market have been met. Before the establishment of the regulatory bodies, these conditions were rather chaotic, without clearly defined rules of the game and an open competition.

Table no. 4. Comparative data of the regulatory framework in the region in the sphere of telecommunications

Key data	Serbia	B-H	Montenegro
competent regulatory body	RATEL Regulatory Agency for Electronic Communications and Postal Services	RAK Regulatory Communications Agency of B-H	EKIP Agency for Electronic Communications and Postal Activity
web site	http://www.ratel.rs/	https://www.rak.ba/	http://www.ekip.me/
material laws	Law Amending the Law on Information Security	Communications Law – amendments	Law Amending the Law on Electronic Communications
	Law on Information Security	Communications Law – amendments	Law on Electronic Communications
	Law Amending the Law on Electronic Communications	Communications Law – amendments	Law Amending the Digital Broadcasting Law
	Law on Electronic Communications	Communications Law	Digital Broadcasting Law

Various activities related to the regulatory framework in the region were implemented last year. All the documents are listed and presented on the official websites of the competent regulatory bodies.

- ◇ Among other things, analyses of the wholesale market of high-quality access provided at a fixed location were performed in Serbia, by which Telekom Srbija was freed of the SMP status.
- ◇ Analyses were performed of the wholesale markets of various kinds of access by which Telekom Srbija was declared an SMP operator i.e. by which its existing status was renewed.
- ◇ Rules were adopted in BiH on the use of various radio-frequency ranges. The EKIP approved that a draft Analysis of the retail market of distribution of audio-visual media services and radio services along with the draft Rules on the distribution of the said content be delivered for public consultations.
- ◇ A decision on establishing the annual remuneration for the performance of tasks of regulation and market monitoring for 2018 was adopted in Montenegro. Various rules were adopted along with plans for the distribution of radio-frequencies from several ranges of the fixed network.

The operations of Telekom Srbija and some subsidiaries also extends to the Austrian market. The regulation of the telecommunications market in Austria is within the competence of the regulatory agency Rundfunk&Telekom Regulierungs (RTR), and it is based on the Law on Communications of the Republic of Austria. Mtel Austria provides telecommunications services primarily based on the Law on Telecommunications 2003 (TKG).

Certain subsidiaries operate on the markets which are governed by other legal regulations:

- ◇ In the part of broadcasting of the TV program, the market is regulated by the Law on Radio-Broadcasting, Law on Copyright and Similar Rights, Law on Public Information and the Law on Advertising.
- ◇ In the part of banking operations, the market is governed by the Law on Banks and the Decisions on market management, capital adequacy and the risk management of bank liquidity.
- ◇ The sphere of services of physical and technical protection and fire protection is governed by the Law on Private Security and the Law on Weapons and Ammunition.

05

TELECOMMUNICATIONS MARKET



5. TELECOMMUNICATIONS MARKET

Telecommunications, as the core activity of the Parent Company and the majority of the subsidiaries, is an industry which apart from the more difficult market conditions is recording stable revenues. The telecommunications market is still dynamic and intense in terms of capital, with significant competition, primarily in the sphere of telephony and Internet.

The joint characteristic of the Serbian, Bosnian and Montenegrin market in mobile telephony is firmly established competition with at least three operators, as well as full liberalization of operations based on 3G technology, with the introduction of a more advanced LTE i.e. 4G technology.

5.1. SERBIAN MARKET

Last year significant changes were made in the ownership structure of the main operators in Serbia. The Telenor group concluded a contract on the sale of operations in the region of Central and Eastern Europe to the PPF Group Czech Republic, and the transaction is worth 2.8 billion euros.

Telekom Srbija continued to expand the network by purchasing new cable operators, with an announcement of further investments. Given the fact that Internet portals in the future will be the largest producers of content, Telekom Srbija thus made it clear that it would be one of the leaders in the creation of the series, sports or scientific program.

The information and communications technologies sector (ICT) has been recognized as a strategic sector and is considered crucial for sustainable economic development of the country, in accordance with the Information Society Development Strategy in Serbia until 2020.

Fixed telephony market

Noticeable as in the other fixed telephony markets is the trend of transition to digital telephony, as well as a reduced volume of traffic through fixed networks due to a growing share of mobile telephony. This trend is largely compensated by the provision of integrated (bundle) services.

Operators with the largest share according to the number of customers are:

- ◇ Telekom Srbija with a share of 81.8%; and
- ◇ Serbia Broadband-Srpske Kablovske Mreže d.o.o. („SBB“) with a share of 16.3%.

Traffic in the fixed network has recorded a constant decline (by some 18.9% as compared with 2017) which significantly reduces the overall revenue. The number of fixed telephony customers in the fourth quarter is 2.42 million and is the result of a continuous long-term decline.

It is estimated that the revenues from fixed telephony have dropped by some 9%⁷ and equal some 29.5 billion dinars, the largest part of which refers to telephone subscription.

The number of service package users at the end of 2018 is some 1.27 million, which is 7.4% higher as compared with the previous year. In the last quarter of 2018, also noticeable is a decline in the number of the users of packages which contain fixed telephony, while the number of packages with two services that mostly contain the Internet and the multimedia content service is increasing.

Mobile telephony market

According to the data from November 2018, Serbia is ranked 32nd of the 123 examined countries according to the situation in mobile communications when it comes to 4G bit rates. Mobile

⁷At the moment of writing this report, the data on generated revenues for 2018 were not published by RATEL, market data were calculated based on the available data of Telekom Srbija as an operator with the share of 81.8%.

telecommunications have the largest share of the total revenues from telecommunications services in Serbia.

The following operators are active on the mobile telephony market:

- ◇ Telekom Srbija with a share of 45%
- ◇ Telenor d.o.o. with a share of 31.6%
- ◇ Vip mobile d.o.o. with a share of 23.2%
- ◇ Virtual mobile operators 0.2%

Telekom Srbija with 4.2 million customers is the largest mobile operator in Serbia according to the number of mobile telephony users, and a market share of 45%.

The number of mobile network users at the end of 2018 was some 8.4 million, which is 2% lower than at the end of 2017. During the entire last year the number of prepaid customer showed a continuous downward trend while the number of postpaid customers was increasing.

The mobile telephony segment is characterized by a growing use of OTT services based on the Internet, such as Skype, Viber and Whats App, due to significant savings and easy use, which has led to a decline in the use of the SMS service.

Regarding the penetration and access to the most advanced services, the mobile telephony market in Serbia is at the level of developed markets.

The number of active users of mobile access to the Internet in Serbia through the mobile network at the end of 2018 amounted to 5.8 million users, with an increase in the quantity of data transferred through the mobile network. The quantity of transferred data in the mobile Internet network recorded a significant increase in 2018 as compared with 2017 and equals some 210 million GB, which is some 140% higher.

It is estimated that revenues from mobile telephony have increased by some 4.7%⁸, i.e. that they equal some 97 billion dinars.

Internet and ICT services market

The markets of Internet and ICT services are still recording growth. The development of the IT sector is followed by legal and regulatory activity and the liberalization of the regulatory regime, as well as the introduction of an e-government program in many state institutions.

The most significant share of the growing market of Internet services belongs to the following operators:

- ◇ Telekom Srbija, 41.2%
- ◇ SBB d.o.o., 32.5%
- ◇ Kopernikus Technology, 3.7%

Other operators are: Radijus Vektor (2.9%), SAT-TRAKT (2.3%), Orion Telekom (2.2%), Serbian Post (1.7%) and YUNET (1.1%)

The number of users of the fixed broadband access to the Internet is stable and equals some 1.53 million. The most frequent manner of Internet access is still ADSL, while cable access is slightly increasing.

In the domain of ICT services, the offer of cloud services where the requirements for security and safety of data are extremely high has improved. Additionally, improved are services for the business segment, including the integrated service packages, possibility of connecting locations into one network system, introduction of the WiFi service, full IT security solution and the Staas (Storage as a Service) solution that provides a certain warehousing space and the maximum number of its users.

⁸Given the fact that at the moment of writing this report the data on generated revenues for 2018 were not published by RATEL, the data on the market were calculated based on the available data of Telekom Srbija as an operator with a share of 41.2%.

It is estimated that the IT technologies market in 2018 was worth some 523 million euros, which is 8% higher as compared with 2017. In addition, the generated revenue accounts for 2.4% of the BDP in 2018. It is estimated that revenues from the Internet have increased by 5%⁹, and equal some 24 billion dinars, the largest part of which is generated in the sphere of ICT services.

Multimedia market

In 2018, the operators provided their services through the following public telecommunications networks KDS, IPTV and DTH. Almost 100% of the Serbian population is covered by the television signal. The number of users of media content distribution is growing and equals 1.84 million at the end of 2018.

The most significant share of the multimedia market belongs to the following operators:

- ◇ SBB d.o.o., 50.91%
- ◇ Telekom Srbija a.d., 24%
- ◇ Kopernikus Technology, 7.8%

The number of service package users is increasing (it equaled some 1.27 million in the fourth quarter), and the packages with two services, broadband Internet plus television, are the most frequently used.

5.2. BOSNIA AND HERZEGOVINA MARKET¹⁰

The processes of market liberalization and raising the level of competition continued in the sphere of telecommunications. This trend is present on the regional market and on the telecommunications market of Bosnia and Herzegovina. Preparations for the introduction of 4G mobile telephony are finished, telecom operators are ready for the transition, but the price of the license has not yet been agreed.

The overall estimated revenue from the Bosnian telecommunications market in 2018 equals 1.364 billion KM, which is slightly lower as compared with 2017.

The KDS and IPTV services are offered to end users as independent services and increasingly as a part of service package. The use of the mobile TV service and broadband Internet access via fixed and mobile networks is increasing.

Fixed telephony market

At the end of 2018 the public telephone service via fixed telecommunications market in BiH was provided by three operators possessing a License for fixed telephony public operator (BH Telecom d.d. Sarajevo, Telekom Srpske a.d. Banja Luka and Hrvatske Telekomunikacije d.d. Mostar) and 12 operators with a License for the provision of fixed public telephone services.

Although the number of customers as compared with the previous year is some 8% lower, the decline was alleviated by the customers' transition to integrated services delivered by the use of the fixed network. The upward trend in the overall transferred numbers in the fixed telephone network of BiH has continued. The penetration rate in fixed telephony in BiH at the end of 2018 will amount to some 20.87%.

⁹Given the fact that at the moment of writing this report, the exact data on generated revenues on the telecommunications market for 2018 were not published, the market data were calculated based on the available data of Telekom Srbija as an operator with a 24% market share.

¹⁰ The data were taken from: Internal assessment obtained by using SAS Visual Analytics forecast tools based on the official data of the Regulatory Agency for Communications for 2018, Telecommunications Indicators of BiH in 2017, Quarterly Comparative Data of the Electronic Communications Market Q4 2018, Ekip, Ratel, Hakom

The estimated revenue from fixed telephony services in 2018 equals some 275 million KM or 20.16% of the overall estimated revenues from the telecommunications market, which is a 6% decline as compared with 2017.

Mobile telephony market

In BiH, three operators have a License for the provision of GSM and UMTS services: PE BH Telecom d.d. Sarajevo, Mtel Banja Luka and PE Hrvatske Telekomunikacije d.o.o. Mostar. Apart from these, there are also operators that provide mobile telephony services based on the commercial contracts concluded with the holders of the Licenses for the provision of GSM and UMTS usluga.

At the end of 2018, the number of customers equaled 3,440,082. Revenues from mobile telephony services in 2018 amounted to some 554 million KM, i.e. 40.62% of the overall estimated revenues from the telecommunications market, which is a decline of 2.6% as compared with 2017.

At the end of 2018, the share of postpaid customers was some 28.21%, which is still much lower than the average in the neighboring countries and the EU which is 50%. The penetration rate in mobile telephony in BiH at the end of 2018 was 99.32%. Although it records a continuous growth every year, the mobile penetration rate is still below the value recorded in the neighboring countries and the European average which is around 125%. The overall number of transferred numbers in the mobile network at the end of 2018 was some 60,896 numbers, which is a rise of 21.17% as compared with 2017.

Market of Internet services

The market of Internet access services was marked by an increase in access speeds for all customers, and the integration of telecommunications services and ICT services (cloud, data centers, security). In BiH, a significant increase is present in the use of Internet via mobile networks. The penetration rate of Internet services on the BiH market is characterized by continuous growth, with broadband access as growth generator. The rate of Internet use via fixed network at the end of 2017 was 85.25%, and it is estimated that it will amount to 90.28% at the end of 2018.

The estimated revenue from Internet services in 2018 amounts to some 140 million KM or 10.26% of the overall estimated revenues from the telecommunications market, which is a 26% increase as compared with 2017.

The number of users of fixed broadband access services in BiH at the end of 2018 equaled 706,796. It is estimated that the penetration rate of broadband Internet access in fixed networks, which at the end of 2017 amounted to 19.83%, will amount to 21.36% at the end of 2018. This shows that, apart from an increase in the number of customers on the market of broadband Internet access, BiH belongs to a group of less developed countries in the region and is significantly below the EU average. The number of broadband users has reached 99.97% of the total number of Internet users.

Multimedia market

The market of multimedia services in BiH, from the aspect of SMP operators, is characterized by a continuous increase in the number of users of package services, the acquisition of new customers or retention of the existing customers by turning xDSL users and voice service users into users of 2P, 3P or 4P service packages.

The projection of other revenues (cable television, data transfer, etc.) in 2018, i.e. their share in the overall estimated market revenues is the same as compared with 2017 when they amounted to 401 million KM or 29.16% of the overall projected market revenues. Over the last 3 years, the number of customers via KDS has slightly declined, while the share of the number of lines via IPTV has recorded a slight growth. Smaller operators are leaving the market due to unfavorable market conditions.

5.3. MONTENEGRIN MARKET

Mobile telephony market

Three operators are present on the Montenegrin market: mtel Podgorica, Telenor and the Montenegrin Telekom that have implemented LTE technology in their mobile network.

Montenegro has a high degree of coverage of its population with the mobile network signal. The penetration rate which has been higher than 160% over the last few years also testifies to the saturation of the market. The number of prepaid customers on the entire market is declining, while the number of postpaid customers has increased by 9% as compared with 2017.

The market environment in 2018 was dynamic, while the market share of mtel Podgorica rose to 32.67%, so that mtel became the second operator on the mobile telephony market for the first time, while an increase was recorded both in the prepaid (2.3%) and the postpaid segment (2.24%).

Fixed telephony market

The fixed telephony market had been dominated by the Montenegrin Telekom until mtel Podgorica started providing telecommunications services back in July 2015.

By the development of cable infrastructure, mtel Podgorica has recorded a significant increase in the number of fixed telephony customers with a market share of 26.01% as the second operator on the fixed telephony market. The number of Internet and television users is also growing.

The total number of lines on the fixed telephony market at the end of December 2018 was 172,880, while at the end of 2017 it was 152,155.

Market of TV content distribution

Over the last two years the market has significantly changed because a merger of market players occurred, so that the market is now divided between three dominant operators: T-Com, SBB and mtel Podgorica. The operators provided their services through the following public telecommunications networks: KDS, IPTV and DTH. In 2018, Mtel Podgorica increased its share from 26% to 31%.

5.4. OTHER SUBSIDIARY MARKETS

Apart from the abovesaid main markets of the region where the Parent Company and its subsidiaries operate, we should also mention the market of television, the market of financial services and the market of physical and technical security and hygiene maintenance and the telecommunications market on the territory of Austria.

Mtel Austria operates on the territory of Austria. In Austria, there are three dominant operators that are available to customers. All of them are part of large telecommunications groups (T-Mobile, Telecom Austria Group and Hutchison Whampoa Limited). Apart from the said operators, there are a total of 19 currently active MVNOs on the market. The mobile telephony penetration rate is 156% and it is among the highest in Europe.

Regarding the television market, Arena Sport channels are present in the distribution networks of 58 operators on the territory of Serbia, Bosnia and Herzegovina, Macedonia, Croatia and Montenegro at the end of 2018. On all of these markets, the Arena Sport channels are present on the platforms of all major telecommunications operators (T-Com Crna Gora, T-Com Makedonija, T-Com Hrvatska, BH Telecom, m:tel RS, HT Eronet, m:tel CG and Telekom Srbija). The main

competitor on the markets where Arena Sport operates is UMG (United Media Group) with its Sport Club channels.

The Mts Bank operates on the Serbian financial services market which has undergone significant changes over the last few years. Information technology, including contemporary information architecture models, data bases and warehouses, data protection, data management, communication between computers, contemporary statistics software method and other information tools, have contributed to an enormously high increase in the speed of data processing, introduction of ATM machines and the functioning and processing of different types of credit and payment cards and allowed the financial organizations to offer a large range of quality products and services on the market. In 2018, the banking sector recorded a positive net financial result in the amount of 53.9 billion dinars, which is up 0.8% as compared with 2017.

On the market of physical and technical security and hygiene maintenance, there are 10 companies of which the largest share in the operating revenues belongs to G4s, Securitas and Telus, which cover 80% of the market. The overall generated operating revenue is some 9 billion dinars. The share of Telus in the overall market revenues is some 39%. Telus operates on the market of physical and technical security services and hygiene maintenance services on the territory of the Republic of Serbia. The main buyers are large legal entities (subjects of economic and social activities and state institutions).

06

CORPORATE MANAGEMENT



6. CORPORATE MANAGEMENT

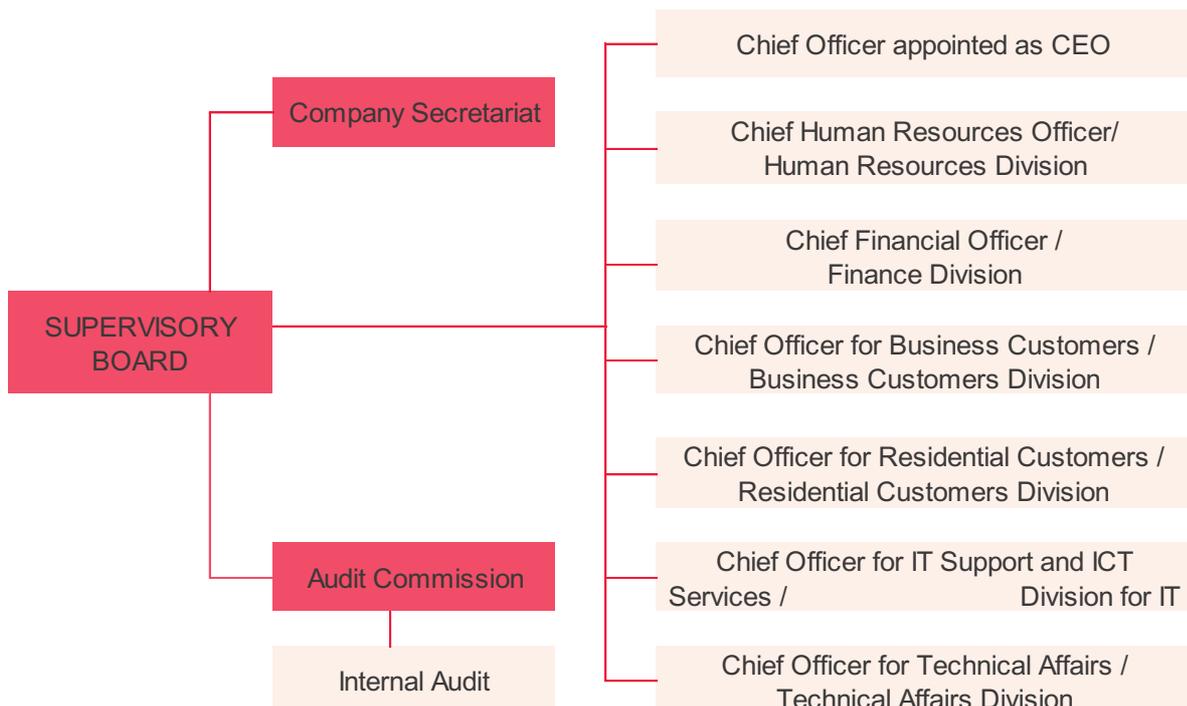
6.1. CORPORATE MANAGEMENT IN TELEKOM SRBIJA

The management of the Parent Company has been organized in two tiers.

Table no. 5. Corporate bodies of Telekom Srbija

Corporate bodies	Note
General Meeting	The General Meeting is comprised of all Company shareholders who exercise their ownership rights through its work. The GM's 53rd regular session was held in 2018.
Supervisory Board	<p>The Supervisory Board performs the activities from its scope of responsibilities in accordance with the applicable legal regulations. In accordance with internal by-laws, the Supervisory Board embodies the following functions: Audit Commission, Company Secretariat and Internal Audit. The Audit Commission has been set up by the SB and assigned competences and responsibilities under the Law.</p> <p>The Company Secretariat is appointed by the SB and its competences are provided for in the Company's Articles of Association.</p> <p>The Internal Audit has been set up as a separate organizational unit that reports to the SB, which adopted the Internal Audit Charter and the Rules on Internal Audit. These by-laws ensure the method of implementation and organization of work of the internal audit.</p>
Executive Board	Executive Board members, including the Chief Executive Officer, are elected by the Supervisory Board. Executive Board members are the Company's chief officers. Its organization, method of work and decision-making are governed in detail by the Rules of Procedure of the Executive Board, passed by the Executive Board in line with its legal and statutory competences.

Organizational structure of the Parent Company



6.2. COPORATE MANAGEMENT IN THE SUBSIDIARIES

The subsidiaries and affiliated companies owned by Telekom Srbija are organized in accordance with the Law, i.e. the type of activity they perform.

Table no. 6. Corporate bodies of the subsidiaries

Company	Governance bodies	Note
Mtel a.d. Banja Luka	General Meeting	Joint stock company as defined in the Company Law and Standards of the Securities Commission. Mtel has adopted the Code of Conduct and Corporate Governance.
	Management Board	
	CEO	
	Executive Board	
	Audit Committee	
	Internal Auditor	
Logosoft d.o.o. Sarajevo	Company's management - director and at least two executive director	A related legal entity with Mtel Banja Luka (100%) since 2014. IT operates under the standards of the corporate governance principles, 100% owner of mts sistemi i integracije d.o.o. Beograd (August 2017)
	General Meeting	
mts sistemi i integracije d.o.o. Beograd	Company's General Meeting	A related legal entity with Logosoft d.o.o. Sarajevo. It operates under the standards of the corporate governance principles
	Supervisory Board Director	
m:tel Austrija GmbH Beč	Company's General Meeting	A related legal entity with Mtel Banja Luka (100%). It operates under the standards of the corporate governance principles.
	Director	
Blic Net d.o.o. Banja Luka akvizicija okončana 2019.	General Meeting	A related legal entity with Mtel-om Banja Luka (100%). It operates under the standards of the corporate governance principles.
	Director	
Telrad Net d.o.o. Bijeljina akvizicija okončana 2019.	General Meeting	A related legal entity with Mtel-om Banja Luka (100%). It operates under the standards of the corporate governance principles.
	Director	
Mtel Podgorica	Board of Directors	The Board of Directors is comprised of the chairman and four members. The executive director appoints directors responsible for specific operating segments - divided in eight departments. Mtel has 16 outlets in 14 towns of Montenegro.
	Executive Director	
Telus	General Meeting	A closed single-tier joint stock company. The organization structure consists of divisions (four sections) and territorial (regional) centres.
	Supervisory Board	
	Executive Director	
Telus Pro d.o.o. Beograd	General Meeting	A related legal entity with Telus-om. The management is organized as single-tier one, and the governance bodies are the general
	Director	
mts d.o.o.	General Meeting	mts d.o.o. has a single-tier governance. The Company owns licences for fixed and mobile communications and it operates through four outlets: S.Mitrovica, Gračanica, Ranilug, Štrpce
	Director	
HD-WIN	Company's General Meeting	The Company is organized in five departments.
	CEO	
HD-WIN ARENA SPORT	Company's General Meeting	A related legal entity with HD-WIN.
	Director	

Company	Governance bodies	Note
mts bank	the Bank's General Meeting	Besides the Articles of Association, which defines the Bank's organization, the Corporate Governance Code has been adopted in line with the principles and rules of corporate practice, particularly with the rights of shareholders, publicity and transparency of operations. The Management Board oversees the work of the Executive Board, assisted therein by the Business Monitoring Board. In addition to the aforementioned bodies, including the General Meeting, other board have been set up as well. The Bank has 5 branch offices and 12 sub-branches.
	Management Board	
	Executive Board	
	Business Monitoring Board	
	Credit Board	
	Board for Monitoring Assets and Liabilities - ALCO	
GO4YU	General Meeting	The Company's governance is single-tier. The General Meeting consists of the shareholders of Telekom Srbija and DIMEDIA GROUP LTD.
	Supervisory Board	
	Director	
mts AntenaTV	General Meeting	The governance of mts Antena TV d.o.o. is a two-tier type. In addition to the General Meeting (Telekom Srbija and JP Emisiona tehnika i veze) there is the Supervisory Board comprising three members and a director
	Supervisory Board	
	Director	
YUNET	General Meeting	The governance is a two-tier type. Besides the Supervisory Board (five members), the General Meeting consists of members - three natural persons, who are minority members and Telekom Srbija as the majority member
	Supervisory Board	
	Director	
Kopernikus Technology	General Meeting	The governance of Kopernikus technology is organized as single-tier type.
	Director	
AVCOM	General Meeting	The governance of AVCOM is organized as single-tier type.
	Director	
Radijus vektor d.o.o. Beograd	General Meeting	The governance of Radijus vektor is organized as single-tier type.
	Director	
Citadela komunikacije d.o.o. Beograd acquisition completed in 2019	General Meeting	An affiliate of Radijus vektor (100%). The governance is organized as single-tier type. In addition to the General Meeting, it has a director.
	Director	
Masko d.o.o. Beograd acquisition completed in 2019	General Meeting	The governance of Masko is organized as single-tier type.
	Director	

6.3. STATEMENTS OF CORPORATE RESPONSIBILITY

Representation on the application of the code of corporate governance of Telekom Srbija

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.mts.rs.

The Code regulates, inter alia, the following:

- Shareholders' rights;
- Fees and rewards to the members of the Company's corporate governance bodies;
- Communication with the public, disclosure of data and transparency; and
- Improvement in the corporate system.

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 responsible 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.

Representation on the application of the corporate governance standards of Mtel Banja Luka

The company Mtel Banja Luka adopted its own Code of Conduct and Corporate Governance, which establishes the mechanisms of functioning of the Company's bodies and the protection of interests in the mutual relationships of different stakeholders in the Company. The established corporate principles provide mechanisms for determining the goals of the Company, the means for their achievement and monitoring of the effects, thus creating a permanent and consistent system of control over the work of the Company's bodies and the protection of interests in the mutual relationships of different stakeholders.

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.

In 2018, applying the Corporate Governance Code and its own Code of Conduct and Corporate Governance, the Company adhered to the principles related to business transparency, clearly elaborated procedures for the work of bodies that make important decisions, avoiding conflicts of interest, effective internal control and an effective system of accountability.

In order to establish high standards and achieve good corporate governance and transparency of operations as a basis for protecting shareholders, investors and other stakeholders, the Company will continue to act responsibly, respecting the interests and position of other stakeholders towards the Company and actively cooperate with all stakeholders.

In 2019, as a socially responsible and market-oriented company, Mtel Banja Luka will apply the basic rules of conduct, which ensure efficient application of the corporate governance principles, relating to the rights of shareholders, equal treatment of shareholders, the role of stakeholders, publication and disclosure of information and the role and responsibility of the boards, whereby it will endeavour to ensure a long-term prosperity of the company and its shareholders.

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

The subsidiaries of Mtel Banja Luka, 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.

07

STRATEGY



7. STRATEGY

In 2018, Telekom Srbija successfully revised the business development strategy, directed towards an aggressive and significant increase in the market penetration and strengthening of its position as a leader, i.e. a significant player in the telecommunications market of Serbia and the region (mainly Bosnia & Herzegovina and Montenegro).

In 2018, Telekom Srbija, as the parent company, and its subsidiaries: m:tel Austria – as an MVNO operator and mts Antena TV d.o.o., as an operator of media content distribution on the DTT platform, continued its positive development trends and diversification of operations in order to further accelerate the revenue growth and increase the number of multimedia users, primarily in the remote rural, mountain and complex geographic areas of Serbia.

In 2018, Telekom Srbija and its subsidiaries continued the intensive business operations of the related legal entity *mts sistemi i integracije* in order to strategically increase the synergy of knowledge and technical resources to provide services for the implementation and maintenance of system integration, software solutions and business solutions, network integration and education in the ICT market of Serbia and the region.

Successively, after two successfully implemented strategic management cycles (*2008-2012 Strategic Business Plan and 2014-2016 Strategic Business Plan*), Telekom Srbija proceeded with the improvement of the strategic management process through the enhanced continuity of the strategic business planning process, because of its key contribution to the sustainability and growth of operating revenues generated from the successfully formulated and implemented business strategy, as well as achieving synergy and strategic development with its subsidiaries.

In the first half of 2018, a business need to revise the Strategic Business Plan of Telekom Srbija was recognized on time, which was initiated by changes in the current market environment, the growing pressure of competition and the entry of new significant foreign competitors in the ICT market of Serbia. In September 2018, Telekom Srbija adopted the Revised Strategic Business Plan for the 2018-2021 period.

By its revised strategic business plan for the 2018-2021 period, Telekom Srbija has launched the process of its strategic repositioning in the market, predominantly in the internet and multimedia segments in order to increase its market share and revenues in a fast, significant and sustainable manner in the period covered by the Revised Strategic Business Plan.

By its revised strategic business plan for the 2018-2021 period, Telekom Srbija:

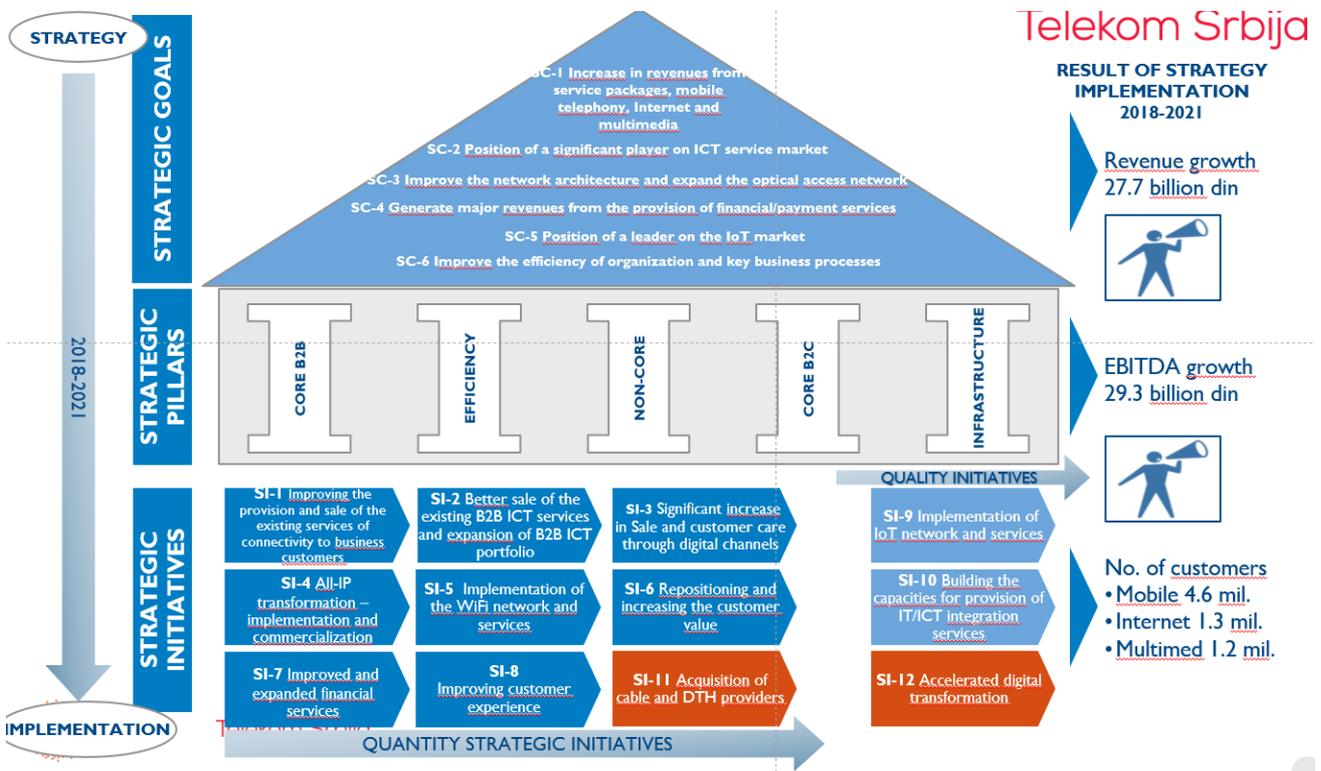
- ◇ activates an aggressive growth strategy in the internet and multimedia segments, which strategically increases the customer base primarily in the internet and multimedia market verticals through major strategic acquisitions and additional acceleration of growth generated through own and partner sales;
- ◇ intensifies the process of own digital transformation by accelerated simultaneous implementation of strategically important projects, through strategic initiatives and a set of new projects in order to position itself as a leader of digital transformation in Serbia;
- ◇ continues the implementation of its strategic goals in the next three-year period applying the set of strategic initiatives and activating new ones; and
- ◇ achieves the long-term sustainable growth of overall business results and performance in the ICT market of Serbia;

Telekom Srbija has secured the leadership position in the telecommunications market of Serbia, maximizing the satisfaction of its customers by identifying a set of strategic goals based on five strategic pillars: Core Business for Residential Customers, Core Business for Business Customers, Non-core, Infrastructure and Efficiency.

For the implementation of the strategic goals in the four-year development cycle, a revised business development strategy has been defined and structured for successful implementation in six areas: fixed and mobile convergence (FMC), B2B, digital transformation, user experience, All IP transformation and financial services that will be implemented in the 2018-2021 period.

By implementing the revised strategy in line with market changes, a greater new value is created and derived from: an additional large increase in the market value of Telekom Srbija primarily by implementing an aggressive acquisition strategy in the Internet and Multimedia market verticals, preserving the leading position in the market, providing new revenue sources, continuing the revenue growth, improving financial performance of business operations and increasing the potential to improve the service portfolio and new business models, continuing the business process improvement, improving the corporate culture and managerial potential, continuing business transformation.

Telekom Srbija strategic house 2018-2021



In the process of implementing the Revised Strategic Business Plan of Telekom Srbija for the 2018-2021 period, an extended set of complementary and coordinated strategic initiatives is planned for implementation by several organizational units simultaneously.

The defined strategic initiatives include; implementation timetables, set of activities/programs/projects, responsible organizational units, quantities, time control points (KPI annual values) and the necessary resources of the strategic budget (STRATEX), i.e. projected revenues, capital, operating and financial expenses.

In accordance with the complex organizational structure and a large number of business processes, the Revised Strategic Business Plan for the 2018-2021 period defines the revised corporate strategy, as the highest strategy level which establishes, revises and balances the corresponding strategic framework, necessary for the coordination, harmonization and optimisation of all strategic resources and processes for the Strategic Business Plan implementation.

The corporate strategy of the Revised Strategic Business Plan of Telekom Srbija for the 2018-2021 period includes a set of 12 strategic initiatives (9 quantitative, one of which is the result of strategy revision and 3 qualitative, one of which is the result of strategy revision) for the implementation of 6 strategic goals allocated to six business areas.

The corporate strategy of Telekom Srbija, defined in the Revised Strategic Business Plan for the 2018-2021 period, is the initial system strategic plan framework and basis for:

- I Making, revising and harmonizing the organizational units' functional strategies, i.e. other long-term development plans per business segment, among which the following long-term plans/strategies are identified as priority: the service portfolio development plan, network development plan, IT system development plan of the Parent Company Telekom Srbija;
- II Revision and development of the Balanced-Scorecard system (BSC) of the Parent Company for strategy implementation; and
- III Improvement and harmonization of the overall strategic management process of Telekom Srbija and its subsidiaries as a whole.

By means of the Revised Strategic Business Plan for the 2018-2021 period, Telekom Srbija will rapidly increase the success of achieving strategic goals through an increased level of mutual correlative integration of corporate strategy, budget and action plans (projects / programs) for their realization.

Harmonization of the revised corporate strategy and correlation with functional strategies



By means of the revised corporate strategy launched in the third quarter of 2018, Telekom Srbija started the process of fast strategic acquisition of cable providers to acquire a dominant market share in the Internet segment and a significant increase in the market share in the Multimedia segment. The mentioned strategic acquisitions have been realized through the activated strategic program "Milion + users".

Highly ranked strategic priority of the Revised Strategic Plan of Telekom Srbija for the period 2018-2021 is digital transformation of Telekom Srbija.

Over the last year, Telekom Srbija accelerated the implementation of the digital transformation strategy through the simultaneous implementation of projects defined by the strategic initiatives and by activating a set of new projects to position itself as a digital transformation leader in Serbia.

In 2018, the strategic activities were implemented in both perspectives (internal and external) of the digital transformation of Telekom Srbija. The business process improvement has continued in the internal perspective; in the external perspective, the number of development projects has increased, i.e. the launching of new services and market models in order to expand and improve the portfolio of services offered to customers in all sectors/segments (state administration, government, economy, private sector, etc.).

In the process of digital transformation, Telekom Srbija focuses on on-line channels and on a significant increase in sales (e-sales) and customer care (e-care) through digital channels. Simultaneously, Telekom Srbija considers and uses favorable general factors and the overall synergetic effect of digital transformation, with the government that understands and encourages the leading ICT companies, accelerating the digital transformation of Serbia.

In 2018, as a strategic priority, Telekom Srbija continued to develop and implement the All IP Project successfully, modernize network architecture, migrate users to the upgraded network and commercialize the All IP transformation project itself by building a future-proof infrastructure.

In 2018, through the implementation of the revised strategy, the parent company accelerated the development of the network, expanded and improved the WiFi network and services in order to enable the differentiation and increase in the value and market attractiveness of services and convergent packages, while increasing the upselling/ARPU, reducing churn and acquiring new customers.

The 2018 commercial strategy of Telekom Srbija in the residential customers market is strongly focused on the positive repositioning of Telekom Srbija by launching a unique selling proposition (USP), including discounts and offers designed to preserve value (premium price positioning). The basis is the redesigned BOX concept in accordance with market requirements, which, in combination with the impact of the All IP transformation, the introduction of add-ons and improvement in the offer, migrates customers to premium tariffs.

As for the business customers market, Telekom Srbija has strategically continued the process of development and diversification of the commercial offer of advanced connectivity, which has a competitive advantage inside and outside the scope of the ALL IP transformation, with large and medium-sized enterprises to be covered by optical network in the next few years.

Through the implementation of the Revised Strategic Business Plan for the period 2018-2021, the Parent Company has aggressively and significantly increased the user portfolio of Internet and Multimedia, thus continuously improving the user experience.

Telekom Srbija has significantly extended the portfolio of its services in the ICT market by entering certain market verticals and, by offering specific IoT solutions, it will greatly contribute to the growth of its total revenues.

In 2018, Telekom Srbija continued to initiate and support strategic partnerships to timely launch an additional spectrum of new advanced, flexible and complementary services in the market, not only in the core business, and which can significantly contribute to the growth of revenues over a long period of time.

In the strategic development cycle initiated during 2018, Telekom Srbija and its subsidiaries continued to be strategically oriented to the exploitation of the existing synergistic effects, identification, initialization and the development of the new potential for the exploitation of mutual synergy in the joint use of network infrastructure, logistic or procurement optimization, commercial actions in the markets where they operate and optimization of the allocation of human resources potential.

In 2018, the parent company Telekom Srbija acquired the entire ownership of the companies Kopernikus Technology d.o.o. Beograd and Avcom d.o.o. Beograd.

In 2018, the subsidiary Mtel Banja Luka started the process of acquiring the ownership stake in the companies Blicnet d.o.o. Banja Luka and Telrad d.o.o. Bijeljina.

08

SERVICES



8. SERVICES

8.1. TELECOMMUNICATIONS SERVICES

Table no.7. Comparative overview of services in the regional telecommunications market

Serbia	B-H	Montenegro
Phone traffic	Phone traffic	Phone traffic
Number portability	Number portability	Number portability
IN servisi	IN servisi	
Business trunking	Fixed prepaid service	
Cost-effective services		
Phone traffic	Phone traffic	Phone traffic
Mobile internet	Mobile internet	Mobile internet
Number portability	Number portability	
Blackberry	Blackberry	
IN services	TOTAL DATA	
Ino call	Tariff options	
Twitter sms, mms		
Internet access (FiberBiz, Data transfer	Internet access Data transfer	Internet access Data transfer
Smart services		
ICT services and structured cabling	ICT usluge	
Cloud servisi	Cloud servisi	
Security	Security (zaštita od DDoS)	
Wifi	Wifi	
Printing Centre services	Usluge printing centra	
Telehousing		
Hosting		
Customized IT solutions		
INTEGRATED SERVICES		
Box packages	Packages with 2, 3 and 4 services	m:box bundles
Biz package	Biz packages m:TV net	
TELEVISION		
IPTV service	IPTV service	m:sat
mts TV GO service	TV to GO service	"Move" service
mts hotel TV service	BIZ hotel TV service	
mts biz TV service	OTT pay TV service	
Antena plus	DTH	
Click sport		
OTHER SERVICES		
Sale of devices	Sale of devices	mPAY
QR payment		
eBanking, mBanking		

8.2. SERVICES OFFERED BY TELEKOM SRBIJA IN 2018

Mobile telephony services

- ◇ The existing mtel Plus add-on service was launched in Bosnia and Herzegovina in February within the Mtel Banja Luka network. The change applies to prepaid, postpaid, cost control and postpaid mobile net customers. In mid-June, new roaming tariff add-ons, designed for customers generating a large amount of Internet traffic in roaming, were launched.
- ◇ Biz m: tel add-ons 2018 were launched in February - one-time roaming add-ons for the use in the territory of Montenegro and B&H. Roaming traffic at more favorable prices is offered to business customers who activate these add-ons.
- ◇ New postpaid tariffs were launched in April: Morava 1, Morava 2, Morava 3, Omorika 1, Omorika 2, Omorika 3 and Soko. The benefits of these tariffs include unlimited national calls and SMS messages in national traffic, unlimited minutes in the mts network, international and roaming traffic within the TS group included in the subscription (an integrated quota).
- ◇ The postpaid internet add-on for residential customers was changed in June. Unlimited and free roaming SMS service to mobile networks within mts, m.tel Crna Gora and m.tel Republika Srpska is available to all customers using the Soko tariff.
- ◇ Business tariffs – on 3 July 2018 new tariffs were launched for business customers: Biznis Libero, Biznis Libero Ultra, Biznis Start.
- ◇ A new service of leasing satellite telephone packages (Thuraya SatSleeve+device using the Thuraya prepaid Sim card and the corresponding mobile phone placed in the satellite device) was launched in October with an MTS SIM card and TF Business start 1.
- ◇ In November, an electronic top-up payment system was made available to the Mtel Austra customers in the mts retail stores in Serbia.
- ◇ A new application for the provision of BizSMS service was launched in December. It is possible to send SMS bulk via the WEB application only to numbers within the user group.

Internet services

- ◇ As part of the FibeBiz service over GPON infrastructure, the user is offered an unlimited access to the Internet with 50/5 Mb/s, 100/10 Mb/s; 200/20 Mb/s and 400/40 Mb/s bitrate including: 1 static IP address, 1 e-mail account and an SLA package related to restore services.
- ◇ In April, the Internet Max package offer was upgraded. The upload speeds for new Net users were increased. The upload speeds for the users of Net packages for speeds exceeding 10 Mb/s, i.e. for 20, 50 and 100 Mb/s, respectively, were changed, so users are offered 20/4 Mbps, 50/8 Mb/s and 100/10 Mb/s. Existing users were gradually migrated.
- ◇ The FiberPro service was launched in December which offer a symmetrical access to the Internet through P2P optical connection from 10 Mb/s to 1 Gb/s access speed and an asymmetrical access from 20/5 Mb/s to 200/100 Mb/s with additional services: Managed CE, Backup access, CE Firewall, DDoS attack protection, WLAN.

ICT services

- ◇ The Hotel Information System service was launched in February, as a business solution that includes software for basic activities in the hotel accommodation management.
- ◇ The Office 365 service was upgraded in March, i.e. the offer designed for business customers has been extended to Office 365 packages: Exchange Online Kiosk, Business Essentials, B & B Premium.

- ◇ In December, the following functionalities were launched: online application for registration of new (cloud) users and online application for creating a new (aggregate) account as a new functionality on the oblaci.rs portal. After registering on the portal with its mts account, the user can order any service on the portal and have an aggregate account for the selected services. This aggregate account does not apply to postpaid mobile services.
- ◇ Registration of national domains (Cyrillic and Latin) and Web hosting are migrated to the Cloud platform using the latest technology, thus enabling faster and easier modification of an offer according to business requirements and automation of service provision.

Business package

- ◇ In the communication channel domain, at the end of April 2018, *BizPaket savetnik* was set up on the mts.rs portal, as a novelty in communication with business customers, creation of an offer and sale of *BizPaket* (business packages).
- ◇ In June, *Bizpaket* was upgraded in the segment related to the Internet access services, i.e. the integration of Internet Max Packages with 20/4 and 50/4 Mbps bitrate for new and existing business customers was made available for a period of 12 or 24 months.
- ◇ In November, free traffic in mts fixed network for fixed lines included in the package was granted to all business package users.

BOX services

- ◇ In February, BOX 2 and BOX 3 packages were commercially put into operation with Internet speed Net 100.
- ◇ In September, promotions for the users of BOX 2 and BOX 3 packages, on copper and optical infrastructure, were redefined. The BOX 4 package was also released, which practically restored the hard bundle concept where all 4 services are firmly connected in a package. Changing the individual service means changing the entire BOX 4 package.
- ◇ A *shared allowance* concept "4 in BOX 4" was launched as part of Box 4, with 100 GB monthly allocated to additional postpaid lines for shared use.
- ◇ Within fixed telephony, BOX packages have been improved with additional free calls: BOX 3 offers unlimited free traffic to mts fixed and mobile networks, and BOX 4, besides this, includes unlimited free calls to mtel networks in Republika Srpska and Montenegro.

TV services

- ◇ During 2018, the promotional campaign for "mts bizTV" service for non-hotel business customers was launched
- ◇ At the end of May, the improved mts TV GO application was commercially launched - the provision of video, audio and other multimedia content over the Internet.
- ◇ At the end of December, a new service m:SATtv was commercially launched. The service enables users to receive TV and radio program, which is directly broadcast from the satellite to individual users via DTH (Direct to the Home) technology. DTH is a satellite system for direct delivery of content to the end user. All content is transmitted exclusively in digital form, which guarantees high image and sound quality. TV channels are grouped into appropriate packages. This service is designed for residential customers of Telekom Srbija in Republika Srpska, including Kosovo and Metohija through mts doo. It will be offered to users in Montenegro and Republika Srpska through m:tel Crne Gore and Telekom Srpske.
- ◇ In December, the mtsTV service *Rezultati uživo* (Live Results) was upgraded - the sports widget is available to mtsTV residential customers in the Extra section. Eight sports are available, an overview of the results of the matches that were completed in the previous 48 hours, current match results, the match schedule.

Financial and digital products and services

- ◇ In July, the first phase of the previously started project "Development of portfolios and continuation of digital transformation of mts Banka in synergy with TS" was completed, whereby the portfolio of banking products include the allowed overdraft, MCA (multy currency account) authorization, issuing of additional cards, replacement of cards and scoring module. These products are available through the Light Branch application and WEB (eBanking) channels. The mobile application channel for the mentioned products was released in August. In October, the second phase was completed (cash loan for the period of 12 or 24 months, credit cards with and without insurance, standing orders and closing of accounts). The products are offered through the Light Branch application and WEB (eBanking) channels, while the mobile application channel was released in December 2018. In December, all products were commercially and officially released, thus completing the portfolio of banking services through all channels.
- ◇ In June, a project entitled "Procurement and Implementation of Multifunctional Self-Service Devices" was initiated, within which 8 devices will be procured and installed to provide different telecommunication and banking services, which will be installed at selected mts retail stores.
- ◇ In July, as part of mobile payment, the required improvement in the prepaid credit top up service was made by charging the post-paid account, where the steps in the implementation of this service are adjusted so that the user does not need to further confirm the transaction by sending an SMS to a short code. As of 1 December 2018, due to the termination of the agreement with Raiffeisen Bank a.d. Belgrade, it is no longer possible to make mobile payment of mts bills and top up prepaid credits using Visa and MasterCard cards. Due to the liquidation of the company Diners Club, the mobile payment of the prepaid credit top-up service using Diners payment cards was canceled, whereas mobile payment of bills and prepaid credit top-up service using Dina Cards operates smoothly.
- ◇ A promotion of the *eRačun* service was made. On the back of the bills for March, the *eRačun* service was advertised, informing the customers about the benefits they would get if they switch to the same – 100 dinars would be deducted from the first *eRačun*, preservation of the environment, delivery of the bill to the e-mail address and payment of the bill without commission if done through the mts portal.
- ◇ In May, in the course of further development of mobile payment services through applications, the "Ready to Wash" service was put into operation with the partner - purchase of tokens for the use of self-service car wash through the R2W application, with payment from the user's mobile account.

8.3. MTEL BANJA LUKA SERVICE OFFER IN 2018

2018 is characterized by the improvement of integrated and TV services, mobile telephony services, as well as the introduction of new services to meet the needs of end users.

New services:

- ◇ Web self-care portal. The new service relates to the development of the corporate website and a self-care web portal aimed at improving the presentation of the Company's products and services according to the digital showroom/shop principle and the sales process in as few steps as possible. In 2018, all key points of the project were implemented, such as: implementation of the site with upgraded presentation section, creation of a new product catalogue optimized for digital presence, e-commerce for new and existing users, e-commerce for telesales, electronic top-up payment, implementation of redesigned self-care portal and Android self-care application.

- ◇ DTH service. This service was launched at the end of 2018 as m:SAT service and it includes the distribution of TV program via satellite to the terminal equipment installed at the user location and the program content is organized in TV program packages. For service provision, customers are provided with the following terminal equipment: satellite receiver, satellite antenna with equipment and a LNB (Low Noise Block). The service is designed for residential customers and it is implemented in cooperation with Telekom Srbija.
- ◇ ICT service: the Cloud Security service includes the provision of the managed NG Firewall solution along with the Unified Threat management services and reports on all activities for business customers for a monthly fee, without initial investments in the system implementation.
- ◇ ICT service: Virtual Private Server service enables customers to lease and use virtual servers in the Mtel's Data Center. The VPS service is created after leasing the processor power on a daily or a monthly basis, main memory, data storage space and required permeability (port speed), with the selection of Linux OS or Windows server operating system.

Numerous improvements have been made to existing services, which include:

- ◇ Upgrade to the IPTV functionality and content that includes the implementation of new applications on the IPTV platform: Children's TV, News and Sports Results. The offer of the basic IPTV service package has been improved with a large number of domestic and foreign channels.
- ◇ Improvement in postpaid mobile services. New postpaid tariffs have been created, mobile roaming tariff options have been introduced, significant subscription discounts for postpaid customers have been made, new tariff models have been created for business customers with minimal consumption.
- ◇ Improvement in prepaid mobile services in terms of creating new prepaid tariff models Standardica, Opuštencija, XY net. By launching the Opuštencija tariff model, customers are protected against unwanted consumption and, generally, the use of tariff options is intensified. The new tariff model XY net is characterized by higher internet bonuses.
- ◇ Increase in fixed broadband access speeds for business customers as new multimedia and Internet services require higher access speeds. A new tariff model has been introduced with an access speed up to 100/20 Mbps based on VDSL and GPON technology, and the upload access speeds have been increased in existing tariff packages.
- ◇ Improvement in the offer of terminal equipment by procuring many different models and brands of mobile phones, extending the offer of TV sets (TV sets are offered at a price of 1 KM), procurement of various models of tablets, consoles.

Logosoft

Logosoft strengthened its position and set high standards for the provision of business information and communication services. 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 cloud solutions and as such, it is an excellent business, information and communications solution.

The development of various business solutions in the system integration domain, software development and the construction of a new generation Logosoft Data Center, implementation of various solutions on Microsoft platforms Microsoft Dynamics NAV and Microsoft Dynamics CRM solutions, positioned Logosoft as a renowned business partner of many companies in B&H and the region.

Logosoft is the sole partner of Microsoft with Microsoft Gold ERP Partner Competence in Bosnia and Herzegovina, which has a localization CfMD module for NAV 2018, as well as the CfMD module for salary calculation in the B&H market, which represents a significant comparative advantage over competitor companies.

2018 was marked by the business expansion in the regional and the European market. Partnership with global cloud vendors, Microsoft and Cisco, direct links with the world's largest Tier 1 providers, has enabled the company to work on the joint implementation of cloud-based services, as well as a high level of availability, reliability of services at the local and regional level. It received two prestigious certificates, ISO/IEC 27001:2013 for information security management system and ISO/IEC 20000-1:2011 for IT service management system.

The company also ensured the extension of the Cisco Cloud and Managed Service Provider Master (CMSP Master) status, thus confirming that the Logosoft Data Center meets all rigorous technical, security and organizational requirements for Cisco partners that offer cloud services based on Cisco infrastructure solutions and the position of a regional leader in that area.

Mtel Austria

In 2018, the Company focused on the expansion of the postpaid offer and the growth of the postpaid customer base while maintaining a steady growth of the prepaid customer base. Service tariffs have been redesigned and the sale of high-class phones has been introduced. The postpaid offer has been upgraded, which includes unlimited calls to the EU, Austria, Telekom Srbija Group networks and unlimited calls from Serbia, Bosnia and Herzegovina, Montenegro to all networks in Austria and Telekom Srbija Group. The amount of mobile Internet has been increased within the monthly subscription.

Intensive campaigns in the field of integrated marketing communications were conducted: digital marketing, advertising, sales promotion, events and social responsibility. The logo of Mtel Austria has been changed and the corporate website has been redesigned.

8.4. SERVICE OFFERING OF MTEL PODGORICA IN 2018

Mobile telephony services

Throughout the year the campaign of promoting m-payment service, mPAY, continued, enabling mtel's customers, for the first time in Montenegro, to make payments via their mobile phones with the following service access: selecting the method of payment, gifts, prepaid top-ups and the like.

In the postpaid segment, the Urban office packages have been introduced, designed for business customers, under the similar terms as the Urban packages for residential customers. Urban packages enable unlimited calls within the mtel network, certain number of minutes to other networks in Montenegro.

In the prepaid segment, promotional campaign for m:go plus service has been introduced for new customers, where the customers are granted resources within the network, to other other mobile networks, along with a special benefit of unlimited use of social networks in the following 12 months fair policy, 10GB at maximum speed.

In June, new data roaming tickets were introduced, designed for all postpaid customers. Sales promotions continued for the annual roaming ticket for Serbia, Kosovo and Slovenia at promotional price by the end of the year. Likewise, the campaign "Our golden 11" was launched in June.

New Internet packages were introduced in September with higher data quota covered by the subscription: Surf S,M,L,XL postpaid packages with quotas of 2GB, 50GB,100GB and 200GB. Along with the referenced surf packages, the sale of modems at the price starting from EUR 1 was also introduced.

Fixed telephony, Internet and TV services

As of January, two years after the service rollout, activities commenced towards retaining the existing customers in the segment of cable services, with optional upgrade to a higher package.

In November, the "Move" service was introduced for the users of BOX packages which involves the distribution of programme package (TV, radio and VoD content) via the Internet, which offers, along with Time Shift service with up to 7-day rewind option, storing the recorded content for 7 days.

At the end of the year, new service m:SAT was introduced in the same segment, which offers Tv content via the satellite signal. Three packages are offered: Start, Plus, Max. During the promotional period, new users of m:SAT TV package are granted a promotional subscription at EUR 1.

8.5. SERVICE OFFERING OF OTHER SUBSIDIARIES

YUNET

A change in visual identity, strengthening of brand and digital communication with customers through a new Yunet website marked the year of 2018.

Listening closely to customers and their demands has initiated the expansion of service portfolio through partnership with Microsoft and IBM and enhancing the existing internet-based services which resulted in increased number of business customers.

An initiative has been recognized for introducing commissioned assignments of laying optical infrastructure, so that Yunet, as a sub-contractor, has qualified for the execution of works for Telekom Srbija and Huawei.

In order to modernize digital tools and technologies, the process of modernizing network and IT infrastructure has been launched, as well as the management system certification according to the requirements of the following standards: ISO 9001, ISO 14001, ISO 18000 i ISO 27001.

mts Antena TV

The Company sells the services of Antena PLUS to individuals and legal entities across the territory of Serbia.

The Antena PLUS service comprises of the delivery of video content (digital TV) via the network of terrestrial TV transmitters (DTT) by using the system that enables bundling of several TV programmes (multiplex).

The programme contents are organized in a package wirelessly distributed to all transmitter locations, passed further on to the customer's terminal equipment (antenna and STB device). For the needs of digital broadcasting, Serbia is divided in 15 regions.

Antena PLUS offers an extensive choice of quality TV channels such as: Arena sport 1, Arena sport 2, Arena sport 3, Arena sport 4, Arena sport 5, Pink 2, Pink 3 info, Pink Premium, Pink Movies, Pink Action, Pink Series, Pink Comedy, Pink Pedia, Pink Kids, Pink Western, Pink Reality, Pink Thriller, Film klub, Ženska TV, AgroTV, Kitchen TV, Minimax, Nickelodeon, B TV, Hram TV.

AVCOM

The services provided by Avcom by and inclusive of 31 December 2018 were as follows: cable TV (through HFC, Ethernet and GPON network), Internet (as *Hosting* and *Housing*), fixed telephony to individuals and legal entities, separately and in bundles.

The services introduced by Avcom in 2018 are bundled together with TV and the Internet within the fixed telephony segment (an agreement was signed with Sat-Trakt on 28 September 2017, however, the first customers were activated in 2018).

Kopernikus Technology

Upon changing the ownership structure at the end of 2018, Kopernikus added 28 channels from Telekom's production to its TV listings. Likewise, following the market trends, Kopernikus entered into negotiations with HBO in order to list in HBO and Cinemax channels as well.

Kopernikus has enriched its Internet package offer by new speeds, in order to reconcile the offer and the requirements of its most demanding customers (15/1 Mb/s, 35/3 Mb/s, 60/4 Mb/s, even 110/5 Mb/s). Cable Internet service has been bundled with cable TV service and/or fixed telephony. In 2018, Kopernikus acquired the equipment whereby it registered for DTH service.

Telus

Within the registered activity, Telus provides the security services for facilities and property (security guards, fire protection and cash security escort) and hygiene maintenance of business premises and facilities.

In view of the provisions of the Law on Private Security and the fact that the revenues from physical and technical security have been executed to somewhat higher degree compared to the revenues from other services, as of 2016 the main activity of the Company has been changed to private security.

HD-WIN

Arena sport is focused on the production of various sporting events in the territories where it is present (Super League, ABA League, BPL, Serbian Basketball League, Champions League and Europa League). All major competitions are covered both by studio commentaries and special programmes in its own production.

As of the commencement of its broadcasting, Arena sport TV programme is based on exclusive premium content in the sphere of sports. The content is commonly procured based on 3-year contracts upon negotiations with the rightholders.

When the studio was introduced, the programme was enriched with studio commentaries covering the UEFA Champions League and Europa League, as well as the updates on the Serbian Super League, the French League and Italian League, and there is also a show keeping track of basketball events. Daily news - Arena News – are broadcast as well.

mts bank

The bank expanded its service offering to clients through digital services. An automatic application for overdraft, cash loans and credit cards has been allowed. An automatic scoring model was introduced, significantly reducing the credit risk.

Clients are enabled to file a request for account authorization, issuing additional debit or credit card and standing orders for the payment of bills to Infostan, Telekom Srbija and Electric Distribution Company for the City of Belgrade.

At the same time, optimization and expansion of other services was made on ebanking and mBanking applications, and the application of instant payments and preparation of the payment system by QR code.

In cooperation with Telekom Srbija, a special synergetic product was created – cash loan - which contributed to considerable growth in the results for 2018.

In 2019, the introduction of new services is planned through multifunctional devices (ATM device that also enables the provisino of services to the customers of Telekom Srbija), international money transfer, synergetic products with Telekom Srbija, introduction of DMS system for scanning and archiving documentation with the option to sign documentation with two-factor authentication.

TS:NET

TS:Net B.V. with its service of leasing telecommunications equipment, with its seat in Amsterdam and GO4YU Beograd represent a support for the envisaged entry of the Parent Company and its subsidiaries to the markets other than home and local ones.

GO4YU

GO4YU operates primarily in USA and Canada. It provides VoIP fixed phone and TV services globally, save for the ex-Yu countries, and VoIP app throughout the world, except in Europe.

09

CUSTOMERS OF THE PARENT COMPANY AND ITS SUBSIDIARIES



9. CUSTOMERS OF THE PARENT COMPANY AND ITS SUBSIDIARIES

9.1. THE USERS OF TELECOMMUNICATIONS SERVICES

At the end of 2018, Telekom Srbija with its subsidiaries has a total of 9.8 million customers. In 2018, on the aggregate level, an increase was generated in the number of Internet and multimedia users and a decrease in the total number of customers in fixed and mobile telephonies.

Table no.8. Users of telecommunications services by service type (in 000)

Customer type	Year	Telekom Srbija	Banja Luka	mtel Podgorica	mts d.o.o.	YU net	Kopernikus Technology	Avcom	Total
Fixed telephony	2017	2.116	239	21	17				2.394
	2018	1.978	231	46	16		2	0,09	2.273
	rast	-6,5%	-3,5%	118,9%	-9,1%				-5,1%
Mobile telephony	2017	4.194	1.335	288	31				5.849
	2018	4.050	1.368	301	31				5.749
	rast	-3,4%	2,5%	4,3%	-1,9%				-1,7%
Internet	2017	739	141	47	5	20			952
	2018	719	149	62	5	17	59	7	1.019
	rast	-2,7%	6,1%	31,1%	1,4%	-14,7%			7,0%
Multimedia	2017	426	80	53	2				562
	2018	441	96	70	3		141	14	766
	rast	3,4%	20,5%	31,9%	9,9%				36,3%
Total:	2017	7.476	1.795	410	56	20			9.756
	2018	7.188	1.844	478	54	17	203	21	9.806
	rast	-3,8%	2,8%	16,8%	-3,4%	-14,7%			0,5%

Fixed telephony customers

Fixed telephony services are used by 2.3 million customers which reflects a 5% decline. In the Parent Company, Telekom Srbija, and its subsidiary Telekom Srpske and mts d.o.o. the number of fixed telephony customers at the end of 2018 is lower than the respective number in 2017, whereas such number in the subsidiary mtel is significantly higher. At the end of 2018, the Group has 2 million residential customers and 291,000 business customers.

Table no.9. Fixed telephony customers – residential and business (in 000)

Customer type	Year	Telekom Srbija	Mtel Banja Luka	mtel Podgorica	mts d.o.o.	Kopernikus Technology	Avcom	Total
Residential	2017	1.866	203	19	17			2.105
	2018	1.730	192	42	15	2	0,43	1.982
	rast	-7,30%	-5,67%	124,69%	-9,95%			-5,86%
Business	2017	250	36	2	1			289
	2018	248	39	3	1	0,05	0,01	291
	rast	-0,78%	8,93%	64,33%	6,73%			0,92%
Total:	2017	2.116	239	21	17	0,00	0,00	2.394
	2018	1.978	231	46	16	2,13	0,44	2.273
	rast	-6,53%	-3,48%	118,89%	-9,09%			-5,05%

Mobile telephony customers

The total number of mobile telephony customers at the end of 2018 amounts to 5.7 million and it reflects 1.7% decline. All companies within TS Group record a decline in the number prepaid

customers, save for Telekom Srpske subsidiary, while all Group members record a growth of postpaid customers compared to the previous year.

At the end of 2018, the number of prepaid customers equals 2.7 million and it accounts for 47.8% of total number of customers, while the number of postpaid customers equals 3 million which accounts for 52.2%.

Table no.10. Mobile telephony customers - prepaid and postpaid (in 000)

Customer type	Year	Telekom Srbija	Mtel Banja Luka	mtel Podgorica	mts d.o.o.	Total
Prepaid	2017	1.831	968	131	9	2.939
	2018	1.636	983	120	8	2.747
	rast	-10,64%	1,47%	-8,33%	-10,96%	-6,55%
Postpaid	2017	2.363	367	157	23	2.910
	2018	2.413	385	180	23	3.002
	rast	2,13%	5,08%	14,76%	1,47%	3,18%
Total:	2017	4.194	1.335	288	31	5.849
	2018	4.050	1.368	301	31	5.749
	rast	-3,44%	2,46%	4,25%	-1,91%	-1,71%

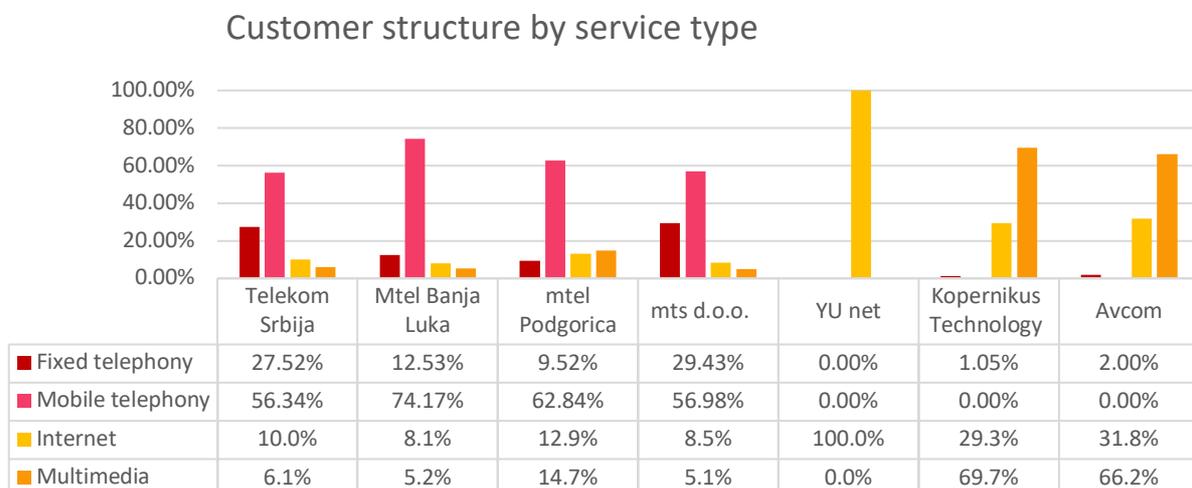
Internet and multimedia users

The total number of Internet users on the Group level at the end of 2018 is around 1 million and it includes ADSL customers of the parent company Telekom Srbija and its subsidiaries Mtel Banja Luka, mts d.o.o. and YUNET, but also the users of subsidiaries Mtel, Kopernikus Technology and Avcom, who use the internet through cable technology, or WiMax technology when Mtel is concerned.

The number of users of multimedia services at the end of 2018 equals 766,000. The users of the Group's multimedia services include IPTV customers of the parent company Telekom Srbija and its subsidiaries Telekom Srpske and mts d.o.o., as well as cable customers of subsidiaries Mtel, Kopernikus Technology and Avcom.

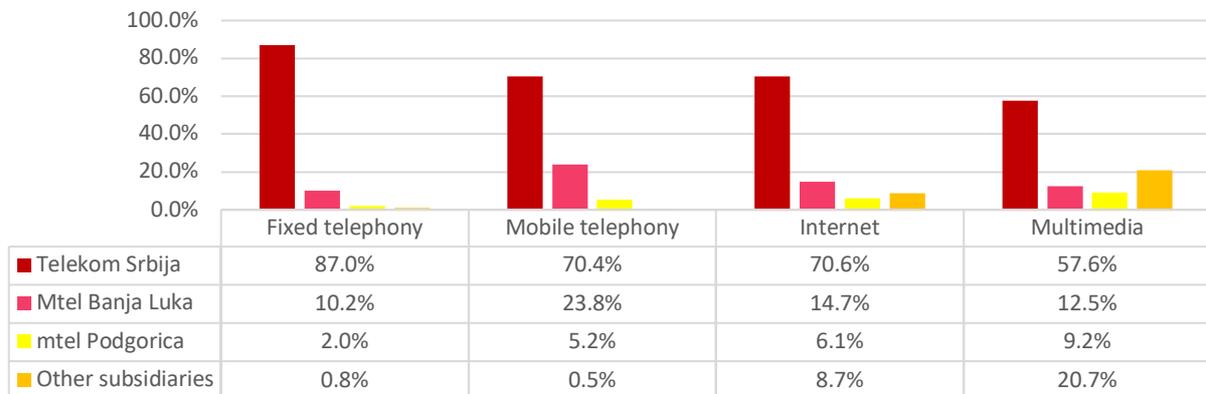
9.2. CUSTOMER STRUCTURE OF THE PARENT COMPANY AND SUBSIDIARIES

In the structure of customers, the largest share belongs to mobile telephony customers, over 56% in Serbia, and 74% and 63% in Republika Srpska and Montenegro, respectively.



The share of mobile telephony customers is stable in Serbia and Republika Srpska, while it records a decline in Montenegro.

Customer structure by Group member



Fixed telephony customers in Serbia still boast of a high share – 27.52%, whereas it is around 12.5% in Republika Srpska; in both instances in slight decline, and in Montenegro– 9.5% which is a considerable growth compared to 2017. The share of the users of the Internet and multimedia grows in the entire region.

Telekom Srbija has the largest share in the overall number of telecommunications services: 70% of mobile telephony customers, 58% of multimedia users, 71% of internet users, 87% of fixed telephony customers.

Mtel Banja Luka has the second largest share, predominantly in mobile telephony– 24%, followed by the Internet 15% and multimedia – 12.5%. mtel Podgorica has 5% share in the mobile telephony and Internet segment, and 6% in total customers, and 9% in multimedia users.

Other subsidiaries have a considerable share in the multimedia segment, of which the largest individual share of 18.5% belongs to Kopernikus Technology.

9.3. THE CUSTOMERS OF OTHER SUBSIDIARIES

HD-WIN

Arena sport channels at the end of 2018 are present in the distribution networks of 58 operators in the territory of Serbia, Bosnia-Herzegovina, Macedonia, Croatia and Montenegro.

A tentative number of households in the region which receive the signal of TV Arena sport channel is 2.35 million, or 475,000 in Serbia.

Table no.11. TV Arena sport coverage

Market	No. of households	% of service use	No. of households using the service
Serbia	950.000	50%	475.000
Montenegro	120.000	54%	64.800
B-H	760.000	95%	722.000
Croatia	400.000	60%	240.000
Macedonia	120.000	30%	36.000
Total:	2.350.000		1.537.800

mts bank

In 2018, the bank continued the provision of banking services to its clients, catering to market needs both by improving the existing products and by introducing new ones to meet all client requests.

In that regard, the market reaction ensued through 26.3% growth in the number of clients compared to the previous business year. Apart from the growth of the number of clients who use loans for vehicle registration (WEB loans), cash loans record a significant increase in the number of clients.

Table no.12. Number and structure of mts bank clients by types of services

Product type	No. of clients		growth in %
	2017	2018	
Transaction accounts of natural persons	18.605	26.482	42,34%
Transaction accounts of legal entities	1048	1.355	29,29%
Deposits of natural persons	794	1752	120,65%
Deposits of legal entities	9	11	22,22%
WEB loans	80.831	91.720	13,47%
Consumer loans	4	3	-25,00%
Investment loans	20	106	430,00%
Housing loans	128	185	44,53%
Cash loans	4923	11.553	134,67%
Other investments	739	2036	175,51%
Guarantees	22	96	336,36%
RSD cash account for trading shares	6	5	-16,67%
Total:	107.129	135.304	26,30%

Telus

In addition to Telekom Srbija a.d. as the parent company and PE Pošta "Srbija" as the major customer on the market, since 2010 Telus a.d. has started acquiring new clients on the market and to grow primarily on the market of hygiene maintenance.

Major Telus' clients, in addition to Telekom Srbija and PE Posta:

- ◇ The Government of the Republic of Serbia
- ◇ Finance Ministry – Treasury Directorate branches
- ◇ MUP RS (Serbian Ministry of Interior) – police departments – outside Belgrade
- ◇ Republic Geodetic Institute
- ◇ Republic Health Insurance Fund
- ◇ DDOR Insurance branches
- ◇ PIO Fund branches (Pension and Disability Insurance)
- ◇ Postal Savings Bank branches
- ◇ Piraeus Bank (currently *Direktna Banka*)

mts Antena TV

The number of customers of mts Antena TV in 2018 is constantly on the rise, 91% on average, as presented in the table below.

Table 13. The number and structure of customers

	2017	2018	rast %
Residential customers	11.939	22.732	90
Business customers	56	124	121
TOTAL	11.995	22.856	91

10

INVESTMENTS



10. INVESTMENTS

10.1. INVESTMENTS OF THE PARENT COMPANY AND ITS SUBSIDIARIES IN 2018

Total capital investments in 2018, on the Group level, amount to 38.7 billion dinars and they are 45% higher compared to the capital investments in 2017.

A comparative overview of capital investments generated by individual companies in 2017 and 2018 is shown below:

Table no.14. Growth rate of investments by company (in 000 RSD)

Members	2017	2018	Growth rate	Share in overall investments
Telekom Srbija	14.565.889	22.298.557	53,1%	57,61%
mtel Banja Luka	4.735.666	9.316.567	96,7%	24,07%
mtel Podgorica	7.053.556	6.356.283	-9,9%	16,42%
mts d.o.o	186.015	526.595	183,1%	1,36%
TS Net	146.413	46.169	-68,5%	0,12%
GO4YU	6.813	29.820	337,7%	0,08%
HD WIN	27.788	22.260	-19,9%	0,06%
mts banka	11.705	15.551	32,9%	0,04%
Telus	8.797	12.116	37,7%	0,03%
Kopernikus Technology	0	75.118	-	0,19%
YU net	0	10.326	-	0,03%
Total:	26.742.642	38.709.362	44,75%	100,00%

Observed individually, the largest investments in 2018 were generated in the Parent Company, Telekom Srbija, around 58% (22.3 billion dinars), and lowest in the subsidiary YUNET (10 million dinars).

10.2. INVESTMENTS BY TELEKOM SRBIJA

Intensive capital investments of Telekom Srbija are implemented for the purpose of ensuring business success in all business segments through strengthening market position, retaining the existing and attracting new customers, and through the growth of own sale and acquisition in the segment of provision of multimedia services and the Internet. By means of a quality infrastructure and implementation of the latest technological solutions, customers are provided with new services and offerings in the best possible manner.

Total capital investments have been executed in the amount of 22.29 billion dinars and for the most part they are related to the investments in the segment of fixed telephony, mobile telephony, the Internet and distribution of media content.

The largest capital investments were executed in the project of ALL IP transformation of fixed telephony, launched in 2017, as the largest capital investment in ICT infrastructure since the establishment of the company.

By continued capital investments in ALL IP transformation of fixed telephony, customers are provided with up to 1Gb/s broadband access, which keeps the basis for maintaining the leading position on the fixed telephony and the Internet market. At the same time, for the purpose of modernizing and expanding the capacities of access network and further expansion of optical network, significant investments were made in cable infrastructure and ducts, as well as in the fixed network access devices in the areas not covered by the ALL IP project, which facilitated the use of services on a high-speed broadband access.

In the mobile telephony segment, Telekom Srbija carried on with the investments in the expansion, modernization, optimization and upgrade of the RAN mobile network, thus providing its customers with a quality signal and fast mobile internet in all areas in the county, which reflected on the accelerated expansion of 4G coverage, with over 96% population coverage. A strong development and expansion of the LTE network and commercial provision of LTE services, paved the path for maintaining the leadership on the mobile telephony market. Significant investments were executed in the expansion of UMTS network coverage, with over 98% population coverage.

In accordance with the fixed network modernization, and the growth of mobile and fixed broadband traffic, the capital investments in the Internet domain are aimed at expanding and modernizing the IP/MPLS network, and further development and expansion of OTN/DWDM and wireless transport network. The ultimate goal is a further growth of traffic, an increase in the number of access network elements, as well as securing capacities for all prospective network and customer requirements, by applying state-of-the-art solutions on the market.

In the multimedia service segment, investments are focused on raising the quality of offer and introducing additional services, retaining the existing and attracting new customers, as well as acquiring the primary position in the distribution of media content. Likewise, capital investments in the expansion and upgrade of multimedia platform continued, with the goal to increase the number of customers who have higher quality multimedia content and services at their disposal.

The most significant IT projects in the last year are related to continued implementation of of IT transformation programme for the purpose of maintaining the relevant level of operations, with simultaneous growth and transformation. The investments that marked 2018 refer to the support to new revenue streams through ICT business services, Cloud platform, API management, and the development of applications and services.

On the other hand, the investmetns directed at continuation of projects related to ERP standardization continued, as well as the projects related to transformation of the Business Support System, the development of Big Data initiatives, and the investments in enhancing the internal Cloud and implementing the Telco Cloud platform. Besides, the investments in the existing Data Centres were executed and in transformation of digital work post, and the investments aimed at conforming the business to regulatory framework and further business standardization.

10.3. INVESTMENTS BY SUBSIDIARIES

Investments within Mtel Group

Total investments of Mtel Group in 2018 equal 154.1 million KM. Technical investments equal 63.6 million KM and they account for 41.3% in total investmetns, and the infrastructure-based investments amount to 90.4 millino KM with 58.7% share.

The largest capital investments in 2018 were made in the segment of construction of cable transport and access network, and the investments in MSAN/ISAM/DSLAM/OLT access equipment.

Mtel Banja Luka

In 2018, the construction of optical access network continued, in order to enable multiple increase in Internet speeds, a better service quality with a set of new functions not only in major cities, but also in rural areas. Several projects were realized on constructing backbone and regional optical cable routes, and cable ducts of 143 km were constructed in the territory of the City of Banja Luka. The projects of modernization and construction of the access network for specific areas continued, i.e. migration of customers to VDSL and GPON technology for the purpose of providing quality broadband services.

Likewise, preparation and execution of works on expanding the OTN/DWDM network continued. The upgrade was completed of the system for supervising the Time Pictra synchronization, as well as the activities regarding the optimization of fixed Backhauling. One of the important activities in 2018 is the connection of signaling networks of Mtel and Deutsche Telekom by using the SIGTRAN protocol stack and migration of traffic from E1 links to IP/SIGTRAN. A system for the online protection of mobile customers was installed on Mtel Cloud.

In the domain of mobile core network, preparation and connection of PS Core and CS Core networks was made, for the purpose of introducing the LTE technology and services. Testing equipment was procured for the construction of LoRaWAN network with the goal to commercially implement IoT services. m:Go app was upgraded, which also implies a redesign of the present version. The capacity of the IPTV STB devices and the capacities of systems were expanded, by the number of nPVR and OTT channels as well, so that the platform enabled new functionalities for a versatile offer.

Special attention was devoted to improving the services on the OTT service. In addition to increasing the number of OTT channels, the use of nonlinear functionalities was enabled on such channels: pausing the content, start-over of the current content, 72h time-shift and replaying the recorded content. In addition, new versions of multiscreen apps were updated (TV To Go for the phone, tablet and PC). The digital channels in marketing and sale were being improved, the development of ICT service portfolio, and enhancing the management of business processes through numerous projects and improvements of internal business systems. Mobile apps for iOS and Android were developed, and web payments were enabled on the corporate portal by cards for electronic topups and purchase of prepaid price plans.

In the ICT domain, migration of the Cloud platform to KVM hypervisor was completed and OpenStack with installation of new hardware, extension of storage and transferring all existing internal and external virtual machines to new infrastructure, thus increasing the security and performances of the entire system. Within logistics investments, the investments in the construction of facilities of wireless access network are significant, which increased the coverage, capacity and service quality through the introduction of 3G on 900 MHz, introduction of F2 and F3 on 2100 MHz, and the installation of equipment of LTE1800 MHz stations on total of 120 sites was made and LTE 800 MHz on 60 sites. A strategic decision was passed on the purchase of the company's office building, with the primary goal of achieving long-term positive financial effects.

Mtel Austria

In 2018, the project of software upgrade of the existing MVNO platform was completed, which created conditions for the provision of services to business customers, and the construction of a new web portal (web shop) mtel.at. The project of rolling out LTE commenced with the projected completion in 2019.

Logosoft

In 2018, the procurement of terminal equipment was made for the provision of services to end users, and for the procurement of fixed network devices.

Investments by other subsidiaries

mtel Podgorica

Total investments of the subsidiary company M:tel in 2018 equal 6.4 billion dinars and they are 10% lower compared to those executed in 2017.

In 2018, the investments were directed to the development of cable infrastructure. At issue is the largest project in Mtel Podgorica, which dynamically unfolds subject to the field conditions. The development of HFC network commenced in 2015, so that the combined development of HFC and GPON cable network continued in the 2016- 2018 period in order to cover all municipalities in Montenegro. In 2018, the network was developed underground, in cable ducts of mtel Podgorica and Montenegrin Telekom, and above ground on the poles owned by the Electric Power Industry of Montenegro and the poles of public lights owned by Utility Services in Podgorica, and local self-governments in other municipalities in Montenegro.

These investments facilitated comparative advantage over the competition, and consequently, accent was placed on the development of GPON cable infrastructure, particularly in suburban zones. In 2018, the existing cable infrastructure was expanded in the cities with developed cable infrastructure, as well as the implementation of GPON network in the existing and new cities. Special attention was paid to the development of technical models for the implementation of services for SOHO customers comprised of small companies and hotel facilities (with an emphasis on a turnkey solution for the WiFi coverage of the entire apartments and hotel compounds previously reached by fibre optics).

In 2018, investments in mobile network continued through considerable expansion of 4G network to rival the competitive operators and through the construction of new sites of 2G/3G network. Likewise, investments were made in the increase of capacities in the Core and RAN network part, in keeping with the expected traffic increase, and additional hardware and software upgrade of the system for packet traffic PS Core.

In 2018, preparation of premises was completed and the installation of equipment on a DRS location Nikšić (*Disaster Recovery Site*). The Regulatory obligation was thus fulfilled under the applicable Rules on the Security on Networks and Electronic Communications Services, and assumption was created at the same time for additional network upgrade in 2019, to fully implement the BCDR plan (*Business Continuity Disaster Recovery*).

Investments were also made in the mobile access network, due to earlier achieved results on the preparation of mobile network construction. At issue are projects, charges, licences, construction, environmental studies, etc. Investments were made in the management and switching systems of the mobile and fixed network, the mobile positioning system MPS, and significant increase in licences for fixed telephony due to the rise of customer number.

After two years of work on implementation, at the beginning of 2018, new Ericsson CBiO billing system was put into production. In that way, 10 years after the onset of operations of mtel Podgorica the first modification of the billing system was completed. The work continued on two major investments in the platforms for the support to business processes. To be specific, the first investment refers to the replacement of Microsoft Navision ERP platform with SAP, and the other one refers to the introduction of IBM Netezza DWH platform. The introduction of new Billing, ERP and DWH platforms will enable a high-quality reporting process and more flexible creation of new tariff packages, which will result in increased revenues of mtel Podgorica.

HD-WIN

In 2018, total capital investments by the subsidiary HD WIN equal 22 million dinars and they are related to the procurement of equipment for the needs of expanding the broadcasting system and servers, replacement of vehicles, as well as small day-to-day procurements and capital maintenance. The capital investments were lower compared to previous year by 5.5 million dinars.

Telus

In 2018, total capital investments of the subsidiary Telus amount to 12.1 million dinars and they largely refer to the procurement of six official vehicles.

Capital investments are higher on a year-to-year basis by 3.3 million dinars, i.e. 38%.

mts banka

In 2018, capital investments of subsidiary mts banka were executed in the amount of 15.6 million dinars and they mostly refer to investments in infrastructure (6.6 million dinars), vehicle fleet (4.8 million dinars) and investments in IT equipment (3.8 million dinars).

The executed capital investments are higher by 3.8 million dinars, or 33%, on a y-o-y basis.

TS:NET

In 2018, capital investments of subsidiary TS:NET were executed in the amount of 46.2 million dinars and they refer to continued investments in OTN/DWDM equipment.

The executed capital investments are lower by 100 million dinars, or 68%, on a y-o-y basis.

mts d.o.o.

In 2018, capital investments of subsidiary mts doo were executed in the amount of 527 million dinars and they refer to the purchase of equipment for the rollout of IMS platform, the investments in fixed network access devices, transport systems, IP/MPLS network, and the investments in the mobile network service platform.

The capital investments executed are higher by 341 million dinars, or 183%, on a y-o-y basis.

GO4YU

Total capital investments executed of subsidiary GO4YU in 2018 equal 29.8 million dinars and for the most part they reflect the acquisition of BOSTEL customers (23 million dinars). The executed capital investments are by 23 million dinars higher on a y-o-y basis.

YUNET

The executed capital investments in 2018 amount to 10.3 million dinars and for the most part they refer to the investments in customer equipment, car fleet, and the investments in computer equipment and Cisco equipment.

Kopernikus Technology

In 2018, capital investments of subsidiary Kopernikus Technology were executed in the amount of 75 million dinars and for the most part they reflect the investments in cable infrastructure, customer equipment and multimedia service platforms.

11

EMPLOYEES



11.EMPLOYEES

11.1. NUMBER AND STRUCTURE OF EMPLOYEES

Number and structure of employees at the level of the Company and its subsidiaries

Human resources management and development rank among the top goals and priorities of Telekom Srbija and its subsidiaries. The employee care implies the care for the overall satisfaction of the employees, the strengthening of their motivation and feeling of affiliation to the Company they work in.

Telekom Srbija and its subsidiaries always endeavour to provide their employees with appropriate working conditions, equitable treatment, safety at work, health care and the possibility of professional advancement and education.

The following tables feature a correlation between the number of employees working for definite and indefinite periods of time at the level of the Parent Company and its subsidiaries in 2017 and 2018.

Table no.15. Number and structure of employees per member at year's end

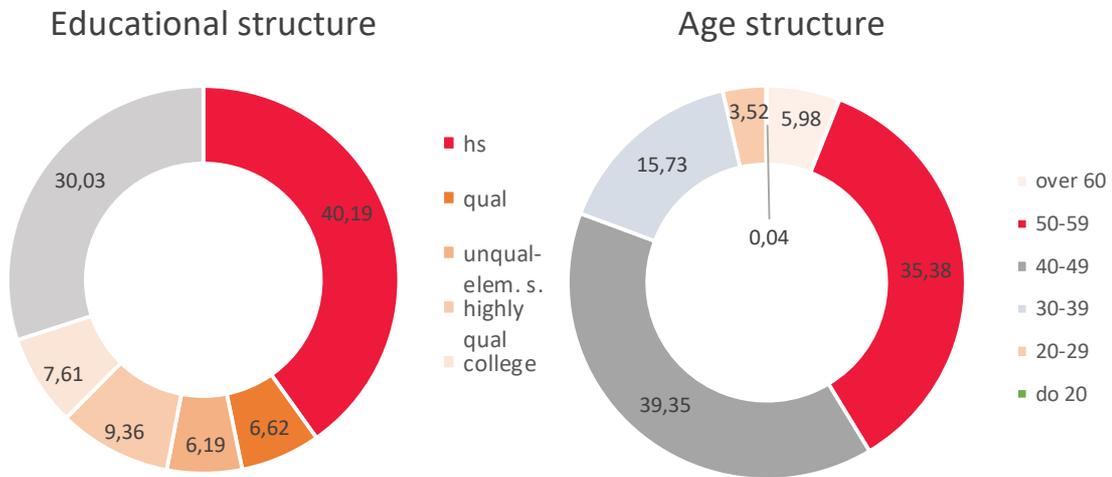
Members	No. of employees				Employee structure in %	
	2017	2018	difference	growth (%)	2017	2018.
Telekom Srbija	7.688	7.605	-83	-1,08	64,39	61,33
mtel Banja Luka	2.253	2.259	6	0,27	18,87	18,22
mtel Podgorica	293	322	29	9,90	2,45	2,60
Teus	1.225	1.228	3	0,24	10,26	9,90
Ostale članice:	481	986	505	104,99	4,03	7,95
HD-WIN	70	73	3	4,29	0,59	0,59
GO4YU	12	14	2	16,67	0,10	0,11
mts banka	180	188	8	4,44	1,51	1,52
mts d.o.o	137	146	9	6,57	1,15	1,18
mts AntenaTV	2	2	0	0,00	0,02	0,02
YUNET	80	66	-14	-17,50	0,67	0,53
Kopernikus Technology		437	437			3,52
AVCOM		60	60			0,48
Total	11.940	12.400	460	3,85	100,00	100,00

Due to the nature of their work, 143 employees of Telekom Srbija and 3 employees of Yunet are temporarily seconded to the subsidiaries and through an analysis of the total number, the same are featured in the subsidiaries.

Apart from the employees working for definite and indefinite periods of time in the Parent Company and its subsidiaries, on the basis of different contracts on engagement outside employment (leased labour - leasing, temporary and occasional jobs, hiring through youth employment agencies), a total of 2,431 persons are hired, most of whom by Telekom Srbija - 57.92%, followed by Telus 23.45%, Mtel Banja Luka 7.53%, mtel Podgorica 6.62%, HD-WIN 3.62%, Kopernikus Technology 0.37%, AVCOM 0.21%, mts banka 0.16%, Yunet 0.08% and GO4YU 0.04%.

As at 31 December 2018, 164 persons were engaged by Telekom Srbija to work based on service contracts, as part of the project entitled Door 2 door.

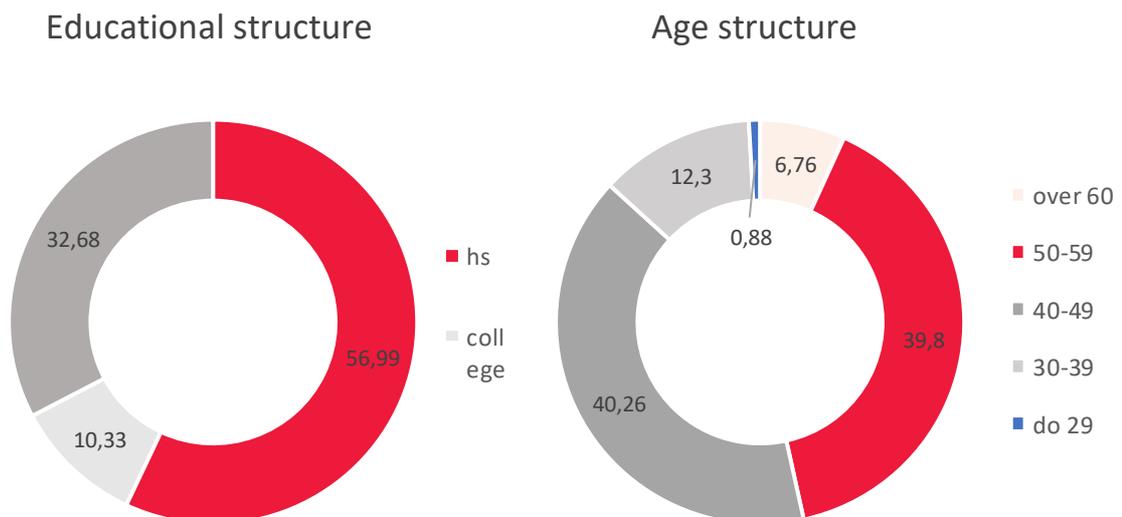
Presented below is the educational structure of the employees on a collective basis



Number and structure of employees of Telekom Srbija

As at 31 December 2018, there were a total of 7,748 people working in the Company. Of this number, due to the nature of work, 143 employees are temporarily seconded to other subsidiaries, 139 of whom with a dormant status, whereas 4 employees are seconded to the subsidiaries without an employment contract. Apart from this number, 1,408 persons were engaged outside employment through an employment agency (the leasing of labour) as at 31 December 2018.

The graph below features the education structure of the employees with an employment contract (without the employees with dormant employment contracts):



In terms of the employees' educational structure at corporate level, those with secondary school education have the largest share (56.99%), followed by the employees with university education (32.68%), whereas those with two-year post-secondary education have the lowest share (10.33%).

As for the age structure of the employees, most of the employees are 40-49 years of age (40.26%), whereas 46% of the employees are older than 50 years of age.

Number and structure of the employees of certain subsidiaries

Mtel Banja Luka

The total number and structure of the employees at the end of 2018 have remained at the same level as compared to 2017. The number of employees does not include those seconded from Telekom Srbija.

The following table features a correlation between the number of employees at the level of Mtel group for 2017 and 2018.

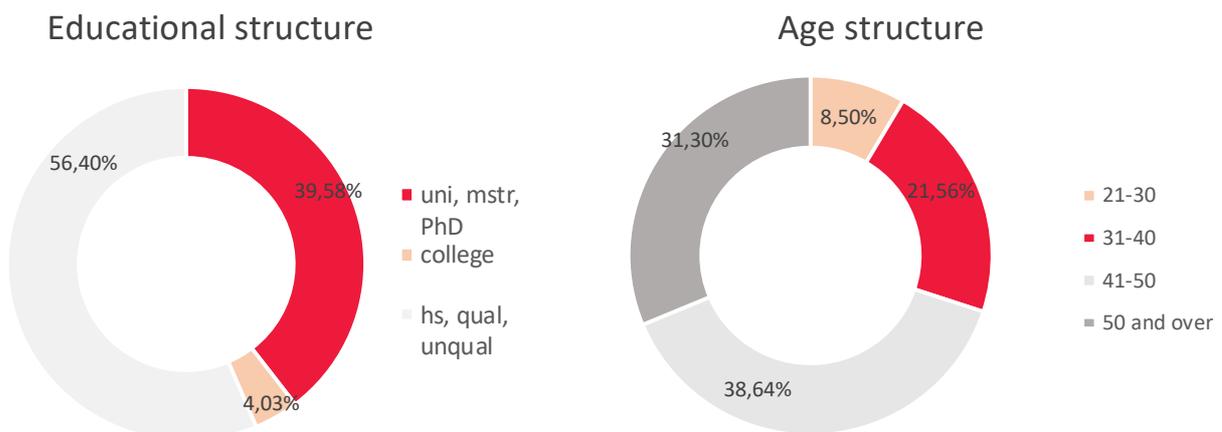
Table no.16. Number and structure of employees per group member

Members / Year	Number of employees in the Group				Employee structure	
	2017	2018	difference	rate (%)	2017	2018
Mtel Banja Luka	2.137	2.130	-7	-0,33	94,85	94,29
Mtel Austrija	12	24	12	100,00	0,53	1,06
Logosoft	104	105	1	0,96	4,62	4,65
Total	2253	2259	6	0,27	100,00	100,00

The total number of employees has risen by 6, whereas the number of employees with Mtel Austria doubled as compared to 2017.

The employees with secondary school education have the greatest share in the total number of employees (56.40%). As compared to last year, the structure is slightly different in favour of university educated employees.

It is observed that some 30% of the employees are over 50, whereas most of the employees are 40-50 years of age (38.97%). As compared to the preceding year, the structure slightly differs in favour of the employees up to 30 years of age and over 50.



It should be stressed that in the Mtel Austrija and Logosoft subsidiaries, the age and education structure is significantly in favour of the university educated employees 30-40 years of age.

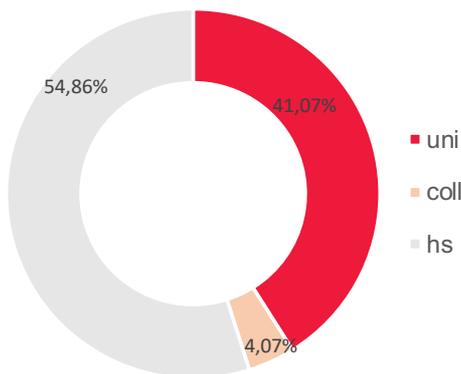
mtel Podgorica

As at 31 December 2018, mtel Podgorica had 319 permanently employed employees and 119 persons engaged outside employment.

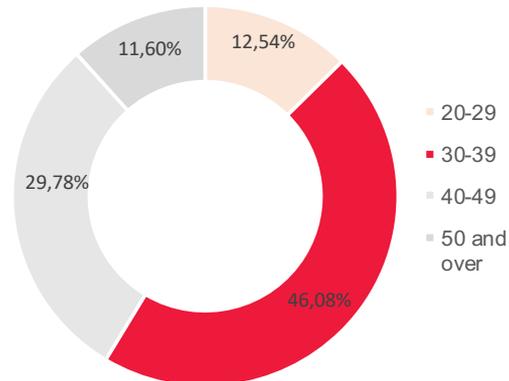
The employees with secondary school education have the largest share in the overall number of permanently employed (54.86%), followed by university educated staff (41.07%), which shows that, as compared to the preceding year, the change in this share was in favour of university education.

Most of the permanently employed are 30-39 years of age (46.08%), followed by 40-49 with a share of 29.78%.

Educational structure



Age structure

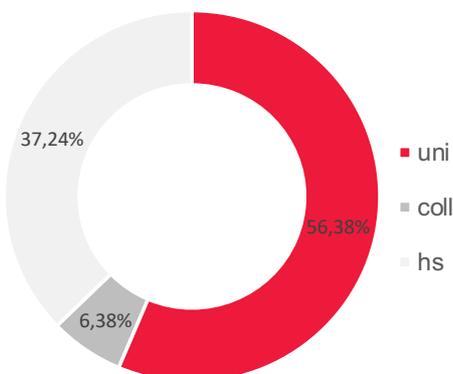


mts banka

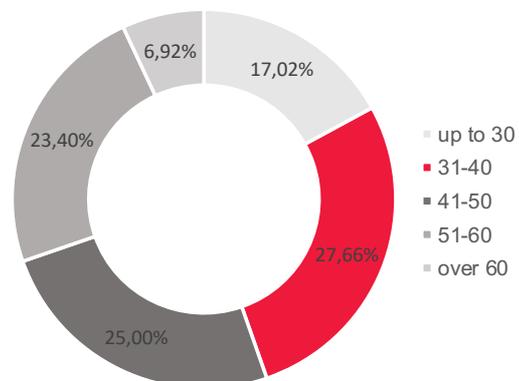
As at 31 December 2018, mts banka had 188 employees and 7 persons engaged outside employment. The number of persons employed for an indefinite period of time is 165, followed by 23 employees engaged for a definite period of time.

University-educated employees have the largest share in the total number (56.38%). In the employee structure, the number of employees of multiple intervals is identical, or more specifically, over 50% of them are 31-50 years of age.

Educational structure



Age structure



In accordance with the Business Cooperation Agreement between Telekom Srbija and mts banka, 667 employees were engaged in mts banka based on the Agreement on Additional Employment and the same are not included in the total number of persons engaged outside employment in the relevant companies.

11.2. EMPLOYEE DEVELOPMENT MANAGEMENT IN 2018

Telekom Srbija

Human resources management development is among Telekom Srbija's top goals and assignments. The Parent Company is endeavouring to ensure for its employees appropriate working conditions, an equitable treatment, safety at work, health care and the possibility of further professional development and education.

Talent management

In the framework of the implementation of Talent Management as a strategic goal, realized were the targeted internal and external programmes for the promotion of knowledge, all talents, and business and managerial skills. In this regard, recognized were talents included in the development and motivational modalities by being referred to relevant external training courses, conferences, seminars, internal training courses and team building events, English language courses, intensive management programmes, digital simulations of business processes and schooling. Most of the talents (71%) were covered by 3-5 development modalities.

Appraisal of employee performance

The new Methodology for the appraisal of employee performance with differentiated access to the appraisal of the employees and managers was implemented. As a result of the implementation of the new organization of the Company, the appraisal procedure covered the period between 1 April and 31 December 2018. For the purpose of improving the appraisal competences, educational support for all appraisers through group training courses, video materials, individual consultations, networking into the Community of Appraisers and expert guidance in all phases of the process was provided.

Corporate culture transformation

A series of activities aimed at creating an appropriate organizational context, promoting a new, desired corporate culture, and defining the values and leadership behaviours through international communication by way of the Newsletter and corporate culture banners on the internal portal was implemented. In November, a new corporate culture research was conducted. The questionnaire was filled in by 2,989 employees.

Community management

The Community implementation project was implemented as part of a broader strategic initiative for the introduction of a digital workpost. The Community is defined as a group of people sharing similar values through an internal social network. The project was implemented with the aim of promoting business digitalization and facilitating two-way informal communication. The introduction of the Communities is also designed to encourage corporate culture transformation. Several key Communities were defined, and they commenced their activities in 2018 as follows:

- ◇ The Community of Appraisers aimed at backing the performance appraisal model;
- ◇ The Mts Products and Services Community aimed at informing the employees of the Company's services and current campaigns;
- ◇ The Digital Revolution Community aimed at informing the employees about the trends in the sphere of digitalization and the possibilities for their application in the Company;
- ◇ The Synergy Community aimed at connecting and promoting cooperation between the employees from different organizational units engaged in the most important projects in the Company; and
- ◇ The Door to Door Community formed to support the new channel of field sales.

As many as 180 topics from different spheres were published in all communities. Since their opening, the Communities were visited by more than 3,000 employees.

Business simulations

Following the contemporary trends in the development and promotion of business skills, the implementation of one of the leading global platforms for online business simulations on the managerial education plane – *Cesim connect* was launched. This platform makes it possible for the customers to follow concrete financial indicators, that is, results of decisions reached. In this manner, it promotes the analysis of the management processes, business planning, market and competition analysis, the drafting of a corporate development scenario and inter-dependence between decisions reached and the total business performance of the Company.

External and internal education

In the course of 2018, a total of 1,875 employees were referred to external education courses in this country and abroad. They spent a total of 5,097 days at education courses, which is approximately 3 days per participant.

External education courses in this country was attended by 1,388 participants. They spent 3,488 days at education courses in this country. A total of 128 participants were sent to educational events abroad and spent 419 days outside the country.

In the organization of the Training Centre of the Human Resources Division in the course of 2018, a total of 421 participants attended internal education programmes and spent 852 days at internal education courses. English language courses were organized for 127 participants in group classes and 66 participants in individual classes. The internal English language classes covered 79 participants. Also maintained was the implementation of internal team building programmes including 170 participants of the Company.

In the framework of the Door 2 Door project organized and implemented were education courses for a total of 1,100 employees from the sales channel - technicians/fitters from the Technical Affairs Division.

Schooling

The employees referred to additional schooling enter into commitment contracts. As at 31 December 2018, there were 19 active schooling contracts, whereof 9 new schooling arrangements were approved in 2018.

Licences, certificates, membership fees

In 2018, the Company provided funds for various types of licenses, certificates, professional licensing exams and membership fees for 600 applicants. They mostly cover the obtaining of new licences and professional exams in the Serbian Chamber of Engineers, the obtaining of CISCO certificates, the certificates for a chartered auditor, the exam for obtaining a licence for risk assessment and protection of persons, property and business operations, the exam for obtaining PMP certificates, the renewal of the membership fee for the Serbian Chamber of Engineers for the licences for a responsible designer and responsible contractor (475 applicants), the membership fee for the Association of Accountants and Auditors, the membership fee for the Chamber of Chartered Auditors, the membership fee for the Association of Internal Auditors, re-certification of the GIAC GPEN certificates, PMI membership fee, re-certification of the PMP certificates, the membership fee for the International Institute of Business Analysis.

Recruitment and selection

In the course of 2018, as the primary channel for the recruitment of young talents and experts for Telekom Srbija, the base of students who had completed their practical training at the Company within cooperation with Belgrade University was used. Of the total of 200 candidates hired, 145 were engaged to perform the tasks in direct contact with residential and business customers, 16 candidates were engaged to perform the tasks related to the development of the Internet and multimedia, 21 candidates are hired for engineering tasks, 17 candidates for operative tasks and 1 candidate for other tasks.

Practical training

During 2018, 309 secondary school students and 137 university students completed their practical training at the company, 85% of whom are students in the field of telecommunications and information technologies. In 2018, three practical trainings were provided and paid for Belgrade University students.

Job rotation

In 2018, launched was the pilot project entitled Job Rotation at the Business Customers Division the aim of which was to conduct the testing of the job rotation concept in the Company by monitoring the employees included in the rotation and analysing the work processes in the organizational units selected for this project. The pilot project was implemented in the period between 1 October 2018 and 15 December 2018, which covered 88 employees from three divisions who participated in the rotation process for a total of 58 working days.

Bearing in mind the fact that the basic criterion for the selection of organizational units was connectivity in terms of work processes (addressing faults and requests forwarded by business customers), by being part of the job rotation process, the employees could be better acquainted with the End to End tool and the tools being used, transfer their knowledge and experience and establish better communications between the employees, which resulted in the promotion of the existing processes, speeding up the flow of information and use of new applications.

Employee benefits

To motivate and retain the key resources of the Company, in the course of 2018, 250 employees were designated as beneficiaries of flexible benefits from all organizational units of the Company. A total of 745 requests were fulfilled for the award of different kinds of flexible benefits (the compensation for the costs of different types of employee insurance, various types of professional advancement, tourist trips, coverage of the costs of an employee's children's schooling, medical services, fitness and wellness services, the costs of fuel for passenger cars, parking ...).

The payment of jubilee awards to the employees who, in the period between 2 June of the past year and 1 June of the current year, will have been continually working for Telekom Srbija (PTT System of Serbia) for 10, 20, 30 or 40 years. In 2018, jubilee awards were paid out to 647 employees.

To mark March 8, Women's Day, in 2018, the Company approved the right to a one-off payment of funds—gift for women employees/hirees.

In 2018, the Company approved the right to a one-off payment of funds—gift to the employees/hirees for the purchase of New Year's parcels for children up to 10 years of age.

Mtel Banja Luka

In 2018, conducted were training courses for the employees for the purpose of upgrading the work processes through the promotion of the competences of the employees from different spheres (technical affairs, sales, management), and the improvement of communication.

Great attention was paid to the organization of internal training courses and the operation of an internal academy - m:akademije. During its second year, the operation of the Internal Academy was organized in two semesters. A total of 46 training courses were organized and conducted by 36 internal trainers for some 1,000 participants. Internal training courses were organized in the field of technical affairs, sales, project management, other business skills and knowledge of software and applications.

In 2018, the following activities were conducted:

- ◇ The promotion of cultural innovativeness continued with the training of the employees about design thinking tools and/or user-oriented solutions to business problems. An internal conference was staged with the aim of fashioning and promoting culture, and inspiring fresh challenges, opportunities and new ventures without a fear of error.
- ◇ The promotion of cultural cooperation. During the year, staged were events under the motto Synergy Strengthening-internal events rallying representatives of the management and employees of the Company's executive units for the purpose of team building for a more efficient fulfilment of business objectives.
- ◇ Paperwork culture reduction - the digitalization of the HR processes. A module for sending and approving applications for education and business trips was developed and put into operation. Also launched was the development of an application for gathering and updating job applications.
- ◇ The coordination of the HR processes with corporate values. The performance assessment process was amended by aligning the main competences with corporate values.
- ◇ Coaching culture. In the course of the year, through the implementation of educational courses, a model was developed for intensive and result-oriented cooperation on all management levels, as well as on the operative plane.

mts banka

During 2018, mts banka organized, among others, the following external training courses:

- ◇ Counselling in the sphere of legal affairs, Commercial Court of Appeals
- ◇ Implementation of GDPR (Decree on Personal Data Protection)
- ◇ The project workshop on the implementation and integration of MSSU (Printec BT) in the environment of Telekom Srbija and mts banka
- ◇ The seminar entitled The Compliance Function in Banks, organized by UBS
- ◇ The seminar entitled Amendments to the Company Law
- ◇ The seminar entitled BankFining 2018 - Risk Management, UBS
- ◇ The Kopaonik School of Natural Law - Mt Kopaonik
- ◇ The seminar entitled The Status of Banks and Legal Protection, UBS
- ◇ The by-laws of the Foreign Exchange Law, Economic Diplomacy Institute
- ◇ The counselling entitled BANKINFO organized by UBS
- ◇ The counselling entitled Annual Account at Lake Palić, UBS
- ◇ The seminar in the field of labour relations, Balkan Council for Development and Education Belgrade
- ◇ The forum entitled Challenge 2018 - the forum of communications leaders, Belgrade
- ◇ The seminar entitled Amendments to the Rules of Inspection of VAT Calculations
- ◇ The 13th gathering of Asseco SEE ebank club 13
- ◇ YU INFO 2018 & ICIST 2018 Kopaonik
- ◇ MCDC conference 2018 held in Lapov, Ukraine, Mastercard
- ◇ The conference entitled New Banking Vision held in Bulgaria – Sofia, in the organization of ASSECO SEE and Payten

Various internal presentations and training courses were held as follows:

- ◇ The presentation of the Compliance Test in the field of preventing money laundering and terrorism funding and compliance of business operations by electronic means
- ◇ The training course in the field of SPN and FT and information security
- ◇ Training courses for employed advisors for the sale of products and services to individual and legal entities in the sphere of product sales

12

ENVIRONMENT PROTECTION AND OTHER SOCIAL ACTIVITIES



12. ENVIRONMENT PROTECTION AND OTHER SOCIAL ACTIVITIES

The parent company and its subsidiaries directed their activities in 2018 towards the creation of a business environment in the service of digital innovations, the strengthening of the education process, the provision of the support to technological entrepreneurs in an early phase of development and the strengthening of economic sectors with a significant growth potential.

The year was marked by the We Support the Initiators campaign that integrated the leading projects in the sphere of education and the support for entrepreneurship, which, as a unique communications platform, provided a clear picture of the corporate values in the field of corporate social responsibility.

Environment protection report

Telekom Srbija is taking measures towards the protection of the environment adopting ecologically-oriented technologies and methods with the aim of reducing the negative impact on the environment. During the conduct of the activities, heed is paid to the environment protection aspect, such as rational energy consumption, prevention of the generation of waste material, proper waste disposal and its recycling.

By investing in and installing state-of-the art telecommunications technology, the Company is contributing to the application of clean technologies and technologies which consume less electric power, and emit less noise as compared to devices used over the past decades.

Telekom Srbija is generating various kinds of waste which is regularly disposed of in accordance with legal regulations. The Company has entered into contracts on the purchase of hazardous and non-hazardous waste with 24 companies authorized for this kind of activity. During 2018, 374 t of waste was disposed of, which is by 21% generated waste less as compared to 2017.

Electro-magnetic radiation emitted into the environment mainly derives from radio base stations of mobile telephony - so-called high-frequency radiation. Before a base station is installed, an Environmental Impact Assessment Study is drawn up listing all technical data and protection measures for that base station in line with the Law on the Protection from Non-ionizing Radiation. To date, the Company has not exceeded the permitted radiation levels. In the course of 2018, the level of non-ionizing radiation was measured for 680 base stations, 104 of which were proclaimed sources of radiation of particular interest.

For the imported electronic and electrical products and generators which after use become separate waste flows, the Company paid a fee in the amount of 682,398 dinars, and those funds will be used for the advancement of environmental protection.

The commitment to environmental protection represents a lasting category in the business strategy of Mtel Banja Luka, so that in 2018 too, the company took specific activities aimed at protecting the environment and the people alike. Apart from all legal obligations, mtel Banja Luka continually pursued both internal and external paper saving campaign and a campaign for the use of electronic instead of paper bills, and the activities concerning proper disposal of outdated and faulty electronic equipment and telephones.

Projects in 2018

We Support the Initiators is an umbrella programme of the Company which encourages institutions and individuals to initiate changes in their environment and encourage other people to follow in their footsteps. Through individual projects: We Create Knowledge, mts app competition, mts start-up acceleration, the Company is investing into all initiators of new and better social changes because it believes that stable support at the very beginning may be crucial for their further development. The Company is cooperating with the Startit organization and shares with it a joint goal - to train until 2020, 100,000 young people, IT experts who will remain in Serbia to live and work. Miloš Milisavljević, one of the founders of Strawberry energy whose products - solar benches adorn many world capitals was elected champion of this campaign.

We Create Knowledge – the support for the youngest initiators. Within the project, donated was computer equipment and 20 IT classrooms opened in 20 primary schools.

mts app competition and regional app challenge – we support talented young programmers

Since 2011, Telekom Srbija has organized the mts app competition for the creation of applications for mobile devices with the aim of boosting the entrepreneurial spirit of secondary school students, IT classes. The Mts app competition was included in the selection of the European organization for social responsibility - CSR Europe.

Since 2017, the competition has been organized and implemented under the same conditions in Bosnia-Herzegovina and Montenegro as well, in the organization of Mtel Banja Luka and mtel Podgorica. On February 2018, the Regional Application Challenge was held in Belgrade.

mts start-up acceleration and m:tel Playground-programmes for the starters of new businesses

Telekom Srbija was among the first to join the construction of a start-up ecosystem. The Company is a strategic partner of the Startit organization related to the goals in the long-term promotion of technological entrepreneurship and additional education in the sphere of entrepreneurship and new expertise and skills in the IT sphere. The participants in the programme are the founders of start-ups in an early phase and the participants in the three-month course Start-up Academy, the educational programme of the Startit organization. The best solution is awarded with a monetary prize of 20,000 euros.

Mtel Banja Luka implemented an IT development platform under the name of m:tel Playground with a view to contribute to the development of the local IT community in line with the contemporary ICT trends. Playground will rally in one virtual space talents - creative people, designers, programmers, students and all those interested in technological entrepreneurship. Also started was a start-up academy named m:tel Playground challenge.

Support for education

Telekom Srbija is fostering strong ties with the community in which it operates including with the Youth Achievement in Serbia organization through the project named Business Challenge, thus encouraging secondary school students to develop their business ideas and think as future entrepreneurs. In the course of 2018, the Company supported the national finals of the Business Challenge competition under the name of The Business Challenge of the Western Balkans in which student teams with the best entrepreneurial ideas were selected.

The Company is traditionally cooperating with the High School of Mathematics in Belgrade in the development of young talents and provides for the holding of the Summer Mathematics Camp in the towns of Šabac and Tulba near Požarevac.

During 2018, cooperation was established with the student association BEST in the project Artificial Intelligence BattleGround - AIBG Belgrade, the first competition of programmers dealing with artificial intelligence.

The Association supports The Regional Talent Centre and the Petlja Foundation in the project of compiling education and interactive material for teaching programming in higher grades of primary schools. In the framework of cooperation with the Serbian Mathematics Association, provided was the participation of the Serbian team in the computer tournament John Atanasov in Bulgaria.

The Company employees take part in the transfer of knowledge and experience as mentors to secondary school and university students and as lecturers within the Academy of Business Skills - one of the projects of the Responsible Business Forum bringing together socially responsible companies in Serbia.

Mtel Banja Luka maintains its cooperation with the faculties of electrical engineering in B-H. The eighth generation of students who became the scholars of the Mtel company was promoted in the course of 2018 and cooperation with the Association in the international exchange of students also continues.

mtel Podgorica continues to provide the support for different education projects. The support for the project entitled Knowledge Factory which is held within Open Days of Science continues as well, whereby an opportunity is offered to students and pupils to meet journalists from the IT sphere. Also supported are different projects of the non-governmental sector, such as the Digital Summit in the Association of Managers of Montenegro.

Investments in the community, health care and social welfare

During 2018, the funds were provided for the procurement of equipment for the following health care institutions: The Institute of the Health Care of Children and Young People of Vojvodina, Health Centre in Sopot, dr Simo Milošević Health Centre in Belgrade, Vračar Health Centre, Oncology and Radio Institute of Serbia.

Telekom Srbija supported the campaign You are not alone through a series of panel discussions in several towns in this country and pointed to the importance of the socialization of young people with psychological issues and disability.

The Company ensured the necessary telecommunications infrastructure and free services for the functioning of the BELhospice day centre whose mission is to render comprehensive aid and specialized services to oncology patients and support their families.

The Company assisted the Friend in Need relief organization, the Ekosfera Centre for Ecology Popularization and maintained its support to the LiceUlice association. The Company provided free Internet services for homes accommodating children with special needs. The Company also lent support to the Centre for the Protection of Infants, Children and Youth, the Social Welfare Centre of Užice and the Centre for the Promotion of Society for the project named We Socialize and Work Together.

Mtel Banja Luka provided numerous donations: for the construction of the Congress Centre in Banja Luka, for the Gynaecology and Obstetrics Clinic in Banjaluka, for the procurement of equipment for the robot-assisted rehabilitation of children with movement disorders. It also supported International Down's Syndrome Day, the operation of the Blue Phone, the SOS line for children in crisis situations, and the marking of More Secure Internet Day in B-H.

In 2018, mtel Podgorica set aside one million euros for the Telemedicina project, which is the largest ever donation in Montenegro. Also supported was the Right Story project, a specialized educational drive about prevention as the main method of fighting breast cancer.

Support for culture — the basis for the progress of every society

The Company and the Ilija M. Kolarac Endowment maintained their long-standing cooperation in the framework of the Kolarac - Your Word of Music programme in which distinguished figures from the international music scene participated.

The Company supports the Nušić Days culture event in the town of Smederevo, Children's October Festival and Zmaj Children's Games. Under the auspices of the Company, the exhibition entitled 100 women - 100 miniatures was held with the aim of actively participating in the preservation of tradition in Serbia.

Tablets were provided to the National Library of Zrenjanin for the award-winning pupils at the Poet's Rally children's event. The Company also supported the opening of the Milena Pavlović Barili exhibition in Jevrem Grujić's Home and maintained its cooperation with the New Media Department of the Faculty of Visual Arts by awarding the Telekom Srbija prize to student Pavle Banović for the best work at that Department.

Mtel Banja Luka traditionally cooperates with the National Theatre of RS, Jazavac City Theater, Banski Dvor Culture Centre, the RS Museum, and the Museum of Contemporary Arts.

Mtel invested in the following culture events: Vlada S. Milošević Days in Banjaluka, Đurđevdanski Festival, Banjaluka Biennial 2018 and a number of festivals and concerts.

mtel Podgorica was the sponsor of several festivals: The Annual Sea Dance Festival in Buljarice, Džad film fest in Podgorica, and the regionally-acclaimed Bedem Fest in Nikšić.

Cultural Wednesday

Each Wednesday of the year on the mts Facebook profile was devoted to culture through posts and photographs when more than 250 tickets for theatre plays and concerts, 43 books and 10 prints were distributed free of charge.

Sports and youth

The Parent Company demonstrates its commitment to young people in the field of sports, too. Worth mentioning is its cooperation with the Marina Maljkovic Women's Basketball Movement within the project of free basketball school for girls in Belgrade and several towns in Serbia, its organization of a basketball tournament and the publication of the Organizer - Activity Planner.

The Company also supported the fifth May sporting rally of children and their families organized by the Sveta Srbija Orthodox Sports Society under the name of Sports Assembly of Sveta Srbija.

In 2018, Mtel Banja Luka supported a number of events: the holding of the m:tel semi-marathon 2018, the 12th Beograd-Banjaluka cycling race, the international swimming competition Banja Luka Open 2018 and the World Kayak and Wildwater Canoeing Cup Banja Luka-Vrbas 2018, the International Tennis Tournament ATP Challenger Srpska Open in Banjaluka and the m:tel Open tennis tournament in the town of Prijedor. Apart from that, also supported were the following events - Winter Days on Mt Kozara, Winter Adventure on Mt Jahorina - Jahorina devotees' race and the Pecka Outdoor Festival 2018.

mtel Podgorica financially backed various sports ranging from basketball, through waterpolo and football to karate. It also continued to support the Montenegro Basketball Association, Budućnost and Mornar basketball clubs. The Company set aside funds for the Ribnica and Bokelj football teams and many other local and regional clubs.

Awards and memberships

As a member of the local office of the UN Global Compact, Telekom Srbija undertook to align its activities with the ten universal principles in the sphere of human rights, labour, environment

protection and anti-corruption efforts with the aim of establishing socially responsible business and a market including all relevant social factors in the promotion of sustainable development objectives within the Agenda 2030. Besides, Telekom Srbija is a member of the CSR Forum which promotes the companies supporting the development of socially responsible business and the establishment of lasting and stable socially responsible practices in the business sector.

It is the recipient of several medals, awards and recognitions as follows:

- ◇ The highest medal of the Serbian Orthodox Church, St's Sava's Medal of the First Degree for its continued participation in the activities of the Serbian Orthodox Church.
- ◇ The Ministry of Education, Science and Technological Development presented the Company with the St Sava prize for its exceptional contribution and continual investment in education in 2017.
- ◇ The awards for its humanitarian activities were presented to the Company by the Diplomacy & Commerce magazine for its philanthropic activities in 2017.
- ◇ Letters of Thanks by the Culture Ministry for its support for the institutions and individuals in the digitalization process in the fields of art and culture.

In 2018, Mtel Banja Luka is the winner of the award for its contribution to the development of the corporate social responsibility of the Chamber of Commerce of RS in the framework of the 15th event entitled The Selection of the Most Successful Entities in the RS Economy.

It is the recipient of the recognition for its contribution to the advancement of traffic safety and the activities of the Agency for Traffic Safety of Republika Srpska to mark its partnership in the campaign named Be Smarter Than Your Phone. Do not use the telephone when driving! and the letters of thanks by the institutions and relief organizations for its support in the implementation of their activities and projects.

13

FINANCIAL STATEMENTS



13. FINANCIAL STATEMENTS

13.1. CONSOLIDATED FINANCIAL STATEMENT OF TELEKOM SRBIJA GROUP

Table no.17. Consolidated Income Statement

In million RSD	2017	2018	growth %
Operating revenues	123.693	125.454	1,40%
Fixed telephony	35.658	31.093	-12,80%
Mobile telephony	60.086	62.201	3,50%
Internet retail	11.298	11.916	5,50%
Multimedia	11.088	12.568	13,30%
ICT services	548	851	55,30%
Other operating revenues	5.015	6.825	36,10%
Operating expenses	-108.595	-113.373	4,40%
Costs of salaries and allowances	-21.559	-25.300	17,40%
Operator's costs	-11.776	-10.022	-14,90%
Costs of material and maintenance	-21.416	-22.693	6,00%
Costs of amortization	-26.728	-26.723	0,00%
Costs of lease	-6.589	-6.124	-7,10%
Other operating expenses	-20.527	-22.511	9,70%
EBIT	15.098	12.081	-20,00%
EBIT rate	12,2%	9,6%	-
EBITDA	41.826	38.804	-7,20%
EBITDA rate	33,8%	30,9%	-
Financial revenues/(expenses), net	1.432	-135	-
Share in the losses incurred by subsidiaries	-17	-	-
Net profit tax	-1.776	-1.084	-39,00%
Net profits	14.737	10.862	-26,30%
Net profit rate	11,9%	8,7%	-

In 2018, the total generated operating revenues amount to 125.5 billion dinars and are higher by 1% compared to 2017. In the same period, the operating expenses increased by 4% and amount to RSD 113.4 billion.

EBIT is 12.1 billion dinars (a 20% decrease) with a margin of 9.6% and EBITDA of 38.8 billion dinars (decreased by 7%) with a margin of 30.9%.

Net financial expenses amount to 135 million dinars, while in 2017 net financial revenues amounted to 1.4 billion dinars. Net foreign exchange gains are lower by 1.3 billion dinars compared to 2017.

Net profit amounts to 10.9 billion dinars (26% lower) with a rate of 8.7%.

Operating revenues grew by 1.8 billion dinars.

Mobile telephony revenues grew by 2.1 billion dinars and amount to 62.2 billion dinars. Recognized revenues from sale of the package devices with a contractual obligation grew due to implementation of IFRS 15. Interconnection revenues are lower by 9%, prepaid by 4%, postpaid service by 1% and roaming by 22%. Multimedia grew by 1.5 billion dinars (13%), Internet and ICT service retail by 618 million dinars (5%) and 303 million dinars (55%), respectively.

On the other hand, fixed telephony revenues dropped by 4.6 billion dinars and amount to 31.1 billion dinars. The decline was mainly caused by lower revenues from traffic (18%) and monthly fees (8%).

Operating expenses grew by 4.8 billion dinars.

Costs of salaries and allowances increased by 3.7 billion dinars (17%), mainly due to severance package costs for employees of the Parent Company. Material and maintenance costs increased by 1.3 billion dinars mostly due to the costs of phones and devices sold within packages (a 9% growth). Likewise, expenses based on contribution to the consortiums of the Parent Company increased by 730 million dinars, and the costs of purchased contents increased by 692 million dinars. On the other hand, operator costs dropped by 1.8 billion dinars, mainly due to lower costs of mobile and fixed interconnection.

Table no.18. Consolidated Balance Sheet of Telekom Srbija Group

In million RSD	31.12.2017.	31.12.2018.	growth %
NON-CURRENT ASSETS	210.181	254.710	21,20%
Intangible assets and goodwill	67.599	94.122	39,20%
Real estate, plants and equipment, and advances	130.470	143.708	10,10%
Other	12.112	16.880	39,40%
CURRENT ASSETS	49.422	68.384	38,40%
Inventories	6.438	5.648	-12,30%
Receivables and other current assets	26.064	32.303	23,90%
Contractual assets	-	5.330	-
Cash and cash equivalents	9.347	15.832	69,40%
Other	7.573	9.271	22,40%
TOTAL ASSETS	259.603	323.094	24,50%
TOTAL EQUITY	166.502	171.177	2,80%
Equity capital	148.971	154.023	3,40%
Interest without controlling rights	17.531	17.154	-2,20%
LONG-TERM LIABILITIES	38.039	79.963	110,20%
Long-term loans	34.146	76.035	122,70%
Other	3.893	3.928	0,90%
CURRENT LIABILITIES	55.062	71.954	30,70%
Long-term and short-term loans currently mature	23.276	30.833	32,50%
Operating liabilities	21.665	25.357	17,00%
Contractual liabilities	-	204	-
Other short-term liabilities	10.121	15.560	53,70%
TOTAL LIABILITIES	259.603	323.094	24,50%

Table no.19. Consolidated Cash Flow of Telekom Srbija Group

In million RSD	2017	2018	growth %
Earnings before taxation	16.512	11.946	-27,70%
Profit adjustments	25.038	28.485	13,80%
Net cash in from operating activities	41.550	40.431	-2,70%
Net cash out from investment activities	-29.002	-68.919	137,60%
Net cash out from finance activities	-11.933	34.973	-
Net flow-ins/(flow-outs) of cash and cash equivalents	615	6.485	-
Cash and cash equivalent at the beginning of the year	8.732	9.347	7,00%
Cash and cash equivalents at the end of the year	9.347	15.832	69,40%

Table no.20. Ratio Analysis of Consolidated Business Results

In million RSD	2017	2018	growth %
Total debt	57.422	106.868	86,10%
Net debt	48.075	91.036	89,40%
Net debt/EBITDA	1,15	2,35	104,30%
Total liabilities/EBITDA	2,23	3,92	75,80%
Debt ratio	22,4%	34,7%	-
Quick liquidity ratio	0,74	0,82	10,80%

13.2. FINANCIAL STATEMENTS OF THE PARENT COMPANY

Table no.21. Income Statement

In million RSD	2017	2018	growth %
Operating revenues	88.191	88.750	0,60%
Fixed telephony	29.923	27.217	-9,00%
Mobile telephony	41.375	43.324	4,70%
Internet retail	9.446	9.529	0,90%
Multimedia	4.596	4.863	5,80%
ICT services	289	518	79,20%
Other operating revenues	2.562	3.299	28,80%
Operating expenses	-75.910	-79.815	5,10%
Costs of salaries and allowances	-14.212	-17.484	23,00%
Operator's costs	-11.949	-10.558	-11,60%
Costs of material and maintenance	-14.749	-15.673	6,30%
Costs of amortization	-16.141	-15.919	-1,40%
Costs of lease	-5.049	-4.668	-7,50%
Other operating expenses	-13.810	-15.513	12,30%
EBIT	12.281	8.935	-27,20%
EBIT rate	13,9%	10,1%	-
EBITDA	28.422	24.854	-12,60%
EBITDA rate	32,2%	28,0%	-
Financial revenues, net	3.743	1.972	-47,30%
Net profit tax	-1.476	-735	-50,20%
Net profits	14.548	10.172	-30,10%
Net profit rate	16,5%	11,5%	-

Operating revenues in 2018 amount to 88.7 billion dinars and increased by 1% compared to 2017. Operating expenses increased by 5% and amount to 79.8 billion dinars.

Faster growth of operating expenses in relation to operating revenues had an impact on the lower EBIT and EBITDA. EBIT is 8.9 billion dinars (down by 27%) with a margin of 10.1%. EBITDA is 24.9 billion dinars (a 13% decrease) with a margin of 28%.

Net financial revenues amount to 2 billion dinars and are lower by 47% compared to 2017.

Net profit is 10.2 billion dinars (lower by 30%) with a rate of 11.5%.

Operating revenues increased by 0.5 billion dinars.

Mobile telephony revenues grew by 1.9 billion dinars and amount to 43.3 billion dinars. The implementation of IFRS 15 impacted the growth of recognized revenues from sale of the package devices with a contractual obligation. Postpaid services are down by 782 million dinars, prepaid is lower by 729 million dinars and interconnection by 540 million dinars. Multimedia revenues increased by 267 million dinars and reached the amount of 4.9 billion dinars. Revenues from ICT services increased by 229 million dinars and equal 518 million dinars. Internet retail grew by 83 million dinars and amount to 9.5 billion dinars. Fixed telephony revenues dropped by 2.7 billion dinars and amount to 27.2 billion dinars. The decline was mainly caused by lower revenues from traffic and monthly fees.

Operating expenses grew by 3.9 billion dinars.

Costs of salaries and allowances increased by 3.3 billion dinars mainly due to severance package costs. Material and maintenance costs increased by 924 million dinars, mostly due to higher costs of phones and devices sold. Within other operating expenses, expenditures based on the contribution to the consortium increased by RSD 800 million, while the costs of purchased contents increased by 338 million dinars partly due to a higher number of IPTV users. Operator costs dropped by 1.4 billion dinars, mainly due to a continuous drop in the prices of termination in the mobile network.

Table no.22. Balance Sheet

In million RSD	31.12.2017.	31.12.2018.	growth %
NON-CURRENT ASSETS	165.631	205.128	23,80%
Intangible assets and goodwill	9.169	12.287	34,00%
Real estate, plants and equipment, and advances	82.407	85.681	4,00%
Other	74.055	107.160	44,70%
CURRENT ASSETS	27.827	38.466	38,20%
Inventories	3.422	3.115	-9,00%
Receivables and other current assets	14.253	15.082	5,80%
Contractual assets	-	4.503	-
Cash and cash equivalents	5.078	8.679	70,90%
Other	5.074	7.087	39,70%
TOTAL ASSETS	193.458	243.594	25,90%
EQUITY	135.970	141.682	4,20%
LONG-TERM LIABILITIES	22.318	56.027	151,00%
Long-term loans	20.220	54.052	167,30%
Other	2.098	1.975	-5,90%
CURRENT LIABILITIES	35.170	45.885	30,50%
Long-term and short-term loans currently mature	16.738	18.091	8,10%
Operating liabilities	11.927	15.748	32,00%
Contractual liabilities	-	204	-
Other short-term liabilities	6.505	11.842	82,00%
TOTAL LIABILITIES	193.458	243.594	25,90%

Table no.23. Cash Flow

In million RSD	2017	2018	growth %
Earnings before taxation	16.024	10.907	-31,90%
Profit adjustments	11.561	18.050	56,10%
Net cash in from operating activities	27.585	28.957	5,00%
Net cash out from investment activities	-13.814	-51.004	269,20%
Net cash in/(cash out) from finance activities	-13.432	25.648	-
Net flow-ins of cash and cash equivalents	339	3.601	-
Cash and cash equivalent at the beginning of the year	4.739	5.078	7,20%
Cash and cash equivalents at the end of the year	5.078	8.679	70,90%

In July 2018, dividends from the 2017 profit were paid to shareholders in the amount of 8.1 billion dinars.

Dividends from the subsidiaries Mtel Banja Luka and Telus amounted to RSD 2.2 billion dinars and RSD 25 million dinars, respectively.

Table no.24. Ratio Analysis

In million RSD	2017.	2018.	growth %
Total debt	36.959	72.143	95,20%
Net debt	31.881	63.464	99,10%
Net debt/EBITDA	1,12	2,55	127,70%
Total liabilities/EBITDA	2,02	4,1	103,00%
Debt ratio	19,0%	30,9%	-
Quick liquidity ratio	0,64	0,68	6,30%

The growth of the debt ratio as at 31 December 2018 was caused by the increase in the Group's credit liabilities.

14

RISK MANAGEMENT



14.RISK MANAGEMENT

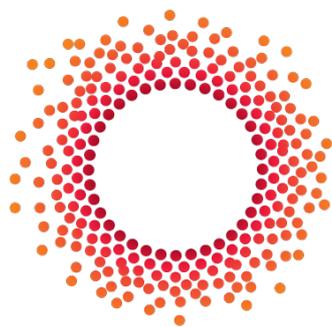
In its regular operations, the Group is to a different extent exposed to certain financial risks:

- ◇ Market risks, which include:
 - foreign exchange rate risks
 - risks of change in the level of market interest rates
 - risks of the service price change
- ◇ liquidity risks;
- ◇ credit risks; and
- ◇ capital risks.

Table no.25. Types of Financial Risks with More Detailed Descriptions

Risk description	Risk management
<p>Market risk is a risk of changes in market prices, such as FX rates, interest rates and the price of capital vehicles, which may have adverse effect upon the Group revenues or the value of its financial instruments. The purpose of managing market risk is a control of exposure to market risk within the acceptable parameters along with reaching an optimal</p> <p>The Group is exposed to the risk of changes in foreign currency exchange rates, predominantly that of Euro.</p>	<p>The market risk management in the Group is aimed at minimizing potential negative impacts on the financial position and operation in unpredictable financial markets. It is defined by financial accounting policies of individual companies accepted by the competent governance bodies..</p> <p>A risk management policy has been set up relative to its functional currency through hedging transactions. It does not involve derivatives, which is why the hedging accounting is not applied in these circumstances.</p>
<p>The Group is exposed to risks which affect its financial position, operating results and cash flows through the effects of changes in the level of market interest rates. The risk of changes in interest rates is mostly derived from long-term bank loans and supplier loans with variable interest rate, pegged to Euribor and increased by the margin, whereas deposits are mostly subject to fixed interest rate.</p>	<p>An analysis is performed with regard to the exposure to interest rate risk on a dynamic basis, taking into account alternative financing and re-financing sources, primarily for long-term liabilities given that they account for the most significant interest-bearing position.</p>
<p>The Group is exposed to price change risks as there is the obligation to control the prices in the markets where the Company has been declared an SMP operator. The Group is faced with fierce competition in the area of mobile telephony, the Internet and multimedia, as well as with the emergence of fixed telephony operators.</p>	<p>The Group intends to reduce the exposure to this risk by introducing various services and enhancement of the quality of the services rendered. Besides, the Group's services are diversified, as it consists of members operating in other business sectors (Telus and mts bank).</p>

Risk description	Risk management
<p>Liquidity risk is a risk that the Group will not be able to settle its liabilities as they become due, in money or in other financial means. The access to the liquidity risk management is intended to always ensure, to the extent possible, an adequate liquidity for settling liabilities as they become due and payable, under ordinary and extraordinary circumstances alike, with no unacceptable losses or risks of harming the company's reputation.</p>	<p>For the purpose of managing liquidity risk, financial policy have been adopted whereby payment terms are defined, maximum amount of advance payment to equipment suppliers and contractors, grace period and the length of repayment of a portion of procurement repaid through loan, subject to the value and type of contractual obligation. The Group monitors the expected cash-ins from the collection of trade and other receivables, together with the expected cash-outs against payment of liabilities towards suppliers and other liabilities. Consolidated financial statements show that the group continuously operates with net profit, i.e. that sufficient cash-ins from business activities are achieved on a consolidated basis and that liabilities are timely settled.</p>
<p>Credit risk is a risk of financial loss for the Group in case the customer or other party in a financial instrument fails to fulfil its obligations. The credit risk exposure is primarily established by individual characteristics of each customer. There is no significant risk concentration given that there is an extensive base of unrelated customers with small respective liabilities.</p>	<p>The credit risk is managed by taking relevant measures and activities, such as the assessment of customer risk, monitoring the client's operations and its financial standing, as well as the management of receivables and bad debts. In case of a default, the provision of services to the client is suspended, and other measures are taken as well: rescheduling debts, launching court proceedings, out-of-court settlement and the like.</p>
<p>Capital risk. The purpose of capital risk management is to maintain the capacity to continue business activities for an indefinite period of time in foreseeable future, in order to retain the optimal capital structure so that the costs of capital can be reduced, and shareholders could be provided with dividends.</p>	<p>The Group considers the following options: adjustment to the payment of shareholder dividends, return of capital to shareholders, issuance of new shares or the sale of assets in order to cut down debts. The capital management strategy remains unaltered compared to the previous year.</p>



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