

**CONSOLIDATED ANNUAL  
BUSINESS REPORT  
FOR 2019  
TELEKOM SRBIJA A.D.**



## OPENING ADDRESS OF THE CEO

Dear all,

In 2019, Telekom Srbija, together with its related legal entities in the markets of Serbia and the region, maintained the trend of good business and development results and promotion of corporate socially responsible behaviour.

The past year was exceptionally investment oriented. At issue is an investment cycle which was launched in the second half of 2018 and intensified in the course of 2019. The investments were implemented in four directions: further acquisitions of cable operators in Serbia and B-H commenced at the end of 2018, upgrade of the 4G network as regards coverage and capacity, further construction of an optical network in the metro and access parts (FTTH) and promotion of TV content for the needs of the whole of Telekom Srbija Group. Despite massive investments which called for substantial financial resources, we managed to maintain positive financial results. More importantly, we significantly improved our market position in key segments and laid the groundwork for the Company's development in the future. What should be particularly emphasized is the fact that the number of TV users in Serbia (Telekom Srbija and Supernova together) rose by as much as 36% and the number of Internet users increased by 18%. At the Telekom Srbija Group level, these results are even better, the number of TV users at the Group level rose by some 50% to reach some 1.15 million, while the number of Internet users increased by more than 20% to some 1.25 million users. In all countries, mobile telephony maintained a stable trend, whereas fixed telephony saw the lowest fall over the past few years. All this resulted in the overall customer base increasing by some 6% to 10.4 million. Besides, the Group saw a revenue increase of 7% amounting to some 1.1 billion euros. A poorer result in net profits is primarily due to a significant increase in depreciation as a consequence of said investments. However, excellent results of the increase in quantity of all our services assures us that in the years to come we can value this through an increase in all business and financial performances.



In 2019, we dominantly focused our strategic development on the implementation of the project "Million + users" through, as mentioned above, further acquisitions of cable operators for the purpose of taking the best possible market position in the Internet segment and a significant increase in market share in the multimedia segment. By launching the new unique marketing brand "Supernova", we strategically strengthened our market position ensuring fresh revenue sources for the years to come within Telekom Srbija Group and fully responded, marketwise, to the increasing needs of our customers for more quality and diversified services. The planned integration of Supernova and Telekom Srbija in 2020, certainly with the retention of the brand, we shall continue to capitalize on all the opportunities of mutual synergies and thus more visibly prove that our strategy is right.

We are proud to say that in 2019, RATEL officially rated the mobile network of Telekom Srbija the best mobile network in Serbia on the basis of the comparative analysis conducted by RATEL for a third consecutive year. At the same time, the result achieved by Telekom Srbija is the best result to have been achieved in Serbia so far. Thus, at present, mts customers have had the privilege to enjoy the highest quality mobile network ever since the mobile signal was introduced in Serbia. According to the official finding of RATEL, Telekom Srbija's mobile network achieved the best result "owing to the significant promotion of the quality of all services in all categories" in a comparative, analytical real time testing conducted at the end of 2019. It is our goal to

continue to invest in the expansion, modernization, optimization and upgrade of the mobile radio access network (RAN) to ensure for our customers a quality signal and fast mobile Internet in all parts of the country in the future as well, which is reflected in the swift expansion of 4G coverage and laying a good basis for the introduction of the 5G network.

Over the past business year, significant capital investments were made in the ALL IP transformation project for the fixed network (optics to the home), and customers' migration to an advanced optical IP network, thus providing for a broadband access of up to 1Gb/s. Thereby, the company ensures the retention of its leadership in the fixed telephony and Internet markets.

Parallel to this, the process of expansion and modernization of the IP/MPLS network and the wireless transport network continued. The introduction of 100Gb/s links in the transport network intensified to support the great increase in network traffic.

During 2019, the process of IT transformation of the Company continued with the digitalization of internal business processes. It is our goal to more efficiently manage IT services to speed up the changes in the services, digitalize customer support, reduce the complexity of technologies and application portfolios, thus also minimizing business risks. Setting up digital platforms accelerates the innovation process and provides for an increase in new sources of revenues. We have created the preconditions for further development of the IoT solution, primarily through the use of the cutting-edge LoRa network and all other technologies adjusted for commercial use.

In 2019, the successful development of the new Superstar brand film and entertainment channels was maintained as was the upward trend in the sphere of rating and media popularity. The content produced and broadcast by the Company had huge ratings, whereas mts' new Superstar TV channel was included in the top ten channels in the country, which was a great success.

Over the past year, the continuity was maintained of the promotion of business performances through an increase in efficiency, effectiveness and optimization of business processes, and the powerful cycle of development investment activities at the level of the whole of Telekom Srbija Group and concurrent acceleration of digital transformation. We strategically positioned ourselves as the telecommunications market leaders in Serbia and as a regional leader (the markets of Serbia, B-H and Montenegro). We also pay special attention to the diaspora and through our subsidiary GO4YOU we wish to use all the opportunities, particularly in the EU, due to the number of our people living and working there, in order to strengthen our presence and begin to generate more massive revenues from the market in the period to come.

During 2019, we were one of the leaders of corporate social responsibility in all aspects of social responsibility and care about the social community. We strengthened the process of supporting technological entrepreneurship last year by launching different projects and programmes focusing on young and start-up companies.

In 2019, we continued to pursue our mission and provide to our customers a unique digital experience, making life more beautiful, easier and more entertaining for them through state-of-the-art ICT services, expressing our gratitude and respect for placing their trust in us. We are successfully achieving our business vision – to be a step ahead of others and our customers' first choice in the digital world of services. We are drawing our strength from our employees, shareholders and business partners and the support from a broader social community. Taking pride in all common successes in 2019, we continue to do everything within our power to make our customers even more satisfied.

Best regards,

Predrag Ćulibrk, CEO, Telekom Srbija a.d. Beograd

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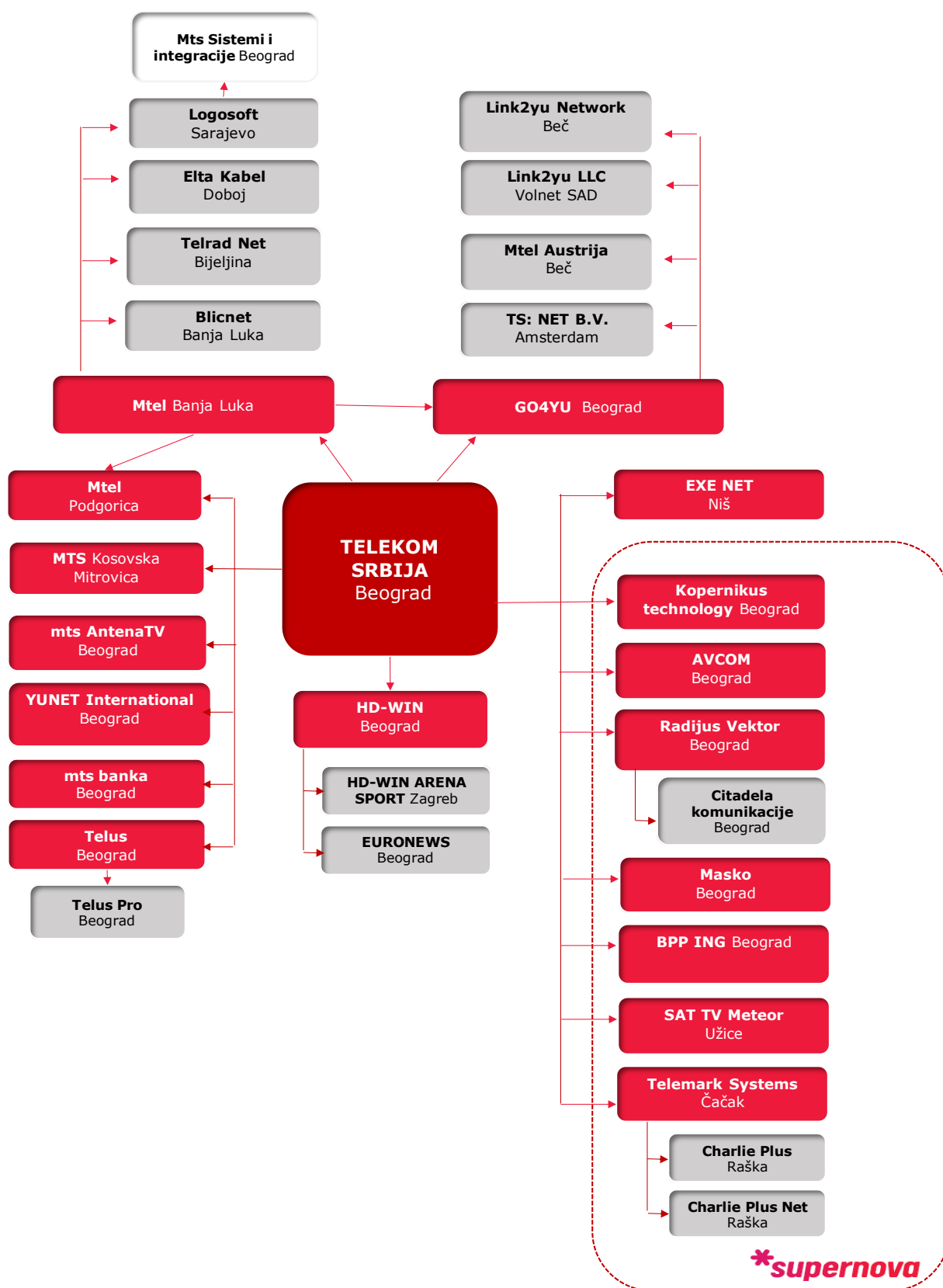
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# 01

## TELEKOM SRBIJA GROUP



# 1. TELEKOM SRBIJA GROUP AS OF 31 DECEMBER 2019



## PARENT COMPANY

**Telecommunications Company Telekom Srbija a.d. Beograd**  
**(hereinafter referred to as: Telekom Srbija or Company)**

### Mission:

*Following the tradition that is binding to us, we provide unique digital experience to our customers, making their lives better, easier and more entertaining.*

### Vision:

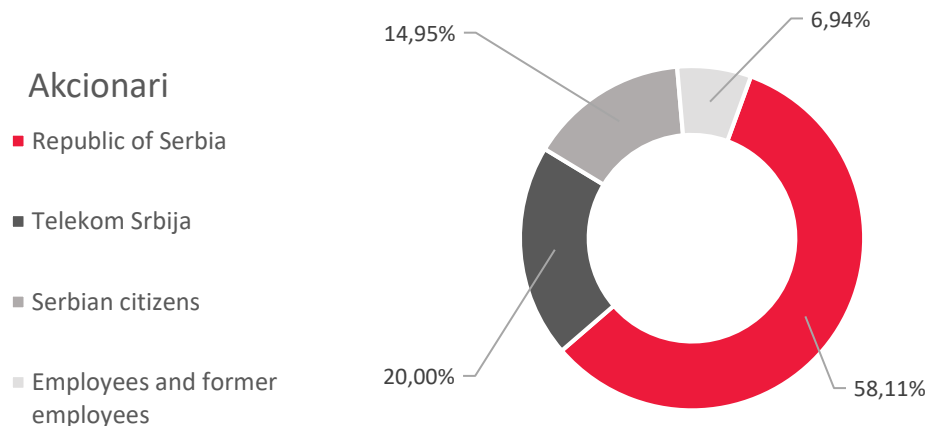
*Keeping a step ahead, our wish is to be the preferred provider to customers in the digital world of services.*

### Key values:

Customers	Satisfied customers are our first priority.
Team	Our employees are our greatest capital.
Responsibility	We act professionally with full responsibility for what we do.
Changes	Constant change is imperative in our business operations.
Result	We are result-oriented.

### Basic data:

Business name:	Telekom Srbija a.d. Beograd
web site:	mts.rs
Seat:	Takovska 2, Beograd
Prevailing activity:	Cable telecommunications
Date of incorporation:	23 May 1997
Share capital:	100 billion dinars
Shares:	1 billion common shares

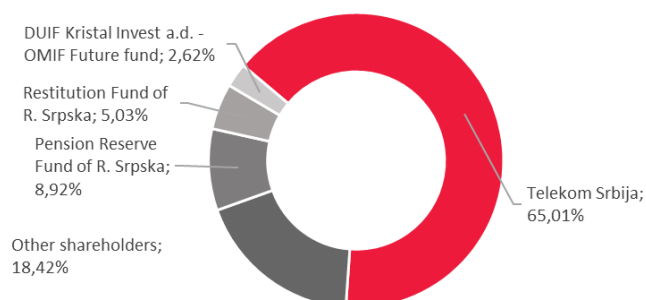


## 1.1 SUBSIDIARIES OF A COMPLEX OWNERSHIP STRUCTURE

### „Telekomunikacije Republike Srpske” a.d. Banja Luka (hereinafter referred to as: Mtel Banja Luka)

web site	<a href="http://www.mtel.ba">www.mtel.ba</a>
Seat	Vuka Karadžića 2, Banja Luka
Prevailing activity	Telecommunications services
Date of incorporation	20 December 1996
Ownership acquisition	28 June 2007
Share capital	491,383,755 KM

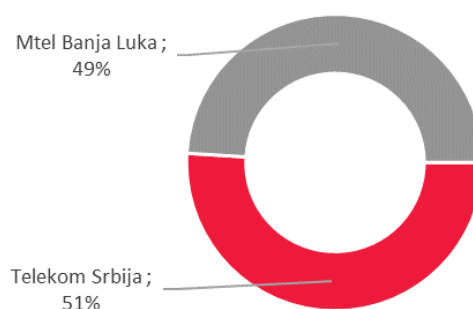
Ownership structure:



### Društvo za telekomunikacije „Mtel” d.o.o. Podgorica (hereinafter referred to as: Mtel Podgorica)

web site	<a href="http://www.mtel.me">www.mtel.me</a>
Seat	Bulevar Svetog Petra Cetinjskog br. 143, Podgorica
Prevailing activity	Telecommunications services
Date of incorporation	4 April 2007
Ownership acquisition	4 April 2007
Share capital	EUR 122,472,440

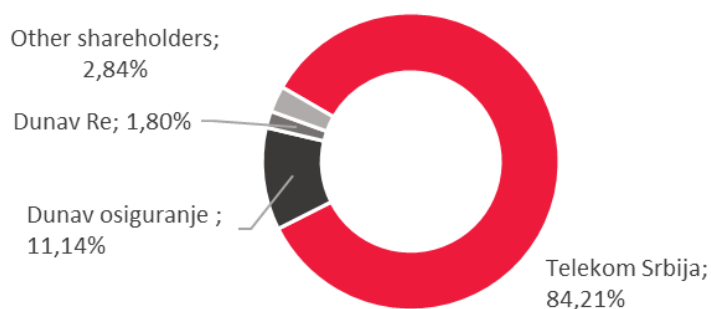
Ownership structure:



### „mts banka” a.d. Beograd (hereinafter referred to as: mts banka)

web site	<a href="http://www.mtsbanka.rs">www.mtsbanka.rs</a>
Seat	Franša D'Eperea 88, Beograd
Prevailing activity	Banking activities
Date of incorporation	28 December 1990
Ownership acquisition	26 December 2014
Share capital	2,361,670,868 dinars

Ownership structure:

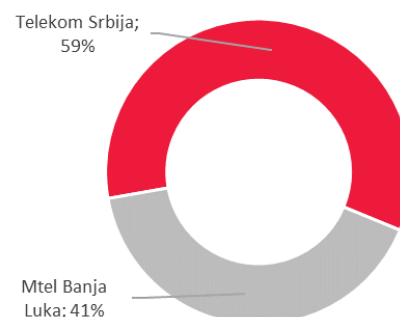




**„GO4YU” d.o.o. Beograd**  
**(hereinafter referred to as: GO4YU)**

web site	<a href="http://www.go4yu.com">www.go4yu.com</a>
Seat	Franša D'Eperea 88, Beograd
Prevailing activity	Wireless communications
Date of incorporation	30 May 2014
Ownership acquisition	4 August 2015
Share capital	4,480,432,207 dinars

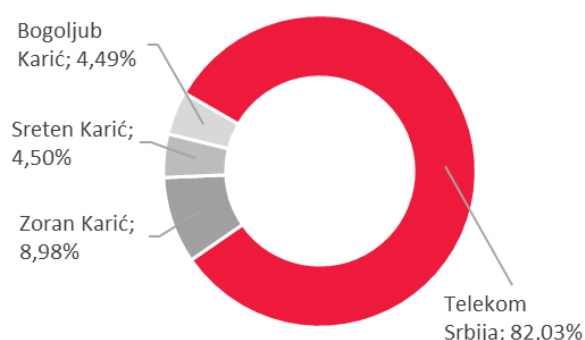
Ownership structure:



**„YUNET INTERNATIONAL” d.o.o. Beograd**  
**(hereinafter referred to as: YUNET)**

web site	<a href="http://www.yu.net">www.yu.net</a>
Seat	Dubrovačka 35, Beograd
Prevailing activity	Cable telecommunications
Date of incorporation	January 1992
Ownership acquisition	19 May 2017
Share capital	185,280,391 dinars

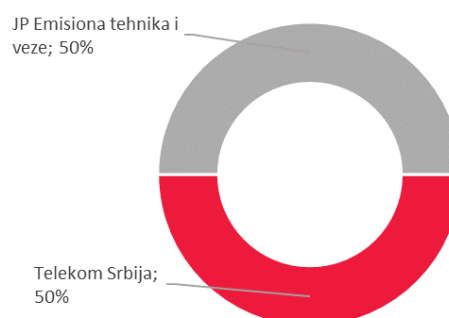
Ownership structure:



**„mts AntenaTV” d.o.o. Beograd**  
**(hereinafter referred to as: mts AntenaTV)**

web site	<a href="http://www.mtsantenatv.rs">www.mtsantenatv.rs</a>
Seat	Bulevar umetnosti 16, Beograd
Prevailing activity	Wireless telecommunications
Date of incorporation	21 March 2016
Ownership acquisition	21 March 2016
Share capital	2,467,052 dinars

Ownership structure:



## 1.2 SUBSIDIARIES 100% OWNED BY TELEKOM SRBIJA

### Companies under the Supernova brand (hereinafter referred to as: Supernova)

Prevailing activity web site:	Cable telecommunications <a href="http://www.mojasupernova.rs">www.mojasupernova.rs</a>
Business name Seat Incorporation / Ownership acquisition Share capital	„Kopernikus Technology” d.o.o. Beograd (hereinafter referred to as: Kopernikus Technology) Bulevar Arsenija Čarnojevića 99b, Beograd 10 August 1998 / 5 November 2018 875,146,297 dinars
Business name Seat Incorporation / Ownership acquisition Share capital	„AVCOM” d.o.o. Beograd (hereinafter referred to as: Avcom) Bulevar Arsenija Čarnojevića 99b, Beograd 17 July 2002 / 19 December 2018 33,006,449 dinars
Business name Seat Incorporation / Ownership acquisition Share capital	„Radijus Vektor” d.o.o. Beograd (hereinafter referred to as: Radijus Vektor) Milentija Popovića 9, Beograd 25 May 1998 / 14 January 2019 200,071 dinars
Business name Seat Incorporation / Ownership acquisition Share capital	„MASKO” d.o.o. Beograd (hereinafter referred to as: Masko) Milentija Popovića 9, Beograd 4 June 2001 / 14 January 2019 323,528 dinars
Business name Seat Incorporation / Ownership acquisition Share capital	„BPP ING” d.o.o. Grocka (hereinafter referred to as: BPP ING) Bulevar oslobođenja 45, Beograd 28 December 1992 / 19 April 2019 403,723 dinars
Business name Seat Incorporation / Ownership acquisition Share capital	„Telemark systems” d.o.o. Čačak (hereinafter referred to as: Telemark systems) Svetog Save 35, Čačak 6 July 2006 / 4 July 2019 83,550 dinars
Business name Seat Incorporation / Ownership acquisition Share capital	„Preduzeće SAT TV Meteor” d.o.o. Užice (hereinafter referred to as: SAT TV Meteor) Dimitrija Tucovića 151, Užice 27 November 2003 / 3 September 2019 77,983 dinars

## Other subsidiaries 100% owned by Telekom Srbija

Business name	„mts” d.o.o. Kosovska Mitrovica (hereinafter referred to as: mts d.o.o.)
web site	<a href="http://www.mtsdoo.com">www.mtsdoo.com</a>
Seat	Kosovska Mitrovica
Incorporation / Ownership acquisition	October 2015
Share capital	13,586,577 euros
Prevailing activity	Wired telecommunications
Business name	Društvo za telekomunikacije „HD-WIN” d.o.o. Beograd (hereinafter referred to as: HD-WIN)
web site	<a href="http://www.tvarenasport.com">www.tvarenasport.com</a>
Seat	Visokog Stevana 38, Beograd
Incorporation / Ownership acquisition	13 March 2009 / 2 August 2011
Share capital	1,971,946,745 dinars
Prevailing activity	Production and broadcasting of tv channels and production of programmes
Business name	Privredno društvo za održavanje i obezbeđivanje objekata imovine i druge usluge „TELUS” a.d. Beograd (hereinafter referred to as: Telus)
web site	<a href="http://www.telus.rs">www.telus.rs</a>
Seat	Kosovska 47, Beograd
Incorporation / Ownership acquisition	19 April 2005
Share capital	9,000,000 dinars
Prevailing activity	Private security
Business name	„EXE NET” d.o.o. Niš (hereinafter referred to as: EXE NET)
web site	<a href="http://www.exe-net.net">www.exe-net.net</a>
Seat	Cara Dušana 85, Niš
Incorporation / Ownership acquisition	11 April 2006 / 5 August 2019
Share capital	40,173,300 dinars
Prevailing activity	Cable telecommunications

### 1.3 OWNERSHIP CHANGES IN 2019 AND AFTER THE END OF THE BUSINESS YEAR

In the course of 2019, Telekom Srbija increased the amount of its placements into the subsidiaries by 23% as compared to 2018 which, as at 31 December 2019 amounted to 117.4 billion dinars gross). The major part of the placement refers to Mtel Banja Luka, Kopernikus Technology, Radijus Vektor and Mtel Podgorica.

In the course of 2019, through new acquisitions, the ownership of cable activity companies was obtained by the parent company and through the acquisition of ownership by the existing subsidiaries. Likewise, the parent company repurchased and increased the capital of individual existing subsidiaries.

Table 1 Value of Telekom Srbija's placements as at 31 December 2019 in RSD 000)

	Share in TS ownership 31 Dec 2019	2018	2019	Growth rate	Placement structure
Mtel Banja Luka	65%	56,933,380	56,933,380	0%	48.5%
Kopernikus Technology	100%	23,014,534	23,014,534	0%	19.6%
Radijus Vektor	100%	-	10,185,385		8.7%
Mtel Podgorica	51%	6,798,471	6,798,471	0%	5.8%
HD-WIN	100% (60%)	997,268	3,198,695	221%	2.7%
Masko	100%	-	2,561,148		2.2%
Telemark Systems	100%	-	2,473,111		2.1%
mts banka	84%	2,471,364	2,471,364	0%	2.1%
GO4YU	59% (96%)	1,194,345	2,357,142	97%	2.0%
Exe Net	100%	-	2,355,024		2.0%
mts d.o.o.	100%	1,656,748	1,656,748	0%	1.4%
Avcom	100%	1,503,008	1,503,008	0%	1.3%
BPP ING	100%	-	1,124,595		1.0%
Yunet	82%	491,387	491,387	0%	0.4%
SAT TV Meteor	100%	-	305,804		0.3%
Telus	100%	9,030	9,030	0%	0.0%
mts AntenaTV	50%	1,234	1,234	0%	0.0%
TS:NET	-	163,852	-		
<b>Balance as at 31 December (before provision)</b>		<b>95.234.621</b>	<b>117,440,060</b>	<b>23%</b>	<b>100.0%</b>

Changes in ownership stakes per month in the course of 2019 are featured below:

#### January

- Radijus Vektor d.o.o. Beograd 100% owned by Telekom Srbija;
- 100% of Citadela komunikacije d.o.o. Beograd is transferred to the ownership of Radijus Vektor;
- Masko d.o.o. Beograd 100% owned by Telekom Srbija;
- 100% of Blicnet d.o.o. Banja Luka is transferred to the ownership of Mtel Banja Luka; and
- Link2YU Network GmbH Vienna, 100% owned by GO4YU.

## February

- Telrad Net d.o.o. Bijeljina is transferred to 100% ownership of Mtel Banja Luka.

## April

- The Agreement is concluded on the transfer of 3.96% shares in the total share capital from Dimedia Group Limited Hong Kong, pursuant to which Telekom Srbija increased its share in the capital of GO4YU to 100%.
- BPP ING d.o.o. Grocka 100% owned by Telekom Srbija.

## May

- Telekom Srbija becomes the owner of 100% of the capital of HD-WIN<sup>1</sup> under the Share Purchase Agreement and the Share Transfer Agreement of 14 May 2019, whereunder the purchase is completed of 40% of the stake in the total capital of HD-WIN, from the former owner Goran Đaković.

## July

- By carrying a non-monetary stake that constitutes the right to a 100% share in the total capital of the subsidiary Mtel Austria and by entering into the Agreement on the accession of a member and capital increase with a new contribution on 11 July 2019, Mtel Banja Luka becomes a member of GO4YU. Pursuant to the said agreement, Telekom Srbija retains a majority stake in GO4YU with a 59% share in the share capital (since Telekom Srbija previously increased the capital of GO4YU with a non-monetary contribution which constitutes the ownership right to 100% of shares, which represents 100% of the share capital of TS: NET BV Amsterdam, whereas Mtel Banja Luka owns a 41% stake in the said company).
- The EURONEWS d.o.o. Beograd subsidiary, owned by HD-WIN with 100% share in the share capital, was incorporated.
- Telemark systems d.o.o. Čačak 100% owned by Telekom Srbija.

## August

- Telekom Srbija becomes the owner of 100% of the stake in EXE-NET d.o.o. Niš.

## September

- Telekom Srbija becomes a 100% owner of SAT TV Meteor d.o.o. Užice.
- ELTA - KABEL d.o.o. Doboj (hereafter: Elta-Kabel) 100% owned by Mtel Banja Luka.

## October

- GO4YU signed an agreement on the acquisition of MYD Sports Švajcarska, with HD-WIN and LINK2YU Network GmbH, whereas full control over the company MYD Sports by HD WIN and LINK2YU Network was obtained in February 2020.

## November

- Share purchase agreements and agreements on the transfer of the shares of Charlie Plus d.o.o. Raška and Charlie Plus Net d.o.o. Raška were entered into, based on which Telemark systems became the owner of 100% of the stake in the total share capital of the said business companies.

## December

- Telekom Srbija reaches a decision to increase the capital of mts d.o.o. and the payment of the first tranche in the amount of 6,980,000 euros was made in January 2020.

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<sup>1</sup> In March 2020, HD-WIN changed its business name into „ARENA CHANNELS GROUP“ d.o.o. with its seat at Milutina Milankovića 9a, Beograd

## 1.4 CORPORATE GOVERNANCE

### Corporate governance at Telekom Srbija (hereinafter referred to as: Company)

The General Meeting of the Company consists of all shareholders of "Telekom Srbija" a.d. Beograd. In 2019, the 54th regular session of the body was held.

The Supervisory Board (hereinafter: the Supervisory Board) performs tasks within its purview in accordance with the applicable legal regulations. The Audit Commission, the Company Secretariat and the Internal Audit are answerable to the Supervisory Board.

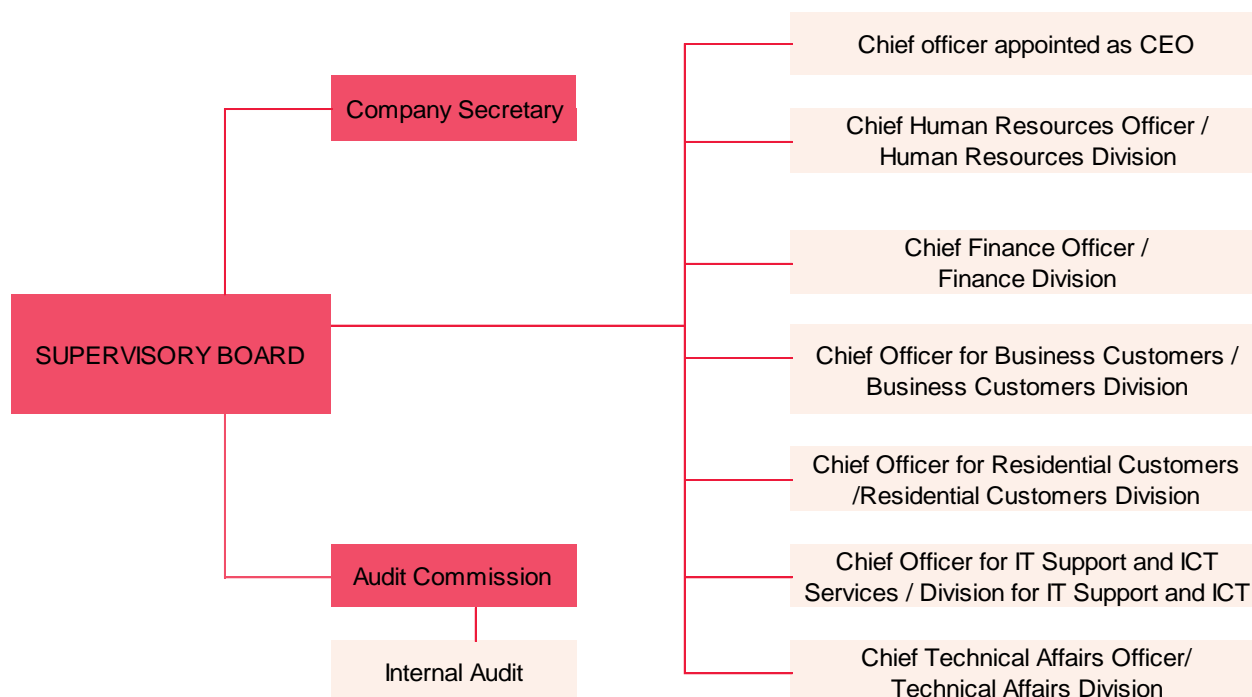
The Audit Commission was set up by the Supervisory Board and its competencies and responsibilities are in accordance with the Law.

The Company Secretary is appointed by the Supervisory Board and his responsibilities are regulated by the Company's Articles of Association.

The Internal Audit was set up as a separate organizational unit answerable to the Supervisory Board which adopted the Charter of Internal Audit and the Rules of Internal Audit. These by-laws provide the manner of implementation and organization of the work of internal audit.

The members of the Executive Board, including the CEO, are elected by the Supervisory Board. The members of the Executive Board are chief officers. The organization, manner of work and decision-making are regulated in more detail by the Rules of Procedure, which were adopted by the Executive Board in accordance with its legal and statutory competencies.

#### Corporate governance at Telekom Srbija



The subsidiaries and associated companies owned by Telekom Srbija are organized in accordance with the Law, that is, the type of the activity they conduct.

## Corporate governance at the subsidiaries

In most companies within Telekom Srbija Group, management is organized as one-tier, which means that the corporate governance bodies include: the General Meeting and CEO.

In other subsidiaries of Telekom Srbija, management is organized as shown in the table below.

Table 2 Corporate governance in specific subsidiaries

Mtel Banja Luka	General Meeting	A joint stock company defined under the Company Law and Standards of the Securities Commission. Mtel has its own Code of Conduct and Corporate Governance
	Managing Board	
	CEO	
	Executive Board	
	Audit Board	
	Internal Auditor	
Mtel Podgorica	Board of Directors	The Board of Directors comprises a chairman and four members. An executive director appoints directors responsible for certain spheres of operation divided into 8 divisions. Mtel has 16 stores in 14 towns in Montenegro.
	Executive Director	
Telus Beograd	General Meeting	A closed joint stock company, one-tier. The organizational structure is made up of divisions (four sections) and territorial (regional) centres.
	Supervisory Board	
	Executive Board	
mts banka Beograd	General Meeting of the bank	Besides the Articles of Association, determining the organization of the Bank, also adopted was the the Code of Corporate Governance in accordance with the principles and rules of corporate practice, particularly with the shareholders' rights, public and transparent business operations. The Managing Board oversees the activities of the Executive Board, with the assistance of the Business Monitoring Board. Apart from the said governance bodies, including the General Meeting, also set up were other boards. The Bank has 5 branch offices and 12 offices.
	Managing Board	
	Executive Board	
	Business Monitoring Board	
	Credit Board	
	Board for the Management of Assets and Liabilities - ALCO	
mts AntenaTV Beograd	General Meeting	The management of mts Antena TV d.o.o. is organized as two-tier, where, apart from the General Meeting (Telekom Srbija and JP Emisiona tehnika i veze) there is also the Supervisory Board comprising three members and the general manager
	Supervisory Board	
	General Manager	
YUNET International Beograd	General Meeting	Management is organized as two-tier. Besides the Supervisory Board (five members), the General Meeting comprises members - three individuals who are minority members and the majority member, Telekom Srbija.
	Supervisory Board	
	General Manager	

## Statement on the application of the Code of Corporate Governance of Telekom Srbija

Telekom Srbija is applying the Code of Corporate Governance (hereafter: Code), adopted at the first session of the Supervisory Board of the Company held on 26 June 2012 and published on the Company's official website. Among other things, the Code regulates as follows:

- the shareholders' rights;
- the remunerations and bonuses for the members of the Company's corporate governance bodies;
- communication with the public, disclosure of data and transparency, and
- the promotion of the corporate system.

The Company endeavours to develop a corporate governance practice based on the contemporary and generally-recognized principles of corporate governance, experiences and best practice in this sphere, with the respect for the requirements envisaged by the applicable regulations and the recognition of the global market conditions and trends in the national telecommunications market and defined developmental goals of the Company.

The Company's Supervisory Board is competent for the implementation and construction of the Code, regular monitoring of its implementation and alignment of the corporate organization and activities of the Company with the Code.

The implementation of the principle of an appropriate respect for the interests of all existing and potential shareholders, investors, creditors, service users, employees and members of the corporate governance bodies, is ensured through the work procedures and decision-making by the corporate bodies, defined by by-laws, and through communication and coordination between all corporate governance bodies, managers at the business seat of the Company and units within its territorial organization, employees, shareholders and the public.

### **Statement on the application of the corporate governance standards of Mtel Banja Luka**

Mtel Banja Luka (hereinafter referred to as: Mtel or Company) has its own Code of Conduct and Corporate Governance. This Code specifies the mechanisms of the functioning of the corporate governance bodies and the protection of the interests in mutual relations between different stakeholders in the Company.

All matters not regulated by the Code shall be directly subject to the provisions of the Company Law, Corporate Governance Standards, Articles of Association and other by-laws of the Company.

The defined principles ensure the mechanisms for determining the Company's goals, the means for their implementation and monitoring of the effects and therefore, a lasting and consistent system of control of the corporate governance bodies and protection of interests in mutual relations of all interested parties was set up.

The application of the corporate governance principles ensures the transparency of business operations, and quality protection of all stakeholders, for the purpose of creating a long-term economic value for its shareholders.

The Company aims to promote its competitive ability and ensure a more favourable ambiance for its investment activity, through the continuous application of the prescribed standards and good and responsible management and oversight of the business and management functions of the Company.

Corporate governance represents an important segment of market operations within the Company. Therefore, Mtel will continue to monitor the alignment of the organization and activities of the Company with the principles contained in the Code. Respecting the basic principles of the Code pertaining to transparent business operations, elaborate procedures concerning the activities of the bodies that reach important decisions, avoiding conflicts of interest and efficient internal control and system of responsibility, the Company will, in 2020 as well, be committed to further promotion of corporate relations between the stakeholders and improvement of business activities and development of the Company to the benefit of all shareholders.

The statement of Mtel on the alignment of the organization and activities with the code of conduct, that is, corporate governance, constitutes an integral part hereof and is published on the website of the Company under the heading Investors ([www.mtel.ba](http://www.mtel.ba)) and the website of the Stock Exchange (<http://www.blberza.com>).

The subsidiaries within the Group: Logosoft, Telrad Net, Blicnet and Elta-Kabel, also respect the highest standards of corporate governance which are a precondition for good quality and long-term relations with the customers, partners and different stakeholders.



# 02

## MACROECONOMIC ENVIRONMENT



## 2. MACROECONOMIC ENVIRONMENT

According to the World Bank's analyses published in January 2020, the world economy is still facing hard times because the year of 2019 ended with the growth in the global GDP growth of 2.4%<sup>2</sup>, while the growth in the world economy in 2020 is projected at 2.5%<sup>3</sup>. However, the Covid-19 virus pandemic will cause stagnation and decrease in the GDP in the global economy.

The economic activity in the European Union generally worsened and several economies were on the edge of recession at one moment during 2019. The EU GDP growth in 2019 noticeably slowed down and finally amounted as low as 1.5%. It is expected that such a negative trend will continue in the next year due to the virus pandemic and its impact on the economy.

As published by Eurostat, the Eurozone and EU28 recorded a 1% growth in Q4 of 2019 as compared to Q4 of 2018. The largest increase was recorded in the categories of services, food, alcohol and tobacco. ECB retained the 0% reference interest rate of.

For a long period, the growth rates in EU were limited mostly due to the decline in the working age population in most economies of the Eurozone. At the end of December 2019, the unemployment rate in the Eurozone amounted to 7.4%, which has been the lowest unemployment rate since May 2008.

The table below shows the basic macroeconomic indicators for Serbia, Bosnia and Herzegovina and Montenegro for 2019.

**Table 3 Macroeconomic data for the region for 2019<sup>4</sup>**

Parameters	Serbia	B&H	Montenegro
GDP growth	4.20%	2.60%	3.80%
Industrial production growth	0.30%	-5.50%	-6.30%
Retail transactions growth	9.70%	5.00%	6.26%
Incoming tourism growth	7.60%	12.00%	20.10%
Overnight stay growth	7.90%	10.70%	11.20%
Average annual inflation rate	1.90%	0.60%	1.00%
Unemployment rate	10.60%	15.70%	16.20%
Average net salary	€467	€474	€520
External debt /GDP	63.80%	31.90%	65.40%
Borrowings growth	8.00%	5.50%	11.70%
Export growth	7.70%	-3.40%	2.20%
Import growth	8.90%	1.20%	2.20%
DFI growth	13.50%	29.00%	6.90%

The **Serbian GDP** in 2019 went up by 4.2% compared to 2018. Due to the slowdown of the economic growth in the EU countries as the key export destinations, especially Germany as the main trade partner with around 67% of export and around 59% of total import, the Serbian export and import activities are much slower. The slower GDP growth is also projected for Serbia in 2020, at approximately 0.5%, especially in the sphere of tourism as a consequence of the Covid-19 virus epidemic, as it is the case in other European countries.

<sup>2</sup> World Bank: „Global Economic Prospect“, January 2020. – str. 4

<sup>3</sup> Ibidem

<sup>4</sup> www.nbs.rs; www.mfin.gov.rs; www.stat.gov.rs ; www.cbcbg.me; www.cbcbh.ba; www.bankar.me; zzzcg.me

There are still negative export trends due to the faster growth in import activities and a mild decline in the processing industry. The value of the exported commodity is 17 billion dinars, and the value of the imported commodity is 23 billion dinars. The commodity supply deficit was 6.3 billion dinars, which is a 12.5% increase as compared to the last year. The largest share in the 2019 export is attributable to electric machines, equipment and devices. A positive commodity trade balance was achieved in the food and beverage industry, oil and tobacco.

The highest trade deficit is recorded with China, Russia and Germany. The retail trade, viewed in fixed prices, in 2019 for Serbia recorded a 9.7% growth, which is the largest growth rate in Serbia's southern region. The growth in industrial production is 0.3% on an annual level, but in December 2019, the YoY growth of 8.3% was achieved, which, as compared to the 2018 average, represented a 5.9% growth. The largest impact on the growth came from the following industries: electric energy and gas supply, production of metal products, basic metals, PCs, electronic and optical products. Stagnation was recorded in the sphere of agricultural production.

The fiscal consolidation measures brought macroeconomic stability in the country with the realized surplus of the republic budget in November 2019 in the amount of 62.2 billion dinars above the plan. The NBS lowered the reference interest rate to 2.25% at the end of 2019, which made the RSD loans cheaper, which also contributed to Serbia's credit rating being improved from BB to BB +, according to the analyses by Standard & Poor's. The non-performing loans were reduced by 75%, which increased the lending activity in the country.

The banks' lending activity was higher in 2019 in terms of placements to businesses (8.6%) and households (9.3%). The effective interest rates for housing loans were around 3.15% and for consumer loans they were 6.3%

The public debt has been reduced to 52% of GDP, which amounts to about 23.9 billion dinars and represents an improved trend compared to 2018, when it was 53.7%. Of that, Serbia's foreign debt is 7.3 billion euros. Serbia's foreign exchange reserves increased by 15.4% compared to 2018 and amount to 13.4 billion euros.

Foreign direct investments were growing and reached the value of around 3.6 billion euros, which is more than 3.2 billion recorded in 2018, making up 7.8% of GDP. The long-term sustainable growth of Serbia's GDP can be based only on the growth of investments and net exports. Inflation is at approximately the same level as in 2018, around 1.9%, and labor market trends are favorable as it is expected for the next year, with the unemployment rate of 10.6%, which is lower than in 2018 ( 12.7%).

In 2019, **Bosnia and Herzegovina** achieved the GDP growth of 2,6%<sup>5</sup>. From the perspective of macroeconomic trends, analysts predicted that the unblocked funds from international credit institutions should have a positive impact on the B&H economy in 2019, but due to the non-formation of a government at the state level, these funds remained blocked, so the economy Bosnia and Herzegovina are in an unenviable situation.

According to the World Bank's analysis, the key challenge for Bosnia and Herzegovina's economy is the imbalance of its economic model: public policies and initiatives are directed more towards the public than the private sector, more to consumption than to production, more to imports than to exports. about 15.70%. It is assumed that the unstable trends in the European Union will affect economic trends in Bosnia and Herzegovina. Therefore, GDP growth of up to 1.9% is projected for 2020

According to the World Bank's analysis, the key challenge for Bosnia and Herzegovina's economy is the imbalance of its economic model: public policies and initiatives are directed more towards the public than the private sector, more to consumption than to production, more to imports than to exports.<sup>6</sup> The unemployment rate in B&H is high, around 15.70%<sup>7</sup>. It is assumed

5 [www.worldbank.org/en/country/bosniaandherzegovina/overview](http://www.worldbank.org/en/country/bosniaandherzegovina/overview)

6 [www.worldbank.org/en/country/bosniaandherzegovina/overview](http://www.worldbank.org/en/country/bosniaandherzegovina/overview)

7 <http://bhas.gov.ba>










that the unstable trends in the European Union will affect economic trends in Bosnia and Herzegovina. Therefore, the GDP growth in B&H is projected at up to 1.9% in 2020<sup>8</sup>.

In **Montenegro**, the GDP growth was recorded at a rate of 3.85%. According to the Central Bank of Montenegro, the public debt amounts to 3.8 billion euros, approximately 80% of GDP, with external debt being 3.14 billion euros. Deposits in banks reach the value of about 3.5 billion euros, with a 8% growth, while retail deposits have a share of 38% and a growth of 5.6%, excluding the data for two banks that have been in bankruptcy since 2019 - Investment Bank and Atlas Bank, for data comparison purposes. The total approved bank loans in December 2019 amount to 3 billion euros, which is a 4.5% increase, as compared to 2018. The weighted average effective interest rate was 6%. The annual inflation measured by consumer prices in 2019 was 1%. The price growth in industry is 2.3% in 2019 due to growing prices in all three sectors: manufacturing, electricity and gas supply and in the mining sector. In the sectors of manufacturing and electricity supply, a decrease was recorded (10% and 7%, respectively), and in the mining sector, there was an increase of 20.8%. Of all the industry branches, only tobacco production recorded a growth of 200%.

The number of employees is by 2.3% higher than in 2018, while the number of the unemployed is lower by 9.1% and amounted to 37,616, of which 58% were women. The unemployment rate was 16.2% at the end of 2019.

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 4 Credit rating of the countries in the region on international lists**

Parametri	Srbija	BIH	Crna Gora
DOING list	44 	90 	50 
Moody's Investors Service	Ba3 	B3 with stable outlook 	B1 
Standard&Poor's	BB+ 	B3 with stable outlook 	B+ 

According to the World Bank's rating, Serbia was ranked 44th out of 190 countries according to the ease of doing business index, which is a better position than in 2018 (ranked 48<sup>th</sup>).

Of the countries of former Yugoslavia, better positions on the Doing Business list is taken by Macedonia (17th place) and Slovenia (37th), while Montenegro is ranked 50<sup>th</sup>, Croatia 51<sup>st</sup> and Bosnia and Herzegovina 90<sup>th</sup>.

S&P has raised our credit rating from "stable" to "positive" and raised Serbia's BB rating to BB+ in December, thanks to the strong economic growth and maintenance of the price and financial stability. That BB+ rating was also confirmed by Finch. The conditions for the further growth of rating is further reduction of the public debt and keeping the payment balance deficit within sustainable limits.

In the world competitiveness ranking list of the **Global Competitiveness Report** of the World Economic Forum (WEF 2019), Serbia ranked 72nd out of 141 countries. The achieved value of the global competitiveness index is 60.9 (above the world average of 60.7), which is the same as in 2018, and the best result since 2010, but this relative position due to the progress of other countries, fell from 65<sup>th</sup> to 72<sup>nd</sup> place.

Serbia took a better place in relation to the neighbouring countries, such as B&H, the Republic of Northern Macedonia and Montenegro. The new EBRD methodology is based on the quality indicators for market economy sustainability in six categories: competitiveness, good governance, green economy, inclusiveness, resilience and integration.

<sup>8</sup> <https://www.profitiraj.ba/raiffeisen-ocekuje-se-dodatno-usporavanje-ekonomije-bih-u-2020-na-19-posto/>

# 03

## MARKET AND REGULATORY FRAMEWORK



### 3. SERVICES MARKET OF TELEKOM GROUP

Telecommunications, as the core activity of the Parent Company and most of its subsidiaries, represents an economic sector that generates stable revenues. The telecommunications market is still a dynamic and capital intensive market with sharp competition, mostly in the domain of telephony and internet.

The common characteristic of the mobile markets in Serbia, B&H and Montenegro is a strong and established competition with three other operators and a full deregulation of business based on the 3G technology in parallel with the introduction of Advanced LTE, i.e. 4G technology.

The Parent Company and its subsidiaries are also present on the market of television services, market of financial services and market of FTO and hygiene maintenance, as well as on the market of telecommunications in the territory of Austria.

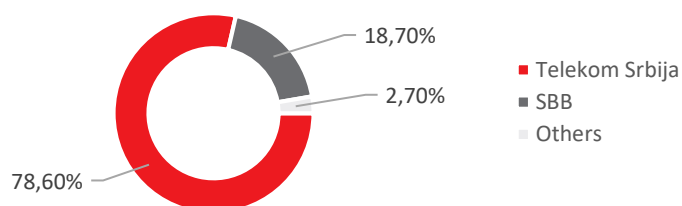
#### 3.1 SERBIAN TELECOMMUNICATIONS MARKET

Telekom Srbija continued expansion of its network by purchasing new cable operators. In view of the fact that internet portals will in future be the biggest generators of content, Telekom Srbija thus announced that it is going to be one of the key players in the industry of content production covering series, sports or scientific program.

The sector of IT and communications technology (ICT) is recognized as a strategic sector that is crucial for a sustainable economic development of the country, in accordance with the IT Society Development Strategy in the RS until 2020<sup>9</sup>.

##### Fixed telephony market

As on other fixed telephony markets, there is a visible trend of shifting to digital telephony and reduced volume of traffic via fixed networks because of the growing share of mobile telephony. This trend is largely compensated by the provision of integrated (bundle) services. The operators with largest market shares as per the number of customers are as follows:



The traffic in the fixed network in 2019 declines by some 15% compared to 2018. The number of fixed customers in 4Q was 2.4 million which is a result of a constant long-term decrease.

It is estimated that the revenues from fixed telephony decreased by some 6%<sup>10</sup>, and amount to some 28.3 billion dinars, most of which come from the telephone subscriber fee.

The number of users of service packages is on the rise and is around 1.4 million, which is a 8.7% growth compared to 2018.

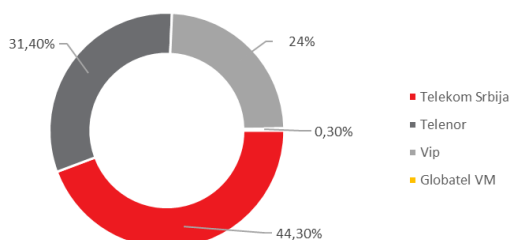
<sup>9</sup> Official Gazette of RS 51/2010

<sup>10</sup> Since RATEL did not publish any data on the revenues generated in 2019 at the moment of creating this report, the data about the markets have been produced based on the available data provided by Telekom Srbija.

## Mobile telephony market

The number of active users of the mobile network in Serbia at the end of 2019 is around 8.5 million, which is 1.2% higher than at the end of 2018. During the last year, the number of prepaid customers had a constant declining trend (3.4 million), and the number of postpaid customers was growing (5.0 million).

The following operators are present on the mobile telephony market:



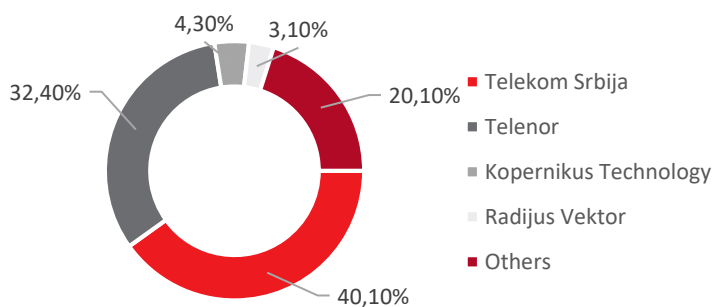
The segment of mobile telephony is characterized with the growing use of the OTT services based on internet, such as, Skype, Viber and WhatsApp, which is explained by significant savings and easy use, and that resulted in the declining trend of the SMS service, although that level was higher in Q4 than in the 3 previous quarters, which also applies to the voice traffic measured by the number of minutes.

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

The number of active users of the mobile Internet access in Serbia at the end of 2019 is 6.3 million users with an increase in the volume of data transferred via the mobile network by approximately 34%. It is estimated that the revenues from mobile telephony increased by some 6%<sup>11</sup>, and amount to approximately 122 billion dinars.

## Market of the Internet and ICT services

The market of the Internet and ICT services is still growing. The development of the IT sector is followed by legal and regulatory activities and liberalization of the regulatory regime, as well as by introduction of e-government in many public institutions.



<sup>11</sup>Since RATEL did not publish any data on the revenues generated in 2019 at the moment of creating this report, the data about the markets have been produced based on the available data provided by Telekom Srbija, as a SMP operator.

The number of users of the fixed, broadband access to the Internet is approximately 1.6 million users, which is some 5% higher than the amount for the previous year. The most represented technology for the Internet access is a cable access – 44.4%, while ADSL recorded a mild decrease - 38.3%. The largest number of subscribers use the access rate higher than 30 Mbit/s.

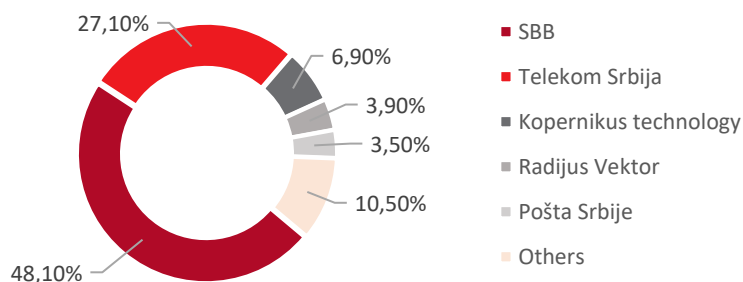
The most significant share on the growing market of internet services is held by Telekom Srbija Group - 48% which is a notable growth compared to 2018.

In the domain of ICT services, the offer of cloud service was improved. Additional improvements were made to the service in the business segment, including bundled service packages, the possibility of connecting locations into a single network system, introduction of WiFi service, the complete IT security solution and SaaS (*Storage as a Service*) solution that offers a storage space and the maximum number of users.

It should be noted that the number of online purchases significantly increases and that during 2019, around 1.8 million of the Serbian citizens used that service.

## Multimedia market

The operators rendered their services during 2019 via the following public telecommunications networks: KDS, IPTV and DTH.



The digital television signal covered almost 100% of the Serbian population. The majority of the users in Q4 of 2019 had the connection to the cable television, either analogue or digital, around 59% (digital 48.7%), the share of IPTV is stable - 25%, the share of DTH had a mild increase – 12.8%.

The number of users of the media content distribution services was growing and, at the end of 2019, it reached 1.96 million, which is a 6.5% growth compared to 2018.

The largest share in the market of multimedia services is held by SBB 48.1% while Telekom Srbija Group took the second place with around 38%.



## 3.2 TELECOMMUNICATIONS MARKET IN BOSNIA AND HERZEGOVINA

The telecommunications market in Bosna and Herzegovina in 2019 was characterized with acquisitions, introduction of the 4G mobile network, elaboration of a single broadband access strategy for B&H, implementation of the Digital Agenda for the Western Balkans and granting of a license for the use of a radiofrequency spectrum for the provision of services for managing the electronic communications network in the digital terrestrial radio broadcast.

The total estimated revenues on the telecommunications market recorded a mild increase in 2019 and amounted to 1.3 billion KM. The largest share in the total revenues was achieved from the provision of the mobile telephony services. The estimated revenue from the mobile services for 2019 was 524 million KM, (41% of the total projected revenues from the TC market).

The projected revenues from the fixed telephony services in 2019 amounted to 243 million KM i.e. 19% of the total projected revenues on the TC market.<sup>12</sup>

### Fixed telephony market

At the end of 2019, three operators rendered the service via the fixed telecommunications network in B&H, all of them possessing the License for the public operator of fixed telephony (BH Telecom Sarajevo, Mtel Banja Luka and "Hrvatske telekomunikacije Mostar") and there were 11 operators possessing the License for the provision of fixed, public telephone services.

The number of fixed subscribers of the SMP operators at the end of 2019 was 578 thousand subscribers, with the growth rate of 3.5%. The total number of subscribers of the new operators in the fixed telephony at the end of 2019 was 150 thousand subscribers, with the growth rate of 7.7%. The penetration rate was approximately 20.6%.

### Mobile telephony market

There are 3 operators in B&H that possess the License for the provision of the GSM and UMTS services: BH Telecom Sarajevo, Mtel Banja Luka and "Hrvatske telekomunikacije Mostar". Beside them, there are also operators which render mobile telephony services based on commercial agreements entered into by the holders of the License for the provision of GSM and UMTS services.

The number of users shows a growing trend and that number was estimated at the end of 2019 at 3.8 million. The number of prepaid customers is still much higher than the number of postpaid customers.

The wide application of Viber, Skype, Gtalk, Whatsapp, Facebook Messenger resulted in a continuous decline in the international outgoing voice traffic and number of SMS messages.

The penetration rate is 99.3%, which is below the values in the neighbouring countries (Montenegro - 185%, Serbia - 122%, Croatia - 104%).

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<sup>12</sup> The internal estimation was obtained by using the SAS Visual Analytics forecast tools based on the official data of RAK for 2018, EKIP, Ratel Telecommunications Indicators in B&H in 2017, Quartely Comparable Data on the Electronic Communications Markets Q4 2018, Hakom

## **Internet services market**

The market of Internet access services was characterized with higher access rates for all users, integration of the telecommunications services and ICT services (cloud, data centers, security).

The penetration rate of internet services on the market of B&H recorded a continuous growth, reaching 89%.

The total number of connections to the broadband internet access via the fixed network in B&H at the end of 2019 was 717 thousand. The number of broadband subscribers reached 99.97% of the total number of Internet subscribers. The predominant type of internet access is xDSL with almost 405 thousand subscribers at the end of 2018, and it is estimated that such number will reach 417 thousand at the end of 2019.

The number of subscribers to the cable access to Internet at the end of 2019 was 227 thousand and recorded a decline compared to 2018, while the use of internet via the mobile network recorded a significant growth.

The development of the broadband internet along with the liberalization of the telecommunications market influenced the offer of service packages that integrate several telecommunications services at a time: internet, fixed telephony, mobile telephony and television. While the share of subscribers to the internet in a package was growing, the share of the fixed telephony subscribers declined. The users took the packages with internet and use the VoIP substitute instead of the fixed telephony services, such as Viber and Skype.

## **Multimedia market**

The market of multimedia services in B&H from the perspective of a SMP operator is characterized with a constant growth in the number of users of the package services by winning new customers or retaining the existing customers in the manner that xDSL users and the users of voice services became the users of the 2P, 3P or 4P service packages. There were 35 holders of the license for the distribution of the audio and visual media radio services.

The total number of cable subscribers (KDS), IPTV and DTH and is projected at the end of 2019 at 833 thousand, which means that the penetration rate reached 72%.

In recent years, the number of subscribers using the KDS has mildly decreased, while the share of the IPTV lines recorded a mild growth. The KDS service is mostly represented with the share of around 43.5%, followed by the IPTV service with 40.5% and DTH service with some 16%.

All these dominant operators improved their offers in the domain of provision of the multimedia content enabling new services in this segment and upgrading the access to the service (multiscreen). The mobile TV service, the Internet broadband access via the fixed and mobile network are more present. It is mostly offered as an add-on service together with some of the electronic services.

### **3.3 TELECOMMUNICATIONS MARKET IN MONTENEGRO**

#### **Mobile telephony market**

There are three operators on the Montenegrin market: Mtel Podgorica, Telenor and “Crnogorski Telekom” with the LTE technology implemented in their mobile network. Montenegro has a high level of population coverage with the mobile network signal. The penetration in the last quarter of 2019 is over 185% with 1.1 million customers (53% - postpaid and 47% - prepaid).

The market environment in 2019 was dynamic and the market share of Mtel Podgorica increased to 34.6%, so that Mtel Podgorica for the first time became the leading operator on the mobile telephony market, while Telenor and Crnogorski Telekom have approximate market shares - 32%, each.

#### **Fixed telephony market**

The total number of connections on the fixed telephony market at the end of December 2019 was 188 thousand and at the end of 2018, that number was lower – 172.8 thousand.

The predominant share in the fixed telephony market is held by Crnogorski Telekom with 57.7%, while Mtel Podgorica, on introducing the optical network in July 2015, now has a 32.9% share. The third ranking operator is Telemach (United Group) with a 8.4% share.

#### **Internet service market**

The total number of broadband connections at the end of December 2019 was around 178.6 thousand, which is a 13.2% growth compared to December 2018.

The number of users accessing internet: via the optical network (FTTx) - 62 thousand, via KDS – 48 thousand, via ADSL lines - 31 thousand, via VDSL lines– 30 thousand, number of WiFi connections– 3 thousand, WiMAX connections– 2 thousand.

#### **TV content distribution market**

This market has changed a lot over the recent two years after the merger of market players so that, now, it is divided between three dominant operators: T-Com, SBB and Mtel Podgorica. The total number of active connections in December 2019 was 222.9 thousand which is a 7.8% growth compared to the previous year. Mtel Podgorica increased its share in 2019 from 31% to 35.5%.

The EON SMART TV applications were introduced by United Group – Telemach, which enabled watching of TV through the application on the tablet, smart phone, PC or TV set. Direct to home (DTH) is a new service provided by Mtel Podgorica which enables reception of the TV and radio program as a service distributed from the satellite to end users, which commenced in December 2018.

## OTHER MARKETS OF SUBSIDIARY COMPANIES

**Mtel Austria** operates in the territory of Austria where customers may choose among three dominant mobile operators. All of them are part of big telecommunications groups: Magenta (T-Mobile), A1 Telecom Austria and Hutchison 3G. Beside the said operator, a total of 35 currently active MVNOs are present on the market holding a 6.7 % market share (Mtel 0.4%). The mobile penetration rate is 149% which is among the highest rates in Europe.

**Arena sport** channels at the end of 2019 are present in the distribution networks of 58 operators in the territory of Serbia, Bosnia and Hercegovina, Macedonia, Croatia and Montenegro. On all the markets mentioned above, Arena sport channels are present on the platforms of all the main telecommunications operators (T-Com Montenegro, T-Com Macedonia, T-Com Croatia, BH Telecom, Mtel Banja Luka, HT Eronet, Mtel Podgorica and Telekom Srbija). The biggest competitor is UMG (United Media Group) with its Sport Klub channels.

**mts banka** operates on the Serbian market of financial services which has undergone significant changes over the recent years. The IT technology, including the models of contemporary IT architecture, data bases and storage, data security, state-of-the-art statistical software and other IT tools, contributed to a large increase in the speed of data processing. Likewise, the introduction of ATMs, the functioning of different types of credit and payment cards enabled to financial organizations to offer to the market a wide range of quality products and services. A total of 26 banks operated on the Serbian market in 2019.

**Telus** operates on the market of the FTO services and hygiene maintenance together with 10 other companies, where the largest shares in operating revenues were recorded by G4s, Securitas and Telus, covering 80% of this market. The share of Telus in the total revenues from the market is around 15%, while the share of employees is 11%.

### 3.4 REGULATORY FRAMEWORK

The regulatory framework is of exceptional importance because the establishment of regulatory bodies created all the regulatory and institutional conditions for taking the activities to accelerate the development of the industry and liberalization of the telecommunications market, which were rather chaotic before, without clearly defined rules of business and without open competition.

**Table 5. Comparable data of the telecommunications regulatory framework in the region**

basic	Serbi	BI	Montenegr
	RATE	RA	EKI
competen regulatory	Regulatory agency electronic and postal	Regulatory agency communications	Agency for communications postal
web	<a href="http://www.ratel.rs">http://www.ratel.rs</a>	<a href="https://www.rak.ba">https://www.rak.ba</a>	<a href="http://www.ekip.me">http://www.ekip.me</a>
	Law on amending on securit	Communications amendment	Law on amending Law on communication
	Law on securit	Communications Law amendment	Law on communication
material	Law on the Law on communication	Communications Law amendment	Law on the law on broadcastin
	Law on communication	Communications	Law on digital

During the last year, different activities were taken related to the regulatory framework in the region. All the documents are listed and presented on the official web pages of the relevant regulatory bodies.

- ◇ In November 2019, a new **Law on Postal Services** was adopted in Serbia (Off.Gazette of RS 77/19).
- ◇ Analyses were made of the wholesale markets with different approaches in which Telekom Srbija was declared as an SMP operator, i.e. where the existing status was renewed. Under RATEL's Decision of 5 July 2019, the Telekom Srbija and SBB were designated as the SMP operators on the central access wholesale market analysis, which refers to the broadband access services, access in wholesale and, especially, to the services of bitstream access via the network of copper pairs and xDSL technologies, with an obligation of providing regular six-month reports on the requested KPIs.
- ◇ The most important regulatory activities in B&H in 2019 were:
  - In April 2019, the Communications Regulatory Agency granted licenses for the use of a radio frequency spectrum for the provision of services via mobile access systems (4G licenses) issued to the operators in B&H - BH Telecom Sarajevo, Mtel Banja Luka and "Hrvatske telekomunikacije Mostar", for a period of 15 years.
  - In October 2019, the Agency granted a License for the use of a radio frequency spectrum for the provision of services of managing the electronic communications network in the digital terrestrial radio broadcasting in Bosnia and Hercegovina – MULTIPLEKS C, which came into force on 1 November 2019, issued for a period of 15 years.
  - The key documents adopted in 2019 are: **The Policy of Electronic Communications of B&H** and **The Action Plan for Policy Implementation** and the accompanying by-laws.
- ◇ In Montenegro, Mtel Podgorica was declared as an SMP operator on the markets of mobile and fixed termination and origination: call termination in the mobile network, call termination in the fixed network and mobile network origination wholesale. An obligation of introducing cost-based accounting was envisaged - the operators started to apply the LRIC model. Mtel Podgorica is still the operator of the Universal Information Service and Universal Directory.  
The EKIP Agency's plan for 2020 envisages definition of a regulatory and technical framework for the application of the 5G mobile networks.

Certain subsidiary companies operate on the markets that are regulated by different legislation:

- ◇ As for TV program broadcasting, the market was regulated by the Law on broadcasting, the Law on copyrights and related rights, the Law on public information and the Law on advertising.
- ◇ As for the banking operations, the market was regulated by the Law on banks and Decisions on risk management, capital adequacy and bank liquidity risk management.
- ◇ The field of physical, technical and fire protection services is regulated by the Law on private security and the Weapons and Ammunition Law.

The operation of Telekom Srbija Group covers the Austrian market, as well. The regulation of the telecommunications market in Austria is subject to the regulatory agency Rundfunk&Telekom Regulierungs (RTR) and is based on the Austrian Law on communications. Mtel Austria renders telecommunications services primarily on the basis of the Telecommunications Law of 2003 (TKG).

The data on the size of the OTT service market is not available, therefore, the precise market shares of the companies cannot be established and, related to the territory of Austria, the OTT TV service does not fall within the competence the regulatory body.

The VoIP telephony service, which belongs to "Other public telecommunications services" under the Austrian law means the VoIP services that are provided via the fixed telecommunications networks and the provision of such services is subject to a mandatory license.

# 04

## STRATEGY



## 4. STRATEGY

The year of 2019 was a year of special strategic importance for Telekom Srbija because it completed the process of acquisition of the cable, internet and TV operators and thus strengthened its strategic market position by providing market response to the growing demands of its customers. The dynamic and rapidly growing ICT market in which Telekom Srbija is one of the players, necessitates permanent investments than enable strategically important technological progress.

Telekom Srbija established the strategic position in 2019 as a:

- I Regional leader (the markets of Serbia, B&H, Montenegro) because it has as many as 10 million users of different services on the level of Telekom Srbija Group (mobile, fixed, internet, multimedia, etc.);
- II Leader on the Serbian telecommunications market; and
- III Leading provider of telecommunications services in the south-east Europe with affiliates in Serbia, Bosnia-Herzegovina and Montenegro.

Telekom Srbija continued its strategic market repositioning in the last year, predominantly in the market segments of internet and multimedia, to ensure a fast, effective and sustainable increase in market share and revenues. In 2019, Telekom Srbija continued implementation of an aggressive strategy of growth in the sectors of internet and multimedia and achieving a strategically important increase in the customer base in said market verticals and strengthened its leading position in the process of digital transformation of Serbia.

At the end of 2019, the national regulatory body (RATEL) proclaimed the mobile network of Telekom Srbija as the best network in Serbia, which is strategically important for the market repositioning of the MTS network and is historically the best result, because the MTS network is the best network by all the parameters of the mobile network quality. The leading position in quality of mobile networks in Serbia in 2019 is a result of great commitment and devotion of the employees in their efforts to ensure that the MTS mobile network is constantly available, highly efficient and reliable for the users.

In order to maintain the leader's position on the telecommunications market in Serbia in 2019 and to maximize the satisfaction of its customers, Telekom Srbija identified a set of strategic goals based on five strategic pillars:

- I. Core business for private customers
- II. Core business for business customers
- III. Non-core
- IV. Infrastructure
- V. Efficiency

By virtue of its strategic business plan for 2018-2021, Telekom Srbija has adopted the corporate strategy in accordance with its complex organizational structure and a large number of business processes. It is the starting systemic strategic framework and a basis for the development, adaptation and harmonization of the strategies of organizational units, adaptation and development of the Balanced Scorecard System (BSC) and enhancement and harmonization of the overall process of strategic management of Telekom Srbija and its subsidiaries.





In 2019 Telekom Srbija has intensively continued the process of acquisitions of considerable number of cable providers in order to ensure a future process of integration of the acquired companies in all operating aspects and to obtain a dominant market share in the Internet segment and significantly increase the market share in the multimedia segment. The said strategic acquisitions are implemented by activating the strategic program called "Milion+ korisnika" ("Million+ Customers") and by launching a new marketing brand of the cable Internet/IPTV operator - Supernova.

Telekom Srbija intensified its digital transformation strategy through the simultaneous implementation of the commenced projects with defined strategic initiatives and activation of a new set of projects, in order to position itself as a leader in the digital transformation in Serbia. In the internal aspect business processes continued improving, and in the external aspect the number of development projects increased, i.e. new services and market models have been launched in order to expand and enrich the portfolio of customer offers in all segments (public administration, government, economy, private sector, etc). Telekom Srbija was focused on the dispersion of online channels and a significant increase in sales (e-sales) and customer care (e-care) through digital channels. Simultaneously, last year Telekom Srbija strategically used favorable general factors and the overall synergistic effect of digital transformation with the state that initiates and encourages business activities of the leading ICT companies, accelerating the entire process of digital transformation of Serbia.

In 2019, Telekom Srbija continued with implementation of the ALL IP project, modernization of the network architecture and raising the service quality (by increasing the speed in the fixed internet, upgrading the bundles and tariff profile for mobile customers, improving the content).

The development of Telekom Srbija's market strategy in the residential customers market continued in 2019, with a strong focus on a market-positive repositioning of Telekom Srbija, by launching a unique selling proposition (USP) and preserving customer value (premium price positioning). The BOX concept redesign continued following the market requirements.

In the business customers market, Telekom Srbija implemented a diversification of the commercial offer, keeping a competitive edge, while accelerating the process of covering large and medium enterprises with optical network.

Telekom Srbija increased dispersion of its service portfolio in the ICT market by entering certain market verticals, developing and promoting specific IoT solutions.



# 05

## SERVICES



## 5. SERVICES

Telekom Srbija Group provides services not only to customers in the region but also to those in international markets.

Table no. 6 Offer of Telekom Group's basic services in the region

Serbia	BiH	Montenegro
FIXED		
Phone traffic	Phone traffic	Phone traffic
Number portability	Number portability	Number portability
IN services	IN services	
Fixed business line	Fixed prepaid	
Business trunking		
BizFon		
Biz InoCall		
Cost-effective services		
MOBILE TELEPHONY		
Phone traffic	Phone traffic	Phone traffic
Mobile Internet	Mobile Internet	Mobile Internet
Number portability	Number portability	
Business tariffs	TOTAL DATA	
Roaming	VPN exclusive	
IN services	Vehicle tracking	
Biz InoCall	Tariff options	
Ino call	Mtel WIFI service	
Bulk SMS		
Twitter sms, mms		
INTERNET AND DATA TRANSFER		
Internet access	Internet access	Internet access
Data transfer	Data transfer	Data transfer
Smart services		
ICT		
ICT services and structured cabling	ICT services	
Cloud services	Cloud services	
Security	Security (DDoS protection)	
Printing Centre services	Printing Centre services	
WiFi	WiFi	
Servers (virtual, physical)		
Telehousing		
Hosting		
ICT Outsourcing projects		
Business solutions		
Business network		
Creating custom IT solutions		
INTEGRATED SERVICES		
Biz package	Packages with 2, 3 and 4 services	m:box packages
BizDuo	Biz packages	
Box packages	m:TV net	
TELEVISION		
IPTV	IPTV service	m:sat
mts TV GO	TV to GO service	"Move" service
mts hotel TV	BIZ hotel TV service	
mts biz TV	m:SAT	
msat TV		
Antena plus		
Klik sport		
OTHER SERVICES		
Sale of devices	Sale of devices	mPAY
QR payment		
eBanking		
mBanking		

## 5.1 SERVICES OFFERED BY TELEKOM SRBIJA IN 2019

*"Mts - the best mobile network in Serbia by all parameters"*

*RATEL, 2019 Benchmark of Serbian Mobile Networks*

In accordance with its core values, the Company strives to provide customer satisfaction by offering them a variety of services tailored to their needs. In addition to the basic telecommunications services, the Company monitors changes in consumer preferences and pays significant attention to the development and provision of financial and digital products and services.

### SERVICES FOR BUSINESS CUSTOMERS<sup>13</sup>

#### Mobile telephony services

- ◇ **Roaming add-ons** - Three new internet roaming add-ons have been introduced: Libero Roaming 1, Libero Roaming 5, Libero Roaming 10.
- ◇ **Business tariffs** - The offer of Biznis Libero 30 and Biznis Libero Ultra tariffs has been enriched with 1GB of roaming.

**NEW/advanced Business tariffs** have been offered since August 2019: Standard 1, 2 and 3, as well as Libero 9, 19, 39 and 79 (tariffs withdrawn from the offer are as follows: Biznis Start (1,2,3) and Biznis Libero (5,10,15,30)). Also, users of the new libero tariffs have been offered the opportunity to use 1GB of roaming in 55 countries every month until the end of 2019.

#### Internet services

- ◇ Higher upload speeds and new, reduced monthly fees have applied to all existing and new users of the **FiberBiz** service - whether they use a BizPaket or not. New speeds are as follows: Fiber Biz S - 50/10 Mbps, Fiber Biz M - 100/20 Mbps, Fiber Biz L - 200/40 Mbps, Fiber Biz XL - 400/80 Mbps.
- ◇ The use of **Internet Max** packages with higher speeds is enabled, so the previous transfer speeds of up to 50/4 Mbps and up to 100/4 Mbps have been increased to 50/8 Mbps and 100/10 Mbps without changing the price.
- ◇ In the field of services with P2P internet access, the offer has been upgraded by introducing a new service, **FiberPro Libero**, which allows flexible use of Internet access speeds, in accordance with the actual users' requirements.
- ◇ A new **FiberPro** service has been introduced commercially, to enable Internet access via optical fibers with speeds from 10 Mbps to 1 Gbps symmetrically and from 20/5 Mbps to 200/100 Mbps asymmetrically. With the FiberPro service, users can also choose any of the additional services: Backup Access, CE Firewall, DDoS Protection, WLAN with CE Router/Firewall, Managed CE.
- ◇ The offer of WiFi service provision has been enriched, so that a technical solution is proposed in accordance with customers' requirements, with the appropriate technology and

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<sup>13</sup>Find details on services for business customers at the web page <https://mts.rs/Poslovnj>

Internet access speed, as well as the number of Access Points necessary for the implementation of WiFi service.

- ◇ **Mobile internet** - new tariffs are offered in the domain of mobile internet access - Mobilni Net 100/200/500, with 100, 200, and 500 GB of internet traffic. After consuming the amount of Internet traffic included in the monthly fee, Internet access is unlimited and free of charge, at a reduced speed up to 64 kbps.

## ICT services

- ◇ The Office 365 service was upgraded. The offer for business customers consists of four Office 365 packages: Exchange Online Kiosk, Business Essentials, Business and Business Premium.
- ◇ The Cloud Computing portfolio introduces current and sought-after OSs in the provision of virtual infrastructure services (IaaS and PaaS), as well as the new Time Tracking and Office 365 services, while obsolete and unattractive services are being withdrawn from the commercial offer (MPR and Afaria).
- ◇ In addition to the basic Protection Against DDoS Attacks service, users of Telekom Srbija's Internet access services are also provided with vAPS (*Virtual Availability Protection System*), as a more advanced protection system in the field of recognition, analysis and defense of customers' traffic. It is also possible to provide these services to users of the Virtual Servers service in order to protect the servers they lease.
- ◇ The service provision has commenced for the BizPlaner service, which is implemented according to the SaaS principle. Depending on the activity that a customer performs (services, trade or production), there are two packages available - standard and premium.

## BizPaket

The terms have been changed and the BizPaket offer has expanded by including Internet Max packages with access speeds of up to 100/4 Mbps. The use of Internet Max packages with higher speeds is enabled, so the previous transfer speeds of up to 50/4 Mbps and up to 100/4 Mbps have been increased to 50/8 Mbps and 100/10 Mbps without changing the prices.

## BizDuo package

From October 2019, the BizDuo package was introduced in the offer for business customers, with promotional terms: customers can exercise the right to pay a monthly fee of 1 dinar, inclusive of VAT, for the first three months of using the package, if they conclude a 24-month contract. New users are also entitled to purchase an Alcatel 1T 10 WiFi tablet device for the price of 1 dinar and to lease free of charge a Gigaset A270 or Gigaset A415 fixed telephone with a fixed line that is part of the BizDuo package.

## Television services

- ◇ A new DTH service has been introduced, i.e. a new m:SAT TV service that enables the delivery of television and radio programs via satellite to the appropriate equipment (satellite antenna and receiving device) installed at the customer's location. The program contents are organized into packages of television and radio programs, and all contents are transmitted exclusively in digital form, which guarantees high picture and sound quality. We offer 3 basic packages: Start (over 60 channels - 8HD), Plus (over 120 channels - 17 HD), Max (over 130 channels - 22 HD).
- ◇ As part of the MTS BizTV service and add-on IPTV services (BizTV 72h Time Shift package, BizTV Time Shift package and Video on Demand), a new additional package "Zadruga" is introduced and the RTS add-on package is cancelled. In addition, the name of the add-on service "BizTV 72h Time Shift package" has changed into "Time Shift". Users are now allowed to view content with a 7-day time shift (instead of 72 hours as before). The add-on service name "BizTV Time Shift package" has been changed to "Start Over".

## SERVICES FOR RESIDENTIAL CUSTOMERS<sup>14</sup>

### Mobile telephony services

- ◇ **Prepaid** - A welcome bonus for new prepaid users has been changed. All new prepaid users can activate the welcome bonus within 60 days of the card activation. By activating the Welcome Bonus, they get free 10,000 minutes within the network, 10,000 SMSs and 10GB for 7 days in the domestic traffic. Within 90 days of activating the welcome bonus, each top-up allows a bonus. With the activation of 1GB, 4GB and 10GB bonuses, the customers get free access to social networks (Facebook, Viber, WhatsApp, Twitter, Instagram, FB messenger, Snapchat, Pinterest) for 7 days.
- ◇ **Postpaid** - The offer of postpaid tariffs has been changed for all customers who conclude a new contractual obligation and who want to change their tariff during the existing contractual obligation. Six new tariffs are being introduced: Morava 1, Morava 2, Omorika 1, Omorika 2, Omorika 3, Soko. Users of the existing tariffs Morava, Omorika and Soko continue to use the old tariffs under unchanged terms.
- ◇ **Roaming add-ons** - Two new internet roaming add-ons are introduced, 100 MB during 10 days and 1GB during 15 days. Add-ons 10 MB for 30 days and 100 MB for 10 days are cancelled.
- ◇ **Mobile phone insurance**
- ◇ **The new postpaid tariff Zmaj** - including 200 national minutes, 200 SMSs and 10GB Internet each for YouTube and Twitch, will not be offered in the discounted fee packages.
- ◇ **Free access to social networks** - From August 2019, users of the Omorika and Soko postpaid tariffs have free access to social networks (included in the package - Viber, FB, Instagram, WA and Twitter) and 10GB for YouTube and Twitch.
- ◇ Tariff add-ons have been introduced for social networks with the charges for other tariffs, as well as for Omorika and Soko tariff users who consume 10GB for YT and Twitch.
- ◇ **Viber mts communication** channel. The channel is used to inform customers about our products and services and as a channel for activating tariff add-ons for prepaid, postpaid and Cost Control tariff users.
- ◇ **Moj mts (My mts) app** - mobile application for residential customers using Android and iOS devices (prepaid, postpaid, cost control, postpaid in Box). Windows device users cannot use this application. The application provides: overview of the status (subscription traffic), overview of the duration of the contractual obligation, list of activated add-ons, possibility of changing the tariff or switching to a recommended tariff, listing, consumption statistics, optional prepaid top-up (via card or postpaid number), roaming service settings and add-on activation, activation of the Net Limit service, activation of the mtstvGo service, etc. The Mts centre application is no longer operational.

### Internet and ICT services

- ◇ Net200 and Net400 packages are introduced into offer, and Net 150 and Net 250 packages are withdrawn from the commercial offer. Existing users have migrated to the new speeds: from Net 150 to Net 200, from Net 250 to Net 400. The migration has been carried out for solo, as well as for Net users within the Box.

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<sup>14</sup>Find details on services for residential customers at the web site <https://mts.rs/>

- ◇ The Net 10 package has been withdrawn from the commercial offer and it is only offered as a BTL package, for customers who do not have technical capabilities for the Net20 speed.
- ◇ Upload speed has been increased for the Net 1000 package, from 100 Mbps to 200 Mbps. Existing users (both solo and within the Box) were migrated to a new upload speed.
- ◇ The upload speed for Internet users with fiber optics within the Box was doubled relative to the upload speed of the solo service.
- ◇ We offer a new internet package for the disabled. During the contractual obligation (24-month CO) customers pay a 50% lower monthly subscription fee for the selected NET package, and when the contractual obligation expires, they pay the fee at full price.
- ◇ An Optimizer for IaaS services has been added, which provides an overview of the performance of active services and of the possibilities for optimizing certain resources for a specific service.

## **BOX services**

- ◇ Box packages with m:SAT TV service were introduced in the offer: Box3 package with m:SAT TV service (fixed + internet + m:SAT TV) and Box2 (mobile net + m:SAT TV). During the introduction of new packages, promotions "1 dinar a month for N months" were defined.
- ◇ New Box packages have been introduced. The services that are an integral part of the package are predefined and form an integral part of the selected package. If a customer wants to upgrade any of the services comprising the package, they must change the Box package. The offer of internet speeds in the new Box3 and Box4 packages differs depending on the infrastructure (copper or optics) on which the services are provided to the user. Box3 packages that include a postpaid line (fixed + internet + mobile; fixed + TV + mobile) have introduced shared allowance with an additional postpaid line and joint 20GB of data traffic.

## **TV services**

In October 2019, Telekom Srbija included in its offer a new NBA service, with 3 offered packages:

- ◇ 3 Game Choice which includes 3 NBA games per month selected by the customer;
- ◇ mts Game Choice pass which includes 2 NBA games per week, i.e. 8 matches per month selected by the customer; and
- ◇ Max League Pass which includes all NBA games live, and the subscription is on a monthly basis.

This service is available to postpaid customers. Customers watch the matches via the NBA application, which is available on Android (4.3 and more) and iOS (10 and more) operating systems, as well as on PC/MAC computers, Android TV, Apple TV, Xbox One, Roku, Chromecast. The Internet is required to use the application - via a mobile network or via WiFi.

## **Financial and digital products and services**

The following projects have been launched and implementation thereof continued for the purpose of development of new Telekom's services:

- ◇ Procurement and implementation of multifunctional self-service devices
- ◇ Electronic identification and trust-building services.
- ◇ Telekom Srbija was granted a licence for e-money issuance by the regulator – the National Bank of Serbia – which includes e-money related activities, repurchase and relevant payment operations.

- ◇ IPS QR code on the bills for mts services. IPS QR is a code implemented on mts bills in keeping with the standards prescribed by the National Bank of Serbia. This way, customers are enabled to pay mts bills on the points of sale (currently Merkator's PoS) within a couple of seconds at any time (24x7).
- ◇ mWallet platform and service
- ◇ Bus Plus (public transport) payment service for electronic (NFC) cards.

## 5.2 SERVICES OFFERED BY MTEL BANJA LUKA GROUP IN 2019

*Mission:*

*"Consistent with the tradition that binds us, we provide our customers with a unique digital experience, bringing more beauty, comfort and fun into their lives."*

The portfolio of services in 2019 introduced two new services, Smart Home and NBA project:

- ◇ **Smart Home service** represents an add-on Internet access service that allows users to monitor and control the operation of Smart Home devices through a central unit managed via the Mtel Smart Home application or web application, from a mobile phone, tablet or computer.
- ◇ **Within the NBA project** two NBA packages were implemented: "3-Game Choice" and "NBA League Pass", which provide access to NBA content, live NBA game coverage, highlight clips, additional information about NBA players and the results they achieved throughout the NBA season, as well as archive footage, reruns of recent seasons, and documentaries. Since purchase and activation of the NBA package is realized through the Mtel self-care portal/application "Moj m:tel", this project additionally promoted a new digital communication and sales channel for Mtel Group service users.

The focus of the Mtel Group was also on improving the portfolio of existing services, in the context of increasing bonuses within tariff models, increasing Internet speed and the number of TV channels, in order to meet the customers' requirements and needs as much as possible:

- ◇ Mobile telephony service upgrade is implemented by introducing and promoting 4G network that offers higher data transfer speeds and higher mobile internet bonuses within certain tariff models, by granting a discount on the monthly subscription fee to customers for whom the subscription price is more important than the hardware purchase, and by improving the offer of the tariff model with a combined payment method.
- ◇ Introduction of several tariff options in the networks of partner operators. Tariff options for prepaid and postpaid mobile telephony users have been implemented in the networks of the following operators: mts Srbija and Mtel Podgorica, T-Mobile Group (Croatia, Austria, Germany and Greece), Telekom Slovenije, Turkcell (Turkey), Vodafone Group (Italy, Albania, Spain and Portugal).
- ◇ In the segment of business customers, a Budget offer is provided for micro enterprises to purchase all types of hardware sold with the services tied to the minimum contractual term. The introduction of the "Hardware Purchase Budget" offer allowed higher competitiveness in the market, especially in cases when a customer is looking for more opportunities regarding the manner of service implementation.
- ◇ In the segment of TV services nPVR, Start Over, Pause TV and Time Shift were significantly expanded (services are now available on 100 channels). A new Smart menu has been implemented, through which customers can have a one-stop easy and quick access to the



most important functionalities, with an improved search of the TV program guide. the m:SAT service for business customers was introduced, as well as the possibility of using the m:SAT service on an additional satellite receiver. As part of the m:SAT service, customers have three m:SAT TV packages available, along with the purchase of additional 17 TV packages and the new SVoD service Zadruga Live.

- ◇ In the part of integrated services, there was an increase in access speeds for all service packages with the Internet, both on VDSL and GPON technology, and inclusion of additional channel packages in certain integrated service packages. Due to the access network modernization, a large number of customers were offered better service and multimedia content (HDTV channels, streaming, etc), TV service on multiple TV sets (a larger number of STBs).
- ◇ As part of the Internet access service, a complete redesign of tariff models for residential customers was carried out, with an increase in access speeds and migration of customers from the existing packages. In the segment of business customers, the access speeds on GPON technology were increased.
- ◇ Activities pertaining to the development and implementation of various ICT services have continued, such as Cloud Backup and Secucloud (professional service of continuous data backup in the Mtel Banja Luka Data Center and an advanced solution for customer data protection for smartphones without copying to customer devices since all the protection is performed on the Secucloud servers). The commercial implementation of the Secucloud solution started in September 2019 for mobile network users (except for users with a combined payment method and users of the TOTAL GROUP service). In order to promote and increase the number of users, the first 8 weeks of the service use are free of charge.
- ◇ Continuous care is taken to update the terminal equipment offer, i.e. to purchase the latest models of mobile devices (the offer includes more than 17 brands and 160 models of mobile devices), TV devices (more than 7 brands and 10 different models), tablets, smart watches, SONY PS4 console, GoPro camera and electric scooters.

## **Telrad Net**

In 2019, Telrad Net improved its services in the segment of:

- digitalization of cable television (with a larger number of domestic and foreign channels implemented in relation to the analog package);
- sales of terminal equipment (TV sets), which enables customers to pay them in installments; and
- transition to docsis 3.0 technology (on the basis of which it is possible to increase the Internet speed for customers).

## **Logosoft**

Logosoft business platform combines services of permanent internet links, connection of remote locations - VPN, fixed and mobile telephony with mobile internet, offer of Office365 and Microsoft365 solutions, server and business applications, local, global and hybrid cloud solutions, and as such it is an excellent business, information and communication solution.

The trend of selling collocation and cloud services of the Logosoft Data Center has continued, with the most frequent users of these services being from the public sector.



## **Blicnet**

In 2019, Blicnet started improving DTV system functionalities. With the upgraded DTV system, the offer has included new attractive program contents. The overview of TV channels became easier since they are grouped by genres, which allows customers a simpler and faster search for the desired TV channel or a specific group of TV channels.

The sale of m:SAT and mobile telephony service of Mtel Banja Luka via Blicnet as an agent was initiated on behalf and for the account of the parent company. A migration of the residential and business users of Blicnet's mobile telephony to the parent company's mobile network has begun.

## **Elta-Kabel**

Owing to the optical internet, TV companies were enabled to provide viewers with live broadcasts of sports and music events in HD resolution via the Elta-Kabel infrastructure. Another feature of the past year's operations is digitalization of the TV service, which allows customers to watch more than 170 digital channels. In May 2019, for the first time, a sports event was broadcasted in 4K resolution via the Eurosport channel.

## **5.3 SERVICES OFFERED BY MTEL PODGORICA IN 2019**

### **Mobile telephony services**

In the segment of postpaid tariff packages, a new group of packages has been introduced - Urban NEO, characterized by unlimited minutes to all networks in Montenegro, as well as the Internet resources - up to as much as 150 GB per month. The Urban NEO family consists of: M, L, XL and XXL package. New Internet tariff add-ons have been introduced, lasting one or more months: Net S, Net M and Net L, which provide customers with additional 1.5 GB, 5 GB or 10 GB per month, at affordable prices.

A new prepaid package *Mrak* (Darkness) has been introduced, characterized by the night traffic, wherein customers in the promotional period get unlimited free calls in the Mtel mobile network and the Internet in the following 12 months. These resources are available to customers in the period from 8 pm to 8 am. Likewise, two new prepaid packages were introduced: Mtel turist 5 and Mtel turist 10.

Mtel Podgorica has expanded its offer with the MOVE TV application for mobile phones. In order to promote this application, a sales campaign has been prepared during which all customers who buy a Huawei tablet receive 1000 GB for Internet (of which 500 GB is for streaming MOVE content).

Following all the global trends, the company has provided customers with a mobile application - HBO GO, for all fans of movies and series. HBO GO licenses for cable and mobile service users were introduced in December.

Throughout the year, the campaign was continued to promote the mobile payment service - mPAY, which for the first time in Montenegro allows all Mtel Podgorica customers payments via mobile phones.

### **Fixed telephony, Internet and TV services**

Activities have been started to retain existing users in the cable TV segment, with the option of switching to a larger package. Promotional speeds have been introduced to the existing Box packages. In keeping with the market campaigns and with the aim of acquiring as many new

customers as possible, the "Move" service was introduced for the BOX package users. The service includes placement of program content (television, radio and VoD) via the Internet. There is a 7-day rewind option for television channels, as well as the option of storing recorded content (for 7 days), with a large video library.

A new m:SAT service has been introduced, which provides TV content via satellite signal. The offer includes three packages: Start, Plus, Max. In the promotional period, new users of the m:SAT TV package get a promotional subscription of 1 euro. In the segment of cable TV, the emphasis was placed on a promotional campaign for new users of the BOX ALL 4 package, which represents a synergy of Internet, multimedia, fixed and mobile telephony services.

## **5.4 SERVICES OFFERED BY OTHER SUBSIDIARIES**

### **Supernova brand**

Since its market launch on 1 April 2019, Supernova has included in its offer 3 basic services that it delivers to end users on the coaxial and optical infrastructure:

1. digital cable television;
2. cable/optical Internet; and
3. fixed telephony (VOIP).

In 2019, the operator Kopernikus Technology had customers subscribed to the DTH service that Supernova did not offer, so customers were gradually migrated to Telekom's DTH platform mSat. The migration ended on 20 September 2019.

Along with additional channel packages and devices at an extra fee, Supernova offers and continues to develop an OTT add-on service called *TV po tvom* (Customize your TV) whose features include CatchUp, Video Club and Multiscreen.

### **EXE-NET**

The company provides optical internet, television and fixed telephony services. They offer SOLO (internet, television), DUO packages (internet + television, internet + telephony) and TRIO packages (internet + television + telephony) with internet speeds from 100/40 Mbps to 600/200 Mbps. The internet service, as part of the package offer, is combined with the cable television and/or fixed telephony service.

Via the optical infrastructure customers may also use cable television, over 300 digital channels of which more than 70 are in HD format. A 120h Time Shift service is available to customers.

As part of its fixed telephony offer, the Company offers its subscribers free calls to the fixed and mobile network, depending on the selected package, add-on functionalities (caller id, call waiting, call forwarding, call blocking, conference call), as well as the use of a cordless phone. The offer also includes free calls to international destinations.

Exe Net Hosting is a part of the Exe Net company and another of the services provided by the company.

### **GO4YU**

GO4TV service - OTT TV service provided over the Internet, which allows users to watch TV contents from the Ex-YU countries. It offers over 250 TV channels, 300 radio stations and 250+

films from the Yugoslavian cinematography. The most viewed domestic series will soon be on offer within VoD content.

**GO4YU Calling** VoIP application (GO4YU Calling mob App) is intended for customers from Serbia in the diaspora in the region of Europe (excluding Austria, Croatia and Slovenia), North America, South America, Australia, Asia and Africa. The application is available on the App store and Google play store and it provides users to call from a smart mobile phone through the GO4YU Calling mob App, at affordable prices, as well as to receive calls from the fixed and mobile mts network.

**GO4YU Homephone** Nomadic service with SIP phone (hereinafter "GO4YU Homephone") is intended for users from Serbia in the diaspora in the region of EU (excluding Austria, Croatia and Slovenia), Switzerland, the United States and Canada. The service provides calls over the public Internet using a fixed SIP phone Grandstream DP715 ("GO4YU phone"), at affordable prices, for a predefined list of destinations.

TS:Net with the service **of leasing telecommunications equipment** and its headquarter in Amsterdam as part of GO4YU Beograd represents support for the planned penetration of the Parent Company and its subsidiaries into markets outside the home, regional markets.

## **YUNET**

During 2019, YUNET continued retaining its xDSL users through existing campaigns. In the domain of business customers, the prices were adjusted in accordance with the change in the procurement prices of L2 services. In the previous year, the following new services were introduced and implemented for customers:

- DDoS protection - using the capacities of the Telekom Arbor platform, this service was introduced as an integral part of the commercial offer.
- MDM solution - in March 2019, we had the first commercial implementation of the IBM MaaS360 service that we offered to our business customers, with the aim of enabling easy management and control of mobile phones, tablets and computers.
- Procurement and further sale of Teltonika industrial routers for IoT.
- A partnership agreement was signed with Sophos, creating the conditions for the complete portfolio of services of this renowned manufacturer, including both the Endpoint and Gateway solutions.
- New hosting service CentOS Web Panel is intended for customers who require simple maintenance of multiple hosted websites on a single VPS, through a GUI.

## **mts Antena TV**

The company sells the Antenna PLUS service to individuals and legal entities throughout Serbia. The Antenna PLUS service comprises the delivery of video content (digital television) via a network of terrestrial TV transmitters (DTT), using a system that allows a package of multiple television programs (multiplex) to be formed.

## **HD-WIN**

Arena sport is focused on the production of various sports events, football leagues, 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 from its own production. Particular attention is paid to prestigious competitions such as the NBA League.

When the studio work commenced, the program was enriched with studio commentaries that follow the UEFA Champions League and the Europa League, as well as the events related to the Serbian Super League, the French and the Italian leagues, and there is also a show keeping track of basketball events. Daily Arena News are broadcast as well.

## **mts banka**

In the retail sector, continuous work was invested to identify customers' needs and provide adequate solutions through the products and services offered. The focus has been kept on credit products, especially cash loans, which also caused the growth of the total credit portfolio.

In the offer of housing loans, mts banka maintained competitive terms, which directly affected the growth of the portfolio of this segment. Other products such as short-term cash loans, credit cards, overdrafts are recognized by customers as products that meet their needs in terms of price and functionality.

The trend of expanding its offer of products and services related to digital banking, while upgrading the quality of digital banking that the bank provides to its customers, continued with the aim of increasing the offer quality and the base of satisfied customers. The key strategic guideline for operations with individuals in 2019 was aimed at opening new channels through which clients can apply for mts banka products and services. In addition to its branch offices, for most of the mts banka products and services it is possible to submit requests through the mts banka online applications, as well as through all mts stores in Serbia.

## **Telus**

Telus a.d., which has been operating for 15 years, provides the following services: about 51% of the total volume of services related to security of facilities and property (physical and technical security, fire protection and money escorts) and about 49% of the total volume of services related to maintaining hygiene of the business premises and facilities. Telus does business primarily with the Parent Company, but also strives to better establish itself in the market.

# 06

## USERS



## 6.USERS

At the end of 2019, the Telekom Srbija Group had a total of **10.4 million service users**, which is 6.3% higher as compared with 2018. Service users of the Parent Company account for the largest share of the service users or 68.8%, followed by Mtel Banja Luka with 20%.

Table no. 7. Total number of service users per group member (in 000)

	2018	2019	growth	structure
Telekom Srbija	7.188	7.174	-0,2%	68,8%
Mtel Banja Luka	1.799	2.084	13,0%	20,0%
Mtel Podgorica	478	560	17,0%	5,4%
mts d.o.o.	54	57	5,8%	0,6%
YUNET	17	15	-14,5%	0,1%
Mtel Austria (GO4YU)	45	56	23,8%	0,5%
EXE-NET	0	40		0,4%
Companies under the Supernova brand	224	439	95,7%	4,2%
<b>Total</b>	<b>9,805</b>	<b>10,425</b>	<b>6.3%</b>	<b>100.0%</b>

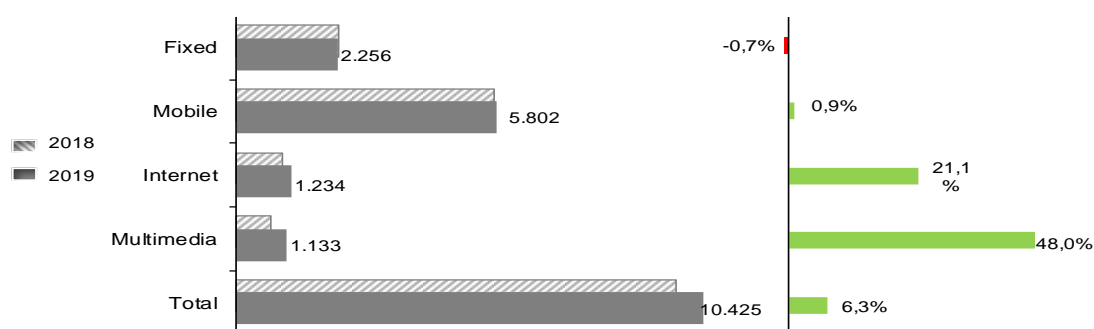
Within the Supernova brand, the largest share of the customers belongs to the companies Kopernikus Technology and Radijus Vektor, or a total of 80.4%

Table no. 7a. Total number of Supernova users (in 000)

	2018	2019	growth	structure
Kopernikus technology	203	212	4,3%	48,2%
Radijus Vektor	0	141		32,2%
Avcom	21	23	6,5%	5,2%
MASKO	0	8		1,8%
Telemark systems	0	26		6,0%
BPP ING	0	25		5,6%
SAT TV Meteor	0	4		1,0%
<b>Total</b>	<b>224</b>	<b>439</b>	<b>95,7%</b>	<b>100,0%</b>

On the level of Telekom Srbija Group, in 2019, an increase was generated in the number of Internet and multimedia service users (21%, i.e. 48%) while there was a decrease in the total number of users in fixed telephony. The number of mobile telephony users remained at almost the same level.

Structure of total users at the end of 2019

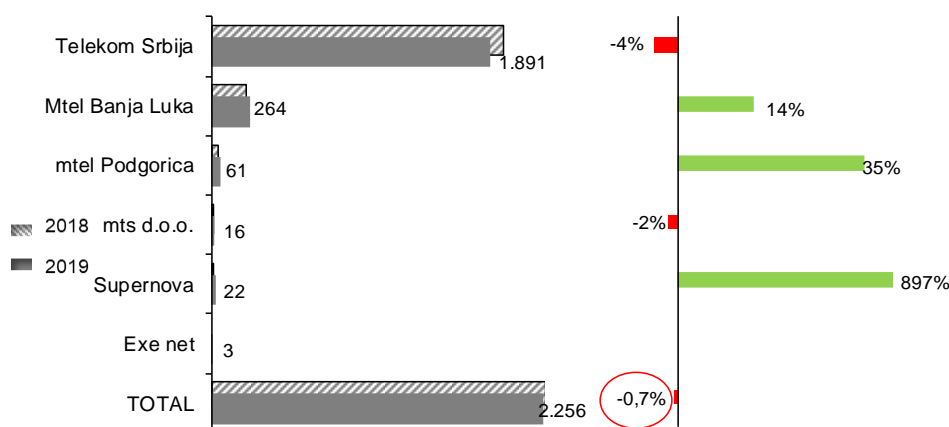


## Fixed telephony users

Fixed telephony services of the Telekom Srbija Group are used by **2.3 million** users (of which some 2 million residential and 303 thousand business customers), which is a decline of 0.7% on the Group level as compared with 2018.

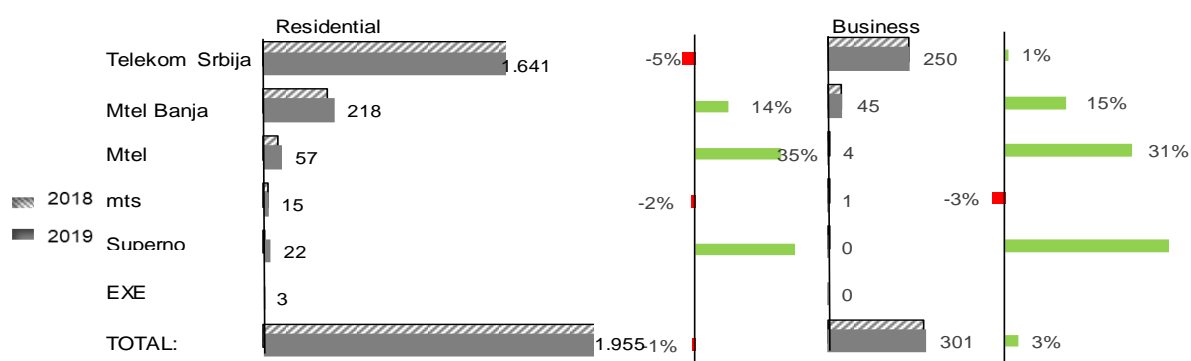
Fixed telephony users of Telekom Srbija still account for a large share of the users or 26.4%, which is a slight decline as compared with the previous year, while the fixed customers of Mtel Banja Luka account for 12.6% of the customers. In Mtel Podgorica the share of fixed telephony is 10.9%, which is a significant increase as compared with 2018.

Structure of fixed telephony users



In the overall number of customers, residential customers account for the largest share or 86.7%. In 2019, there was a slight increase in the number of business customers by 3%.

Structure of fixed telephony customers per type of customer



The presented increase in the number of Supernova customers was caused by acquisitions of cable operators made in 2019. Within Supernova, 51% of the total number of customers are customers of Radijus Vektor, while 27% are customers of Kopernikus Technology. In the structure of customers, residential customers account for the largest share in all these companies.

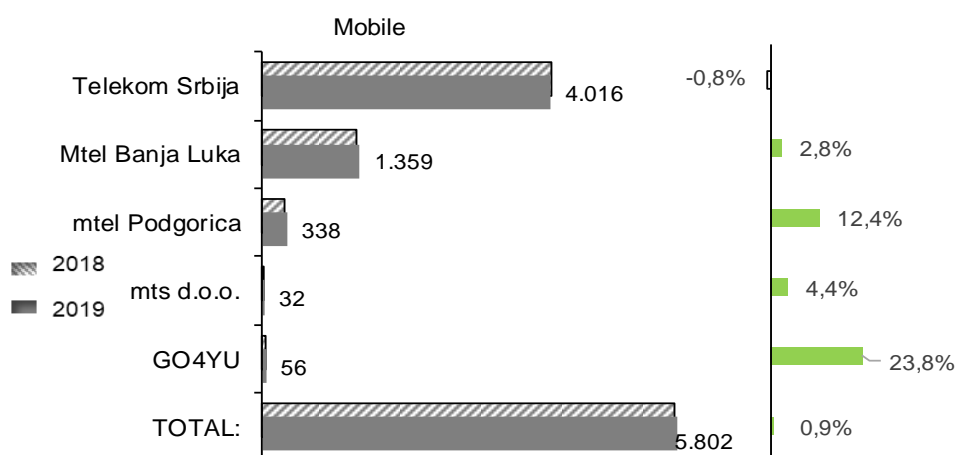
## Mobile telephony customers

The total number of mobile telephony customers on the level of the Telekom Srbija group at the end of 2019 is 5.8 million, which is an increase of 0.9% as compared with 2018.

In the total structure of customers, the largest share belongs to the customers of Telekom Srbija with some 69% and Mtel Banja Luka with 23%.

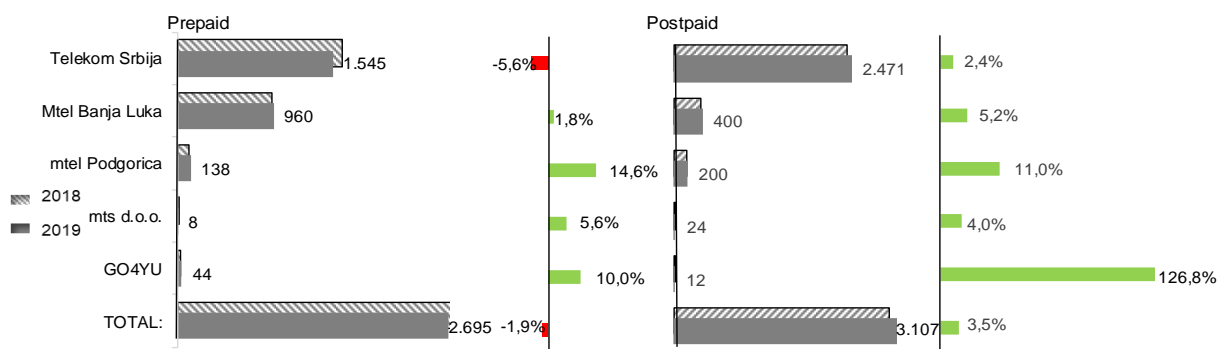
On the Austrian mobile telephony market, the number of customers of Mtel Austria, owned by GO4YU, recorded a significant growth of 24% in 2019 as compared with 2018.

Structure of mobile telephony customers



At the end of 2019, the number of prepaid customers was 2.7 million and accounted for 46.4% of the total number of customers, while the number of postpaid customers was 3.1 million and accounted for 53.6% of the overall number of customers.

Structure of mobile telephony customers per type of customer



In Telekom Srbija, the number of prepaid customers recorded a decline as compared with 2018, while the number of postpaid customers increased. As presented, an increase was recorded in both types of customers in other operators.

The structure of the total mobile telephony customers changed as compared with 2018 in favor of postpaid customers given their overall increase of 3.5%.



## Internet and multimedia customers

The total number of Internet customers on the level of the Telekom Srbija Group at the end of 2019 was some **1.2 million**, which is a **growth of 21%** as compared with 2018.

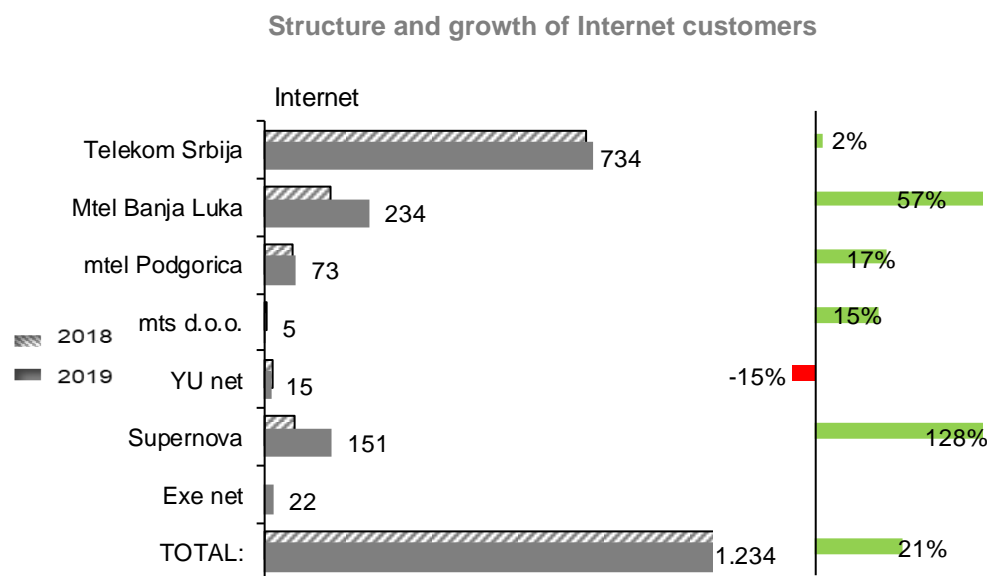
The number of customers includes ADSL customers of the parent company Telekom Srbija and the subsidiaries Mtel Banja Luka, mts d.o.o. and YUNET, and also the customers of members of the Supernova brand, EXE-NET and the Mtel Podgorica subsidiary, who use the Internet via cable technology, i.e. via WiMAX technology.

At the end of 2019, Telekom Srbija accounted for some 59% of the number of Internet customers and recorded a decline as compared with 2018 as a result of the growth in the number of Supernova customers.

The number of Internet customer increased in all the companies except in the YUNET company.

The growth in the number Supernova Internet customers was caused by the acquisitions of cable operators made in 2019. Of the total number of Supernova customers, 80% refers to customers of the companies Kopernikus Technology and Radijus Vektor.

Customers of the subsidiaries united under the Supernova brand mostly use multimedia services or 60.6%, while the Internet services in these companies account for 34.4%.

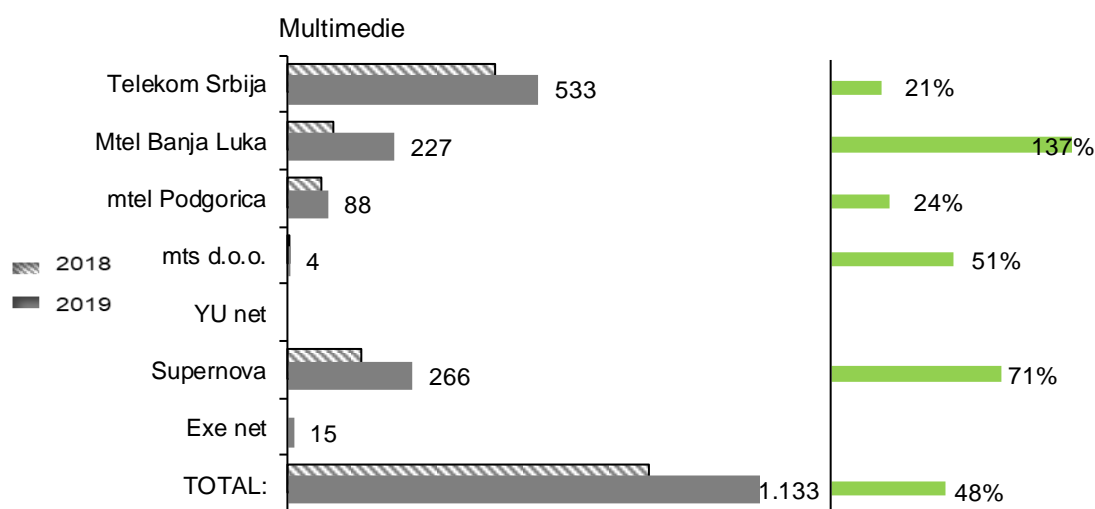


The number of multimedia service users at the end of 2019 equalled **1.1 million**, which is up **48%** as compared with 2018.

The users of multimedia services of the Telekom Srbija Group include IPTV customers of the parent company Telekom Srbija and the subsidiaries Mtel Banja Luka and mts d.o.o., as well as cable customers of the subsidiary Mtel Podgorica and customers of the members of the Supernova brand and EXE-NET. Also, the total number of multimedia customers in 2019 includes the m:sat customers of the parent company Telekom Srbija and the subsidiaries Mtel Banja Luka, Mtel Podgorica and mts d.o.o.

At the end of 2019, Telekom Srbija had some 47% of the multimedia customers of the Telekom Srbija Group and recorded a decline of its share as compared with 2018 (57.6%) as a result of growth in the number of Supernova customers.

### Structure and growth of multimedia customers

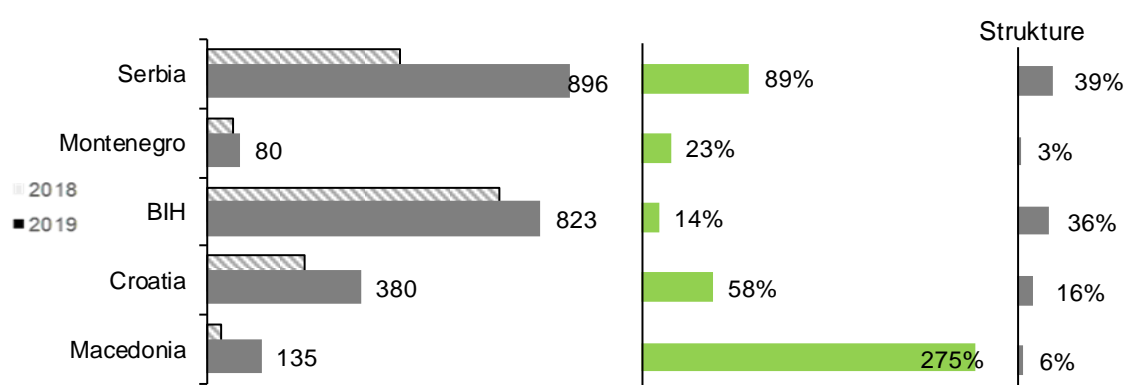


The number of multimedia customers increased in all companies except in Kopernikus Technology, where the m: sat customers migrated into the system of Telekom Srbija. The most important absolute and relative growth of 131 thousand customers or 137% was made by the company Mtel Banja Luka.

### Other service users

The total number of multimedia service users in the region to whom **ArenaSport** and other channels are available is 2.3 million. Of this number, only Telekom Srbija has 450,000 users. The largest growth in customers during 2019 was recorded in Macedonia - 275%.

### Geographical representation of ArenaSport users

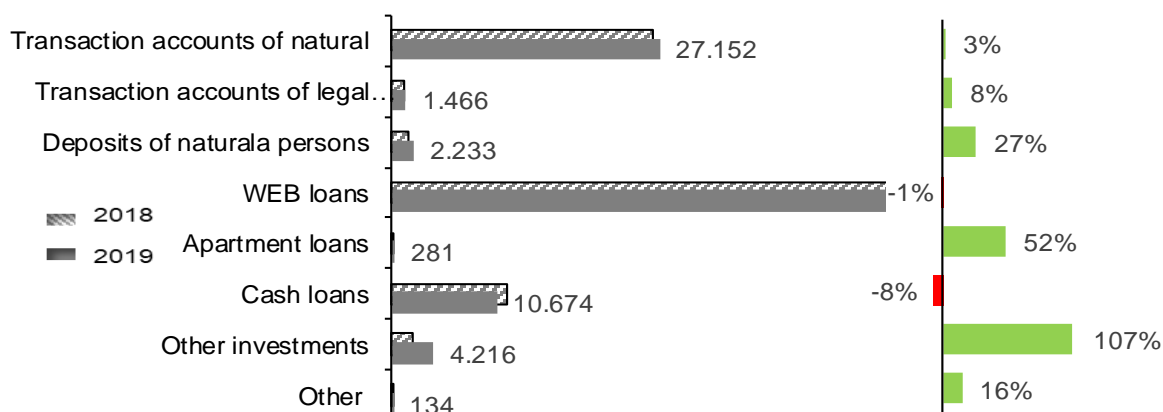


The total number of customers of **mts AntenaTV** in 2019 was 20.9 thousand, which is down 9% as compared with 2018. In the structure of customers, 99% refer to residential customers despite a significant growth in the number of business customers of 54%.

The number of users of OTT TV services provided by **GO4YU**, including all platforms and activated bases is significantly growing. At the end of 2019, it equalled 27.5 thousand customers, which is up 588% as compared with the 4 thousand customers at the end of 2018.

The total number of customers of the **mts banka** at the end of 2019 equalled 16.9 thousand, which is up 1%. The trends in the number of users of the most significant services is given in the text below. In 2019, the trend of increasing transaction and term deposits of residents continued. The policy of interest rates on term savings (dinar and foreign currency savings) allowed the mts banka to be competitive with other banks, which resulted in an increase of deposits.

#### Key customers of the mts banka at the end of 2019



Apart from Telekom Srbija as the parent company and PE PTT Srbija as the largest buyer on the market, as of 2010 Telus started to more significantly win new buyers on the market and develop, primarily, on the market of hygiene maintenance services although it is also registered for the provision of security services. It provides security services to over 200 facilities throughout Serbia with over 800 licenses security officers.

Apart from Telekom Srbija and PE Serbian Post, the main service users of Telus, i.e. the subsidiary Telus pro d.o.o. are: the Serbian government, the Republic Health Insurance Fund, the DDOR Osiguranje insurance company, the Pension and Disability Fund, the Postal Savings Bank, the offices of Elektromreža Srbije, the City of Pančevo, the Pharmacy Užice, the Ministry of the Interior of the Republic of Serbia, and the Police Departments outside of Belgrade.

# 07

## CAPITAL INVESTMENTS



## 7. CAPITAL INVESTMENTS

The total value of investments in the Telekom Srbija Group in 2019 equalled 75.5 billion dinars, which is 95% higher as compared with 2018.

Telekom Srbija accounts for the largest share of investments. The most significant capital investments in 2019 were made by GO4YU.

Table no. 8: Structure and dynamics of investment growth per group member (in 000 dinars)

	2018	2019	growth	structure
Telekom Srbija	22,298,557	53,279,720	138.9%	70.6%
Mtel Banja Luka	9,316,567	10,715,574	15.0%	14.2%
Mtel Podgorica	6,356,283	5,650,295	-11.1%	7.5%
mts d.o.o	526,595	122,308	-76.8%	0.2%
TS Net	46,169	-	-	-
GO4YU	29,820	2,509,801	8316.6%	3.3%
HD WIN	22,260	14,733	-33.8%	0.0%
mts banka	15,551	12,542	-19.3%	0.0%
Telus	12,116	8,715	-28.1%	0.0%
Yunet	10,326	20,666	100.1%	0.0%
EXE NET	-	702,527	-	0.9%
Companies under the Supernova brand	75,118	2,439,098	3147.0%	3.2%
<b>Total:</b>	<b>38,709,362</b>	<b>75,475,979</b>	<b>95.0%</b>	<b>100.0%</b>

Within Supernova, the largest growth is seen in Kopernikus Technology since the other companies were mostly acquired by Telekom Srbija at the end of 2018 and in 2019 so that investments regarding these companies are shown only for 2019.

Table no. 8a. Structure and dynamics of investment growth of the Supernova company (in 000 dinars)

	2018	2019	growth	structure
Kopernikus Technology	75,118	862,811	1048.6%	35.4%
Radijus vektor	-	1,081,838	-	44.4%
Avcom	-	92,339	-	3.8%
Masko	-	7,313	-	0.3%
BPP ING Gronet	-	321,797	-	13.2%
Telemark systems	-	60,282	-	2.5%
SAT TV Meteor	-	12,718	-	0.5%
<b>Total:</b>	<b>75,118</b>	<b>2,439,098</b>	<b>3147.0%</b>	<b>100.0%</b>

## 7.1 TELEKOM SRBIJA

In 2019, capital investments were made for the purpose of ensuring quality infrastructure and technological solutions for the provision of services to the existing and new customers.

The overall capital investments were made in the amount of 53.3 billion dinars and largely refer to investments in the segment of fixed telephony, mobile telephony, Internet and the distribution of media content.

The project of ALL IP transformation of the fixed network, which was launched in 2017 is still the largest capital investment in the information and communication infrastructure allowing the customers higher speed broadband access.

In the mobile telephony segment, Telekom Srbija continued investments in the expansion, modernization, optimization and upgrade of the RAN mobile network, by which it allowed its customers a quality signal and fast mobile Internet in all parts of the country, which resulted in a fast coverage by the 4G network and an over 98.98% coverage of the population.

In accordance with fixed network modernization, and growth in mobile and fixed network broadband traffic, capital investments in the sphere of Internet were aimed at the expansion and modernization of the IP/MPLS network, as well as further development and expansion of the OTN/DWDM and wireless transport network. is aimed at supporting further traffic growth, increasing the number of access network elements, and securing capacities for all future network and customer needs, through the application of the best solutions on the market.

In the segment of multimedia services, significant capital investments were largely aimed at the expansion and strengthening of the company's position on the market of multimedia content, as well as investment in media consolidation and co-production (TV series). Also, the company continued capital investments in the expansion and improvement of the multimedia platform

The most significant IT projects in the previous year refer to continued transformation of the Company through the digitalization of internal business processes. The aim of business transformation is seen in a more efficient management of IT services in order to accelerate the implementation of changes in the services, accelerate the response to changes and requests initiated in the Company or outside, reducing the complexity of technology and the application portfolio in order to fulfil the expectations, fulfil the service SLA IT and reduce the business risks, as well as building digital platforms in order to accelerate the process of innovations and enable the growth of new revenue sources.

On the other hand, investments were implemented which were aimed at supporting new forms of revenues through ICT business services, the Cloud platform, and the development of Big Data initiatives, as well as DWH and BI analytical tools and investments in the improvement of the internal Cloud. Apart from this, investments were made in the existing Data Centers and in the transformation of the digital work place, as well as investments aimed at harmonizing operations with the regulatory framework and further standardization of operations. At the same time, investments were made in reducing the risks through the process of revenue assurance and establishing SoC platforms and processes, as well as the development of the FinTech and digital banking services.

## 7.2 SUBSIDIARIES

### Mtel Banja Luka Grupa

The total investments of the Mtel Group in 2019 equal 177.8 million KM (10.7 billion dinars). Technical investments amount to 142.1 million KM and account for 79.9% of the total investments, while infrastructure investments equal 35.7 million KM and account for 20.1%.

The largest capital investments in 2019 were made in the segment of building the wireless network, transport and access networks, and investments in MSAN/ISAM/DSLAM/OLT access equipment. Investments mostly refer to the procurement and construction of access equipment in VDSL2 technology including vectoring function, as well as in GPON technology for the customers who are equipped for FTTH access. Decentralization ensued – by reconstruction of copper access networks for the purpose of shortening subscriber loop up to 700m, as well as the construction of passive optical access networks.

Strategic investments were made in broadband technologies in the domains of wireless and cable infrastructure (the commercial launch of LTE, optical cable network, modernization and consolidation of the core network) that increase the reliability of service provision and enable the introduction of new services.

The preparation continued and the execution of works for the expansion, optimization and reorganization of the OTN/DWDM network was completed.

For commercial use, the company prepared third generation OTT applications (Android, iOS, PC, Mac), created an entirely new system for the ingestion of VoD content to the platform, and created and prepared the top-up application for prepaid customers for commissioning. We also installed and launched into operation the Smart Home system.

The Regulatory Agency for Communications granted an LTE license for 4G network to Mtel Banjaluka. In accordance with this, the company installed and put into operation LTE stations on a total of 230 existing locations. In addition, we commissioned 82 new base stations, while the total number of base stations at the end of 2019 was 1,532, while there were 112 Pico repeaters.

The capacities of the mobile data transmission switching systems were expanded in order to enable the unhindered use of LTE technology. The company completed installation on virtual infrastructure and launched into operation the Messaging Gateway (mGw) system, which allows the integration and connection of third party applications (VAS providers) with the Messaging Core systems of Mtel Banjaluka for the purpose of providing the mobile users of Mtel Banjaluka various value added services based on SMS functionalities.

In the part of IT infrastructure, we purchased active network equipment by which we continued the project of equipment replacement in the access and distribution layer of the Corporate Computer network, we expanded the servers by which we increased the security and performances of the complete system. We completed a large number of projects that contribute to increasing the IT security of Mtel Banjaluka.

### Logosoft

The most important investment of Logosoft in 2019 is the implementation of infrastructure and services based on GPON technology which led to the improvement of services that require data transmission speed. Also, Logosoft has continually worked on the improvement and introduction of a new service portfolio intended for residential customers, which was additionally helped by the fact that the company has completed transition to a new IPTV platform, by which technical capabilities were created for the procurement and implementation of attractive TV content.

## **Elta-Kabel**

The largest investments of the company Elta-Kabel in 2019 refer to the building of access optical networks, secondary optical networks, underground pipe cable ducts, and the procurement of network and terminal equipment and optical cables for the expansion of optical infrastructures.

## **Blicnet**

The largest investments of Blicnet in 2019 refer to the procurement of materials and the execution of works on network construction, procurement of equipment in the access network and terminal equipment for installation at the end users. An important project is the digitalization of analogue TV users where 5000 user STBs were replaced in order to enable remote termination of the signal, and freeing of space on the cable medium that was occupied by an analogue signal and is located in the better part of the specter where the interruptions are fewer, which led to a lower number of interventions. Network optimization was performed (a part of analogue channels was terminated and the frequency of the digital specter lowered).

## **Telrad Net**

The largest investments of Telrad Net refer to works on the construction of the access network, procurement of terminal equipment for installation at the end users, as well as computer and office equipment for employees. In 2019, Telrad Net launched two key projects: customer digitalization (3x higher number of channels than in the analogue package) and transition to docsis 3.0 technology (to allow the company to increase the Internet speed for customers).

## **Mtel Podgorica**

The total investments of the subsidiary Mtel Podgorica in 2019 equal 47.9 million euros (5.65 billion dinars), which is 11% lower than those generated in 2018.

Investments were directed at the development of cable infrastructure. This is the largest project in Mtel Podgorica, implemented according to field conditions. The development of the HFC network started in 2015, so that in the period 2016-2019, the company continued a combined construction of the HFC and GPON cable network to cover all municipalities in Montenegro.

In 2019, the network was developed underground, in the cable ducts of Mtel Podgorica and Montenegrin Telekom, and above the ground on the poles owned by the Montenegrin Power Utility and the public lighting poles owned by the Utility Services in Podgorica, and the local self-governments in other municipalities in Montenegro.

The emphasis was placed on the development of GPON cable infrastructure, especially in suburban zones. In 2019, the company worked on the expansion of the existing cable infrastructure in those cities where there is a developed cable infrastructure and the implementation of a GPON network in the existing and new cities.

Special attention was dedicated to the development of technical models for the implementation of services for SOHO customers, including small enterprises and hotel capacities (we especially emphasize the turnkey solution of covering the entire apartment and hotel complexes which we previously reached with optical cables with WiFi).

The company continued to investments in the mobile network through a significant expansion of the 4G network and through the construction of new locations of the 2G/3G network. Investments were made in increasing the capacities of the Core and RAN part of the network, in accordance with the expected growth of traffic, and the additional hardware and software upgrade of the system for PS Core package traffic.



We completed the preparation of space and the installation of equipment on the DRS (Disaster Recovery Site) location Nikšić. Thus the company fulfilled the regulatory obligation according to the applicable Rules on the security of networks and electronic communications services, and at the same time an assumption was made that the network can be additionally improved in 2020, so that the BCDR plan (Business Continuity Disaster Recovery) would be completely implemented.

Investments were made in switching commutation systems of the mobile and fixed network, the system for mobile positioning MPS, and a significant increase in fixed telephony licenses due to an increase in the number of customers.

The company continued work on two large investments in platforms for support to business processes. Namely, the first investment refers to the replacement of the Microsoft Navision ERP platform with SAP, while the second investment is the introduction of the IBM Netezza DWH platform. We also started the CRM project. The introduction of new Billing, ERP, CRM and DWH platforms will enable a better quality reporting process and a more flexible creation of new tariff packages and increase of revenues of Mtel Podgorica.

## **Supernova**

In the companies of the Supernova brand, the overall investments for 2019 equal 2.4 billion dinars. The investments were aimed at the integration and consolidation of the existing cable networks into a single system and the expansion into new territories. The emphasis was placed on improving the quality of services of the existing customers and the expansion of the existing networks with the opening of new territories.

The improvement of quality referred to the reconstruction of the existing HFC networks on all levels:

1. Reconstruction of HUBs.
2. Expansion of capacities of the optical infrastructure by laying down new optical cables of great capacity, both underground and aerial.
3. Segmentation of the existing HFC network by adding additional optical nodes due to increasing the speed of Internet of the end user.

The construction of new networks refers to entire Serbia especially the regions where we haven't been present so far such as Novi Sad and Kragujevac with the surrounding area. New networks which are either GPON or HFC depending on the conditions in the field and the existing internal segregation in residential buildings have been launched. TK infrastructure of Telekom Srbija was used for laying the underground optical network and the above the ground low voltage network of the Serbian Power Utility for the laying down of the distribution HFC or GPON network. The expansions of the existing networks were projected and implemented in accordance with the technical capacities and potential on a total of over 100 new locations (suburbs).

Apart from the investments in cable infrastructure, the company worked on integration in a single IT system and digitalization of the existing customers for the purpose of increasing service quality. Some 80,000 existing customers were digitalized. The total percentage of digitalized customers at the end of the year was around 76%. During the year, the company worked intensely on the introduction of a single solution for CRM, billing and ERP, for all cable operators, which will continue in the year to follow. The integration of the IT system is a necessary requirement for efficient customer care as well as for reporting and collection, which will certainly have a positive effect on planning and operations. It is important to note that the company also improved the existing OTT platform with the expansion of capacities and raising service quality.

These investments gave the company a comparative advantage over the competition, opened up new possibilities for the expansion of the existing offer for private customers (fast Internet,

sale of devices in instalments with packages, etc.), and created conditions for improving the offer for business customers.

## **EXE NET**

In 2019, the development team of EXE NET developed an Android TV application and allowed its customers to follow TV content on their mobile Android handsets with a 120 hour TV program time shift option.

Capital investments equal 702.5 million dinars, and they largely refer to capital costs of content, as well as investments in customer equipment and cable infrastructure.

## **mts d.o.o.**

In 2019, the implemented capital investments of the subsidiary d.o.o. equal 122.3 million dinars, and largely refer to investments in the fixed network access equipment, customer devices, as well as investments in multimedia service platforms and in the mobile access network. The implemented capital investments are down 77% compared with the previous year.

## **HD-WIN**

In 2019, the overall capital investments of the HD WIN subsidiary equal 14.7 million dinars and largely refer to IT investments, as well as investments in the infrastructure renovation of the office space. The generated capital investments are 7.5 million dinars or 33.8% lower compared with the previous year.

## **GO4YU**

The overall capital investments of the GO4YU subsidiary implemented in 2019 equal some 2.5 billion dinars – most of them refer to long-term contracts for content and exclusive program, investments in the customer base, the development of portals and CRM software and computers and computer equipment.

The overall implemented capital investments for the TS Net subsidiary in 2019 equal 262 thousand euros and refer to the core network equipment for PoPs at Data centers in Budapest, Sofia and Timisoara.

The overall implemented capital investments of the Mtel Austria subsidiary in 2019 equal 770 thousand euros, and refer to office equipment (computers), STB devices for customers and IT equipment – software/licenses (platform, LTE network, web page).

## **YUNET**

The capital investments implemented in 2019 equal 20.7 million dinars and largely refer to investments in IT infrastructure (13.5 million dinars), customer equipment (4.4 million dinars), and to investments in the car fleet (2.1 million dinars).

The implemented capital investments are 10 million dinars, or 100%.higher as compared with the previous year.

## **mts banka**

The capital investments of the mts bank subsidiary implemented in 2019 equal 12.5 million dinars and largely refer to investments in the car fleet (3.9 million dinars), tools and working equipment (3 million dinars), as well as investments in IT infrastructure and equipment for support to the work place (2.1 million dinars in each of these segments).

The implemented capital investments are 3 million dinars, or 19% higher as compared with the previous year.

### **Telus**

In 2019, the overall capital investments of the Telus subsidiary equal 8.7 million dinars and largely refer to the procurement of five company vehicles.

The implemented capital investments are 3.4 million dinars or 28% lower as compared than the previous year.

# 08

## EMPLOYEES



## 8. EMPLOYEES

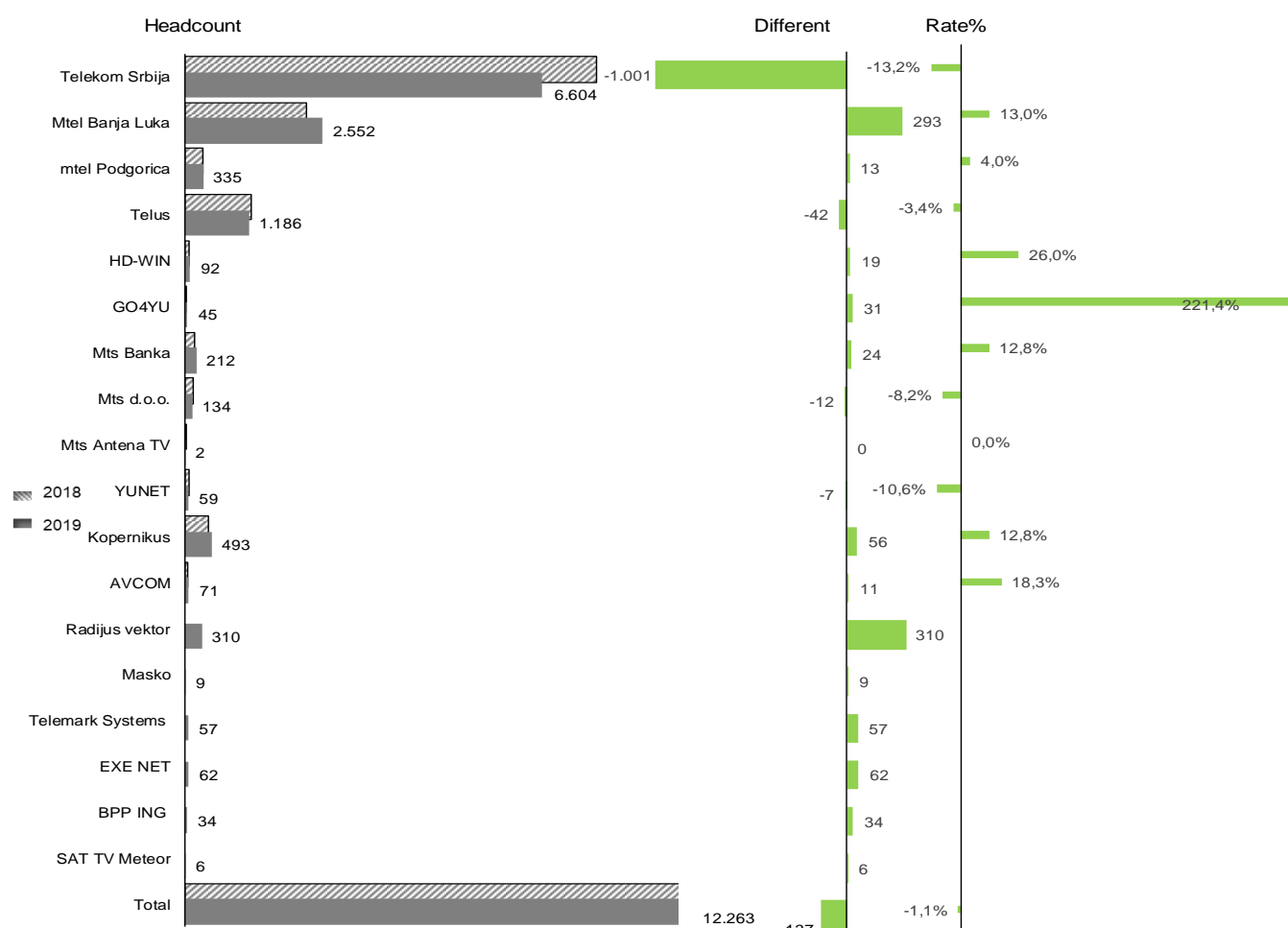
### 8.1 NUMBER AND STRUCTURE OF TG EMPLOYEES

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.

At the end of 2019, there is a total of **12,263** employees of the Telekom Srbija Group, which is 1.1% lower as compared with the previous year. A significant decrease in the number of employees of Telekom Srbija is the result of the voluntary layoff from the Parent Company.

The following chart features a correlation between the number of employees working for definite and indefinite periods of time and with a dormant status at the level of Telekom Srbija and its subsidiaries in 2018 and 2019.

**Number and movement of Telekom Srbija Group employees**



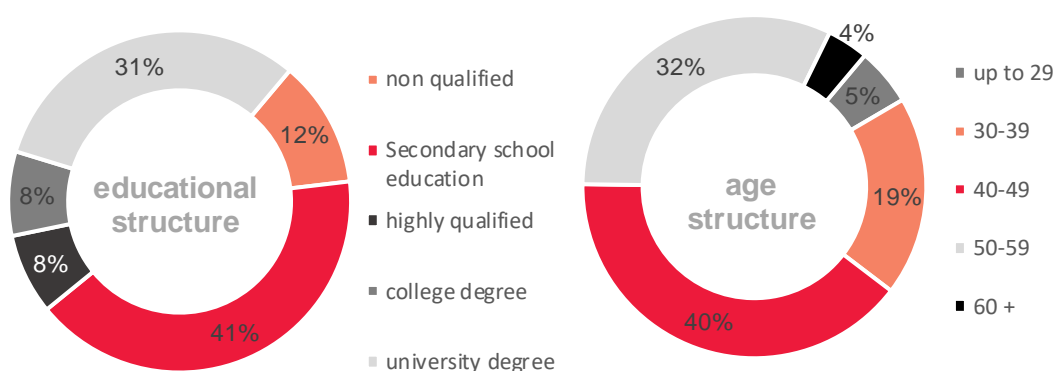
Apart from the employees working for definite and indefinite periods of time in the Parent Company and its subsidiaries, on the basis of different contracts on engagement outside employment (leased labour - leasing, temporary and occasional jobs, hiring through youth

employment agencies), a total of 2,730 persons are hired, most of whom by Telekom Srbija - 61.1%, and Telus 19.3%.

Due to the nature of their work, 126 employees of Telekom Srbija and 3 employees of YUNET are temporarily seconded to the subsidiaries and through an analysis of the total number of the Telekom Srbija Group, the same are featured in the subsidiaries.

As at 31 December 2019, 206 persons were engaged by Telekom Srbija to work based on service contracts, as part of the project entitled Door 2 Door. In accordance with the Business Cooperation Agreement between Telekom Srbija and mts banka, 658 employees were engaged in mts banka on the basis of the Agreement on Additional Employment and the same are not included in the total number of persons engaged outside employment in the relevant companies.

### Educational and age structure of Telekom Srbija Group



In terms of the employees' educational structure at the Group level, those with secondary school education have the largest share (41%), followed by the employees with university education (31%), whereas skilled workers have the lowest share (8%).

As for the age structure of the employees, most of the employees are 40-49 years of age (40%), followed by the employees between 50 and 59 years of age (32%) and those between 30 and 39 years of age (19%).

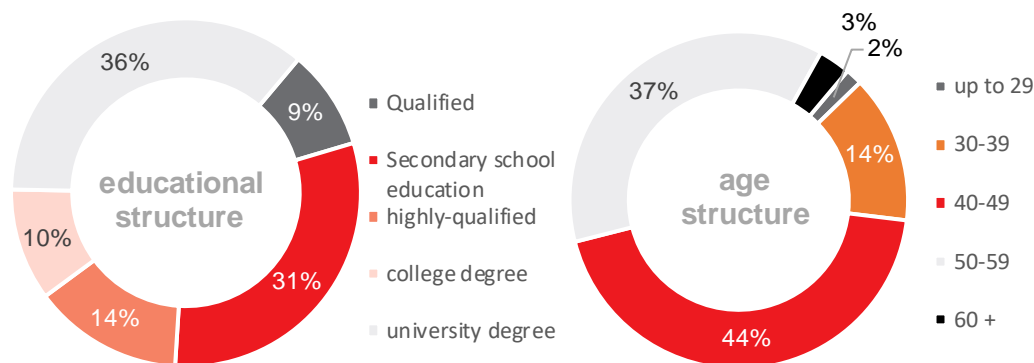
### Telekom Srbija

As at 31 December 2019, there were a total of 6,730 people working in the Company. Of this number, due to the nature of work, 126 employees are temporarily seconded to other subsidiaries, 122 of whom with a dormant status, whereas 4 employees are seconded to the subsidiaries without an employment contract.

Apart from this number, 1,668 persons were engaged outside employment through an employment agency (the leasing of labour) as at 31 December 2019.

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

### Educational and age structure – Telekom Srbija



In terms of the employees' educational structure at corporate level, those with university education have the largest share (36%), followed by the employees with secondary school education (31%), whereas skilled workers have the lowest share (9%).

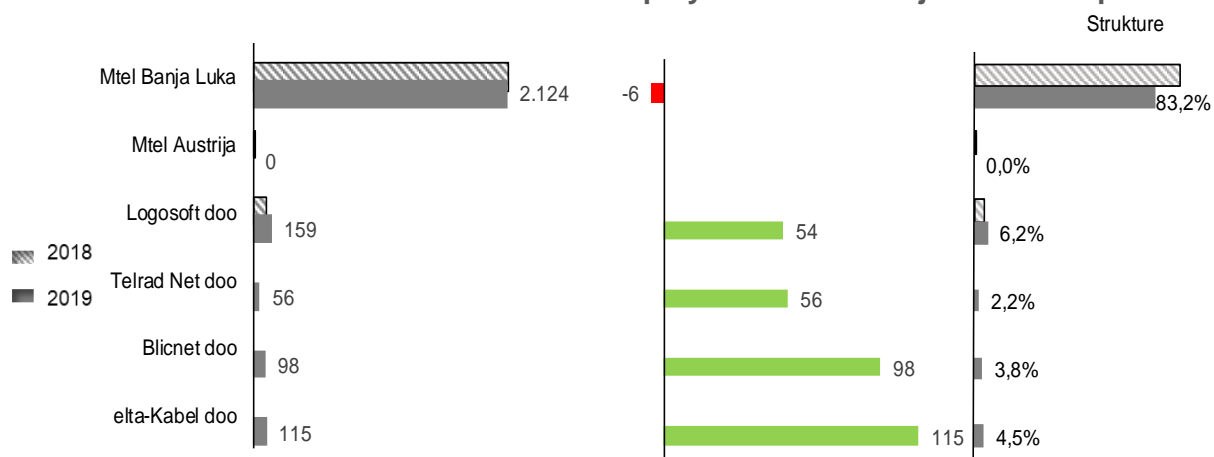
As for the age structure of the employees, most of the employees are 40-49 years of age (44%), followed by the employees between 50 and 59 years of age (37%) and those between 30 and 39 years of age (14%).

### Mtel Banja Luka Group

There were a total of 2,552 employees at the end of 2019. The number of employees does not include those seconded from Telekom Srbija.

In 2019, the total number of permanently employed increased by 293 or 13%. This increase is mainly attributable to the acquisitions made in 2019.

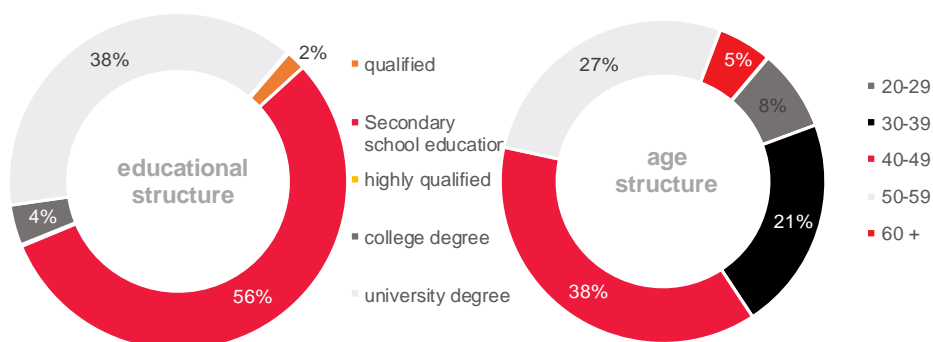
### Number and movement of the employees of Mtel Banja Luka Group



Note: In 2019, GO4YU acquired the entire ownership of Mtel Austria.

The employees with secondary school education have the greatest share in the total number of employees (56%). As compared to last year, the structure is slightly different in favour of university educated employees.

### Educational and age structure – Mtel Banja Luka Group



Most of the employees are 40-50 years of age (38%), 27% of the employees are 50-59 years of age and 22% of the employees are 30-39 years of age.

As compared to the preceding year, the structure slightly differs in favour of the employees up to 30 years of age and over 50 (32% with a group of over 60).

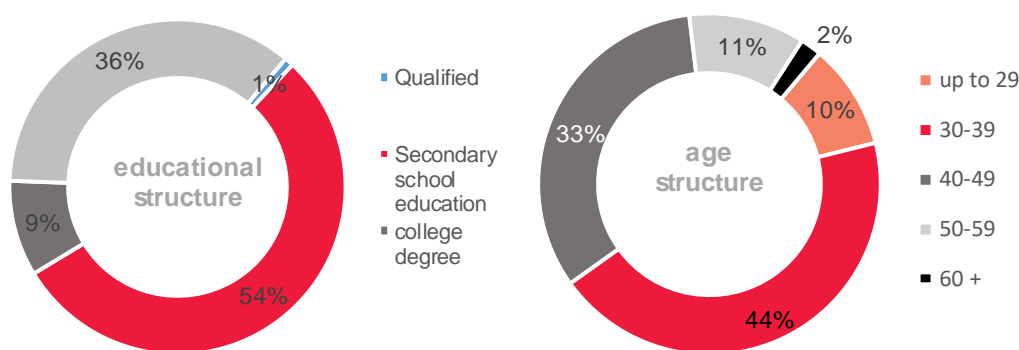
### Mtel Podgorica

As at 31 December 2019, mtel Podgorica had 335 permanent employees and 179 persons engaged outside employment.

The employees with secondary school education have the largest share in the overall number of permanently employed (54%), followed by university educated staff (36%), 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 (45%), followed by 40-49 with a share of 33%

### Educational and age structure – Mtel Podgorica



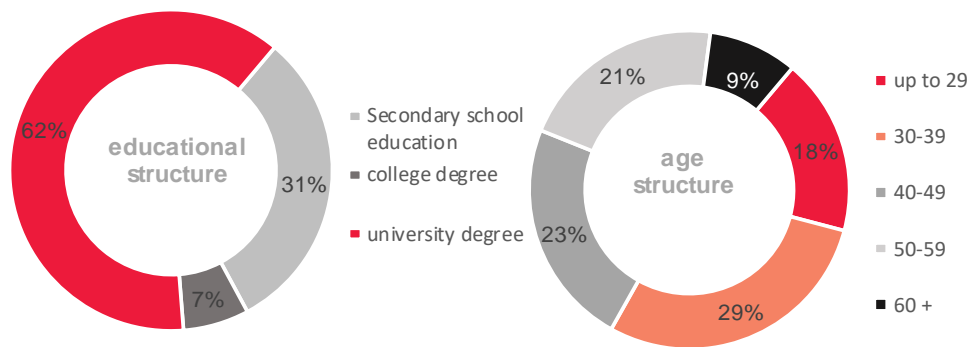
### mts banka

As at 31 December 2019, mts banka had 212 employees and 8 persons engaged outside employment. The number of persons employed for an indefinite period of time is 172, followed by 40 employees engaged for a definite period of time.

University-educated employees have the largest share in the total number (62%). 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 and age structure - mts banka



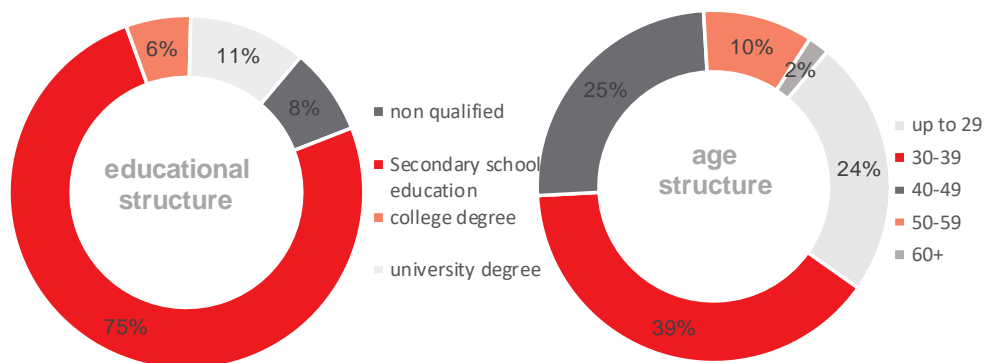
In accordance with the Business Cooperation Agreement between Telekom Srbija and mts banka, 658 employees were engaged in mts banka on the basis of the Agreement on Additional Employment and the same are not included in the total number of persons engaged outside employment in the relevant companies.

### Supernova

In the companies gathered under the Supernova brand, with a total of 980 employees, the employees with secondary education have the largest share (75%), followed by the employees with university education (11%)

As for the age structure, the employees are significantly younger than the average age of the Telekom Srbija Group. The employees 30-39 years of age have the largest share, 39%. The employees aged 20 to 29 and 40 to 49 have an almost equal share (23% and 25%).

### Educational and age structure - Supernova



## 8.2 EMPLOYEE DEVELOPMENT MANAGEMENT IN 2019

### Telekom Srbija

Employee development is a priority of the Company, and accordingly, various types of internal and external education, teambuilding, schooling, obtaining professional licenses and membership fees in professional organizations, business simulations are applied.

Also, the Company implements new software solutions and adopts methodologies in order to improve the HR process:

- In the course of 2019, the implementation of the new HR system entitled **SAP Success Factors** started, with the aim of facilitating and simplifying HR processes within the

Company and enabling the optimization of HR self-service. The chosen solution enables management of all data on employees from one, centralized place, provides great opportunities for visibility, availability and analysis of data and most importantly, puts such opportunities in the hands not only of HR professionals, but also all managers in the Company, up to employees.

- In the course of 2019, four quarterly procedures for appraising the performance of employees and an annual procedure for appraising the performance of managers were conducted on the basis of the applicable **Methodology for the appraisal of employee performance** with a differentiated approach to evaluating employees and managers. In order to improve assessment competencies, informative and educational support was provided to all assessors through Super user notifications, the Assessor Community and individual oral or written consultations. Also, the group training in the field of methodology and typical errors in assessment was organized and performed for new assessors of employee performance.
- The **Talent Management Methodology** was adopted, which represents an improved methodological framework for the systematic and gradual establishment of Talent Management at the Company level, as a strategic HR goal. All members of the Talent Pools are, based on individual development plans, covered by targeted internal and external development-motivational modalities for improving professional knowledge, business and managerial skills.
- Regarding the **corporate culture transformation**, in the course of 2019, a series of activities were implemented, aimed at creating an appropriate organizational context, promoting and supporting the adoption of the desired corporate culture, defined values and leadership behavior through internal communication by means of monthly Newsletters and corporate culture banners on the home page of the new internal portal.
- The basketball section of the Company was formed, which competes in the basketball Company League with the aim of promoting corporate values both internally and externally,
- A new research on corporate culture has been conducted. The results of the 2019 research show that some dimensions have been improved in the direction of the desired culture, while in some dimensions there is a significant room for improvement.
- 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, behaviour and interests through an internal social network. The project was implemented with the aim of promoting business digitalization, facilitating two-way informal communication, connecting employees through a different, virtual communication that takes place regardless of time or location frameworks. The Community is also designed to encourage the transformation of corporate culture from the existing to the desired.

In 2019, a new Sell and Earn community was created with the aim of providing continuous support for the Corporate Sell and Earn project.

- o More than 140 topics have been published with over 600 publications of various fields.
- o More than 3,000 employees have visited the Communities since the opening.

## External and internal education

In the course of 2019, a total of 2,125 employees were referred to external education courses in the country and abroad. They spent a total of 6,252 days at education courses, which is approximately 3 days per participant.

External education courses in the country were attended by 1,467 participants, of whom:

- reference seminars - 271 participants,
- professional training and seminars - 234 participants,

- training required by law – 9 participants,
- business skills training – 549 participants,
- business simulations - 20 participants,
- team building – 354 participants, and
- general knowledge and skills –30 participants.

They spent 3,720 days at education courses in this country, which is 3 days per participant.

In accordance with the Agreement on Providing English Language Courses concluded with an external school – Zadužbina Ilije M. Kolarca and other schools in Serbia, English language courses were realized for 137 participants in group classes and 69 participants in individual classes, which, on average, is 4 days per participant.

A total of 199 participants were referred to educational events abroad:

- 136 participants attended conferences, congresses and seminars,
- 12 participants attended forums, and
- 43 participants attended professional training and workshops.

They spent 754 days, i.e. 4 days per participant at educational events abroad.

Contracts are concluded with the employees who are referred to various types of training in the country and abroad with the obligation to stay in the Company for 14 or 24 months.

- In 2019, 51 contracts were concluded for training courses in the country and 21 contracts for training courses abroad,
- 171 employees were referred to training courses in the country and 10 employees to training courses abroad under the contracts concluded with suppliers without any obligations.

In 2019, under the contracts concluded with suppliers:

- 222 employees spent 742 days, i.e. 3 days per participant at training courses in the country, and
- 31 employee spent 177 days, i.e. 6 days per participant at training courses abroad.

In the organization of the Training Centre of the Human Resources Division, a total of 566 participants attended in-house education programmes:

- Business skills training – 26 participants,
- Computer training - 81 participants,
- Internal English language classes – 71 employees, and
- Internal *teambuilding* programmes - 388 participants of the Company.

In total, the participants spent 1320 days on in-house training programs, which is 2 days per participant.

## **Schooling**

Contracts are concluded with employees who are referred to additional education, which regulate mutual rights and obligations during the studies and in the period of contractual obligation, so that, as at 31 December 2019, there were 25 active schooling contracts (2 basic vocational studies, 3 basic academic studies, 5 master vocational / academic studies, 3 specialist vocational studies, 2 doctoral studies and 10 MBA studies).

Of the above, in 2019, 15 new schooling arrangements were approved, as follows: 4 basic vocational / academic studies, 2 specialist vocational studies, 5 master vocational / academic studies, 1 doctoral study and 3 MBA studies, whereas 2 contracts were terminated and 10 approved studies were completed.

### **Licenses, certificates, membership fees**

In 2019, the Company provided funds for various types of licenses, certificates, professional licensing exams and membership fees for 526 applicants, as follows:

- the obtaining of new licences for 12 employees and professional exams for 2 employees in the Serbian Chamber of Engineers;
- the obtaining of CISCO certificates for 35 employees;
- the exam for obtaining the certificates for a certified accountant for 5 employees;
- the exam for obtaining a license to perform basic security activities for 4 employees;
- the certificate of professional competence from the Traffic Safety Agency and AMSS for 18 applicants;
- the exam for obtaining PMP certificates for 1 employee;
- the membership fees in professional organizations for 410 employees (Serbian Chamber of Engineers, Serbian Association of Accountants and Auditors, Chamber of Chartered Auditors, Association of Internal Auditors, CFO&Controlling Club);
- re-certification of the GIAC certificates for 2 applicants;
- the membership fee for the International Institute of Business Analysis for 4 applicants, and
- PMI membership fee for 28 applicants and re-certification of the PMP certificates for 5 applicants.

### **Business simulations**

The continuation of manager training was organized with the application of one of the leading platforms for online simulations - Cesim connect, in the form of a business tournament. Cesim is a global platform for business simulations that provides users with a unique experience of real business management in the role of top management, through making business decisions in the business planning process and monitoring specific financial indicators and results of decisions.

### **Job rotation**

In 2019, the implementation of the Job Rotation project began, which is focused on the professional development of employees and work processes in the Company. The very concept of job rotation is designed so that, through assignment to different positions / jobs, employees improve their personal and professional competencies and knowledge, which leads to improved efficiency of the processes in which they are currently engaged and the processes in which they rotate. A total of 374 employees participated in the rotation process for a total of 11,724 working hours.

Bearing in mind the fact that the basic criterion for the selection of organizational units was connectivity in terms of work, 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, developed a wider range of work experience and skills, with the transfer of knowledge and better communication between the employees.

### **Recruitment and selection**

In the course of 2019, 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 Parent Company within cooperation with Belgrade University was used.

Of the total number of the candidates recruited for deficient positions in the Parent Company, 75% of candidates, through the process of professional selection, showed the potential to be employed by Telekom Srbija.

Of the total of 202 candidates hired, some were engaged to perform the tasks in direct contact with residential and business customers, fitter and engineering tasks and the tasks related to the development of services.

## **Mtel Banja Luka**

In 2019, 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 development of a culture of cooperation through teambuilding activities that were realized with employees from all organizational units of the Company.

As in the previous two years, a large part of the educational activities was based on the internal m: akademija, within which the huge potential and knowledge base that employees have acquired over the years has been made available to all the employees of the Company.

A large number of in-house and internal training courses were also organized for all organizational units of the Company:

1. In-house training courses (17 training courses for 600 employees):
  - training for management such as NLP Master Training, individual coaching sessions, modern leadership (synergetic integration of subsidiaries in the Mtel Group) and managerial training in Executive Units;
  - training for sales staff such as team coaching workshops for sales staff, field sales skills, sales performance management;
  - other in-house training courses (business skills for protocol workers, training in competition law, individual English language classes); and
  - teambuilding (3 events were organized for employees in all organizational units of the Company, for the top management representatives and new employees).
2. Internal training courses – through the work of the Internal academy (m:akademija) – 46 training courses were organized over the period of three years for more than 1,100 participants and 41 internal trainers were engaged. For the third year in a row, a total of 46 trainings were realized, for over 1,100 participants, and 41 internal trainers were engaged in the realization. A special novelty in the m: akademija program is a two-day training to get acquainted with the Design Thinking methodology, which is implemented by eight internal trainers certified for this methodology.

Following the post-acquisition activities related to the acquisitions that Mtel Banja Luka made in 2019, a project entitled "Synergetic integration of subsidiaries in the Mtel Group" was launched. The goal of the project is to strengthen cooperation and achieve synergy effects between the subsidiaries and Mtel Banja Luka as a "corporate parent". The idea is that the employees in the subsidiaries get a positive impulse for their motivation and constantly improve their performance, because they have a "corporate parent" behind them, which provides them with the necessary resources (material, HR, technological) to achieve plans and activities.

## **Mtel Podgorica**

The Collective Agreement of Mtel Podgorica stipulates that employees are entitled to jubilee awards, the amount of which depends on the number of years of service in the Company. In addition, monetary compensation in the amount of 500-2000 euros is also stipulated.

## **mts banka**

In the course of 2019, mts banka organized numerous external training courses and seminars in the sphere of bank operations, public procurement, bill digitalization, financial statements. Various internal presentations and training courses were held in the sphere of sale in branches, risk management, authentication and manual processing of banknotes, Compliance.

Training courses were also organized for new employees in the sphere of SNP and FNT (preventing terrorism funding, determining the actual owner), code of business conduct and training courses for getting acquainted with the application used by a treasurer, liquidator, advisor for the sale of products and services to individuals and legal entities and external salesman.

# 09

## SOCIALLY RESPONSIBLE ACTIVITIES



## 9. SOCIALLY RESPONSIBLE ACTIVITIES

### 9.1. Telekom Srbija

*Telekom Srbija is a signatory to the UN Global Compact, which promotes universally accepted principles in the field of human rights, labor law, environmental protection and the fight against corruption, with the promotion of socially responsible business and the UN Sustainable Development Goals.*

By readily accepting the challenging role of leading the transition to the digital economy and introducing digital business models, the Company does not neglect its traditional role of a corporate actor, which recognizes partnership initiatives and activism aimed at achieving positive changes for as many users as possible.

In order for the partnership initiatives and programs that it launches to achieve the desired positive effects, Telekom Srbija has directed the largest number of its activities in several areas of special interest. An important fact in this context for many years has been the support for education and science projects and programs, as starting points for any positive social and economic change. Thus, in 2019, more than half of the budget funds intended for socially responsible activities were allocated to more than 60 projects in these areas in order to raise their capacities to adequately respond to their important social role.

The long-term program in the field of education and support for entrepreneurship "We support the initiators", combines several projects, which achieve tangible results and reflect the corporate values in the best way in the field of corporate social responsibility. In addition to continuous support for technological entrepreneurship, in 2019 Telekom Srbija launched the project "Udružene" intended for women's entrepreneurship, i.e. the affirmation and empowerment of women to be more actively involved in the development of local communities.

For the project "We support the initiators" and commitment to the principles of corporate social responsibility, Telekom Srbija received one of the most important awards in the field of corporate social responsibility *Đorđe Vajfert*, awarded by the Serbian Chamber of Commerce.

### Environment protection

As a member of the UN Global Compact, the Company is, with good reason, publicly recognized as a company that emphasizes environmental protection. Through the campaign "mts Save your World", allocating one dinar from each monthly bill of the postpaid mts tariffs Morava, Omorika and Soko helps preserve the natural resources of our country, and at the same time supports the initiatives of associations that make efforts to preserve endangered species.

The Company helped the Foundation for the Protection of Birds of Prey to procure a device for tracking the griffon vulture, which was saved from extinction thanks to the Foundation's active protection measures. A female griffon vulture that hatched on Zlatar Lake in 2017 was marked by Telekom's satellite transmitter and was released into the special nature reserve *Uvac* on 1 September 2018, after an injury and stayed at the Vulture Rehabilitation Center, which also marked the beginning of a new era in the protection of Serbian nature.

After almost three decades of the Foundation's work, about 600 of these birds are cruising the skies of Serbia, showing that, if natural resources are managed carefully and wisely, it is possible to reverse the overall process of species extinction. We also helped to preserve that species through a donation to the Association of Jadovnik-oasis of untouched nature, which improved the Feeding station for griffon vultures and other animals on Jadovnik. The Company also helped



equip the Center for the Recovery of Birds of Prey, which helps injured individuals, treats them, records them and returns to nature.

Telekom Srbija is taking measures to protect the environment by adopting environmentally oriented technologies and methods in order to reduce the negative impact on the environment. During the performance of the activity, the aspects of environmental protection are taken into account, such as rational energy consumption, proper disposal of waste material 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 compared to devices used over the past decades.

Telekom Srbija is generating various types of waste which is regularly disposed of according to legal regulations. The Company has concluded contracts on the purchase of hazardous and non-hazardous waste with 24 companies authorized for this kind of activity. The Company's revenues from waste sales amount to 31.2 million dinars, and the costs of disposing of certain types of waste amount to 507.7 thousand dinars.

In the course of 2019, 720 t of waste was disposed of, of which:

- 118 t of hazardous, and
- 602 t of non- hazardous waste.

Noise produced in the environment mainly originates from air conditioning chillers installed on the Company's facilities. If it is suspected that the noise level is higher than the legally prescribed level, measurements are taken. In the course of 2019, noise was measured at 4 locations and the allowed noise level did not exceed due to the application of new technologies.

Emissions of pollutants into the air (flue gases as combustion products in boiler rooms) are regularly measured in 13 boiler rooms twice a year.

Electro-magnetic radiation emitted into the environment mainly derives from the radio base stations of mobile telephony, known as high-frequency radiation. According to the Law on Protection against Non-Ionizing Radiation, measurements of electromagnetic radiation levels of radio base stations are performed every two years. To date, the Company has not exceeded the permitted radiation levels.

- In the course of 2019, the level of non-ionizing radiation was measured for 751 base stations at 168 locations and an Environmental Impact Assessment Study was drawn up.
- There are 125 base stations which were proclaimed sources of radiation of particular interest. Mandatory measurement is conducted every 2 years.

## **Suppression and prevention of corruption and bribery**

Telekom Srbija has adopted a new Code of Corporate Conduct, which expands the previous Code of Ethics, which emphasizes the duty to avoid conflicts of interest in the performance of activities in which the Company is involved. This Code prohibits corruption and bribery in its operations and the Company is obliged to take measures to prevent corruption and bribery in accordance with its authorizations.

Anti-corruption measures include publishing these principles, training and informing employees and consultants, intermediaries and other intellectual service providers about these principles and best practices, disclosing information, initiating appropriate legal proceedings to establish liability for corruption and to recover funds and compensation for damages, release or recall members of corporate bodies, as well as determine liability for breach of duty by employees.

As for sponsorships, non-profit payments and grants such as donations and humanitarian aid, it is necessary to ensure that the funds approved in this way are not used for corruption and bribery.



It is prohibited to make or receive payments that are not recorded in the accounting books. The Company undertakes activities within all the business activities it performs in order to prevent money laundering as a criminal offense.

## Important projects in 2019

### „We Support the Initiators” – We find and support the bearers of positive changes

In 2018, the Company launched an umbrella programme “We Support the Initiators”, which encourages institutions and individuals to initiate positive changes in their environment and encourage other people to follow in their footsteps.

The umbrella programme includes the following projects: We Create Knowledge, mts app competition, mts start-up acceleration, through which the Company is investing into all initiators.

Within the project "We Create Knowledge", every year Telekom Srbija equips 20 primary schools in Serbia with IT classrooms, "mts app competition" provides an opportunity for talented high school students to work on the development of applications for mobile devices, while the mts start-up acceleration is a platform to support startups in technological development.

### „We Create Knowledge”

The project has been implemented in cooperation with the Ministry of Education, Science and Technological Development since 2017 and during three cycles, 60 IT cabinets in primary schools were equipped, which lacked IT equipment, and citizens made the final choice of schools by voting on the official FB page mts Tvoj Svet. In the third cycle, more than 150 thousand citizens' votes were recorded, who contributed to the selection of the desired schools.

### mts app competition and regional app challenge

One of the main goals of the Company in the field of social responsibility is the focus on improving the conditions for education and development of young people. Guided by that, the Company has been organizing the "**mts app competition**" since 2011 for the development of applications for mobile devices, for high school students according to the program intended for talents in the field of mathematics, IT and computer science. Within the mts app competition, 135 student teams presented 141 applications. The best teams were awarded with valuable mobile phones, and the winners visited the prestigious international IT conferences in Europe. The competition is included in the selection of the European organization CSR Europe, and it is also supported by the Ministry of Education, Science and Technological Development.

By opening new IT classes in the 9th mts app competition, launched in 2019, 47 high schools in Serbia participated, as part of a presentation organized by Telekom Srbija.

The students had to set up a team, finish their application and submit it through Android or iOS before a certain deadline. Besides a good idea and functionality, an additional advantage is the focus on solving problems in the Company and the ability of the application to make the use mobile phones and devices easier.

After selecting five best teams and applications in Serbia, the winners met their peers from Bosnia and Herzegovina and Montenegro within the **Regional App Challenge**, the next level of competition that brings together teams from the region, because the competition has been organized and implemented under the same conditions by Mtel Banja Luka and Mtel Podgorica.

## mts start-up acceleration

The **mts start-up acceleration** project is intended for technological start-ups at an early stage of development of their business idea. To encourage technological entrepreneurship, within the three cycles of mts start-up acceleration, 60 thousand euros were invested and free mts services and mentoring of management representatives were provided for 7 awarded start-ups. It is implemented in cooperation with Startit, which has been organizing the most prestigious educational program in the field of technological entrepreneurship in the region called "Start-up Academy" for almost a decade, and with which Telekom Srbija shares a common goal to train 100,000 young IT professionals by 2020 who will live and work in Serbia. In addition to Telekom Srbija, the American company Google has been supporting the Startit Association in the realization of the "Start-up Academy" since 2018 by establishing partnership cooperation through its Google Developers Launchpad program. In 2019, the incentive was given to technological entrepreneurs gathered in the "Tenderly" and "Shtreber" teams.

Among the initiators of Telekom Srbija are also experts from the company "Strawberry energy", with which the Company has been cooperating since their first entrepreneurial steps. Improving its solutions, based on solar energy and the concept of "smart cities", "Strawberry energy" has developed a "smart bench" - urban movable property that citizens can use to charge batteries and connect to high-speed, optical internet. In addition to being a solar charger, the "Smart Bench" is self-powered and provides information on air quality and noise level, as well as temperature and air pressure. Telekom Srbija donated this innovative product of young experts from Serbia to the city of Novi Sad, on the occasion of being proclaimed the Youth Capital of Culture in 2019 and because of the important role that the city will have in 2021, when it becomes the European Capital of Culture.

## „Udružene“

Symbolically presented for the occasion of Women's Day, 8 March, the project "Udružene" was implemented in cooperation with the Gender Equality Council of the AP Vojvodina Government, and it is primarily dedicated to women's associations in smaller communities, i.e. the promotion of cultural heritage and women's creativity. During the first phase of the project, cooperation with twenty women's associations from Vojvodina was presented, which were supported by Telekom Srbija in the mission of preserving, nurturing and promoting tradition, old crafts and humanitarian work.

## Support for education and professional training

In 2019, Telekom Srbija supported the Academy of Modern Management of the Student Organization **ESTIEM** through active participation and workshops led by the employees of the Human Resources Division. The Company also supported the Tesla Global Forum, an event that deals in a modern way with the scientific, cultural and civilizational legacy of Nikola Tesla and contributes to preserving the memory of the work and achievements of the great scientist.

The importance that the Company attaches to the improvement of knowledge in the sphere of modern information and communication technologies is also evidenced by the fact that by organizing the Hack#Teen event, it joined the celebration of the International Girls' Day in ICT. In cooperation with the B92 Fund in the "Bees" campaign, the Company purchased small robots used by the children with disabilities to learn easier and better. The Company supported the "Petlja" Foundation project for making and publishing online educational material for free programming learning for the 8th grade elementary and the 2nd grade high school students.

The Company continued its cooperation with the magazine "Svetosavsko zvonice", which organizes creative workshops within the program of the Educational Center "Zvonice".

The Company helped the most successful students of the Belgrade Regional Talent Center to take part in the competition of young scientists in Malaysia, the students of the High School of

Mathematics in Belgrade to participate in the Zhautikov Olympics and the robotics competition in Moscow, as well as the team from the First High School in Kragujevac to visit Houston and participate in a competition in Lego robotics. The students of the Faculty of Electrical Engineering also achieved great success in the international competition "Eurobot", and at the same competition, the students of the Secondary School of Electrical Engineering Nikola Tesla in Belgrade also had considerable success. Students of the Faculty of Agriculture were the representatives of Serbia in the competition for the creation of eco-innovative products "Ecotrophelia Europe"

Telekom Srbija also supports the development of talents through participation in the organization of mathematical competitions in the country, the organization of a mathematical camp on Tulba near Požarevac and a mathematical camp in Šabac, where students develop their skills.

In 2019, 568 high school students and 151 students of the Belgrade University, as well as other students completed their professional training at Telekom Srbija, of which 78% were students in the sphere of telecommunications and information technologies. In 2019, professional training was paid to 4 students of the Belgrade University.

### Sports and youth

The Company has been supporting the Marina Maljkovic Women's Basketball Movement since its foundation. Through the project of a free basketball school for primary school girls, the Movement strives to develop awareness of the need to go in for sports and organizes free training and a basketball school at several locations in Belgrade and other cities in Serbia. Cooperation with the Movement during 2019 was followed by the organization of mini tournaments for participants in the free basketball school.

A large gathering of children and their parents, socializing and sports competition in various traditional skills was made possible by the project "Sports Gathering of Holy Serbia", with the already traditional support of Telekom Srbija. The goal of the project is to preserve tradition, unity, and sports spirit among young people, and within the project and the central event in Ada Ciganlija in Belgrade, a series of sports events, tournaments, cultural and educational events were organized. Special guests were children from Kosovo and Metohija, as well as children from Montenegro and Republika Srpska and athletes from Greece, from the island of Corfu.

### Investments in the community, health care and social welfare

Since its foundation, as a socially responsible company, **Telekom Srbija** has strived to be a responsible partner of the community. During 2019, the practice of investing in health care continued. The Company supported the Clinical Center of Serbia, the Institute of Oncology and Radiology of Serbia, the Institute for Cardiovascular Diseases "Dedinje", the Institute for Health Protection of Mother and Child of Serbia "Dr Vukan Cupic", the Institute for Health Protection of Serbian Railways Employees and Health Centers in Kanjiža and Sopot.

The Diabetes Association of Serbia received the support of Telekom Srbija for a camp on Goč for children suffering from diabetes "My Sweet Life", and the Society for the Fight against Diabetes from Kragujevac for the realization of the project "Healthy Summer 2019". The Association of Parents, Guardians, Children and Friends of Children Suffering from Malignant Diseases "Čika Boca" with the support of the Association organized a camp "We can do everything", and the humanitarian organization "Friend in Trouble" organized the rehabilitation of children treated for cancer.

To improve the living conditions for the wards, donations were granted to the Institution for day care for children, youth and adults with disabilities "Zračak" from Čačak and the Social Welfare Center of Kruševac, as well as the Association of Citizens with Disabilities "Novi Horizonti", the Serbian Cancer Society and the Association of Women Diagnosed and Treated for Breast Cancer "Let's be together".

By participating in the donor club, the Company traditionally supports the activities of Belhospice by providing the necessary telecommunications infrastructure and free services for the first Belhospice day center that provides assistance and specialized services to oncology patients. Telekom Srbija continued to support the campaign You are not alone, in order to overcome prejudice against young people with mental health problems as well as people with disabilities. As part of the traditional cooperation with UNICEF, the Telekom Srbija team showed humanity by participating in UNICEF's Fair Play basketball tournament. The funds raised at the tournament were allocated for building inclusive playgrounds for children with different types of physical, sensory and intellectual disabilities to have the opportunity to play with their peers and have a positive experience through learning and play.

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

Nurturing cultural values and top artistic achievements is of great importance for the identity of a nation. Since its founding, the Company strives to continuously contribute to the community through numerous donations aimed at preserving cultural monuments and cultural heritage, by investing in cultural projects, in worthy individuals and institutions of national importance.

Telekom Srbija is one of the largest donors for the construction of the temple of Saint Sava, and among the leading projects within the socially responsible activities was the digitalization of the Hilandar treasury. The Company helped the reconstruction and construction of church buildings in Valjevo, Krupanj, Mionica, Turija, Niš, Ljubovija, Novi Pazar, as well as equipping the cabinet for holding religious classes of the Islamic Community in Priboj.

The Serbian Orthodox Church granted a prestigious award (*arhijerejska gramata*) to Telekom Srbija for assistance in the renovation of the two-hundred-year-old Cathedral of the Holy Archangels in Niš. Long-term efforts to participate in the activities of the Serbian Orthodox Church were recognized and the Order of Saint Sava of the first degree was awarded as the highest decoration of the Serbian Orthodox Church.

The Company has been a long-standing partner of the following events: Zmaj Children's Games, Children's October Festival, Poet's Rally, organized by the city library "Žarko Zrenjanin" from Zrenjanin, and traditionally, before the New Year, the Company tries to delight the youngest with popular editions of domestic and world writers.

The Company started donating books in 2015 to elementary schools which were destroyed in the 2014 floods. Every year, as a New Year's gift, books are donated to pupils in schools with a small book collection. In 2019, 10 primary schools in Serbia received more than 2,500 books of domestic and international writers.

For the last three years, Telekom Srbija has been providing money for the best student work at the New Media Department, and it also helped purchase valuable technical and multimedia equipment in order to provide students with the best possible conditions for research in the field of new media and new forms of communication. The Company also helped mark the 70th anniversary of Grafički Kolektiv and the new cycle of concerts in Kolarac "Your World of Music", the music festival "Medimus" in Prizren, the 36th "Nusic Days" and the exhibition "Royal Portraits" within which the most beautiful portraits of the members of the famous dynasties Karađorđević and Obrenović were exhibited in the the Jevrem Grujic House.

## 9.2. Mtel Banja Luka

Guided by the idea that one of the important business segments is the responsibility towards the community in which it operates, Mtel Banja Luka in 2019, at the 16th event entitled Selection of the most successful economy in RS, traditionally organized by the Chamber of Commerce of Republika Srpska, received a prestigious award for contributing to the development of corporate social responsibility.

Long-term support for humanitarian, cultural, educational, but also sports activities, has continued this year with cooperation with numerous associations, cultural institutions, schools and sports clubs. For the fifth year in a row, the Company participated in a large campaign for traffic safety, in 2019, called "One call changes everything - do not use the phone while driving!". The campaign has lasted as long as five months this year, and the Company made a car simulator for this purpose, which was presented throughout Republika Srpska, in order to convey the message about the necessity of responsible behavior in traffic in a unique way.

Mtel Banja Luka has launched the Playground Challenge, a program intended for teams that have the idea to improve any area of business or life, and the implementation of which involves the application of information technology and solutions. In 2019, the winners of the Playground Challenge were announced, with the best startup idea, and the best three teams were awarded valuable prizes.

As in the previous eight years, in 2019 Mtel Banja Luka awarded scholarships to the best students of electrical engineering faculties in B&H, and cooperation with the Faculty of Technical Sciences in Novi Sad was promoted, based on which FTC students have the opportunity to do professional practice in the Company. Cooperation with the Association for International Student Exchange continued for the purpose of professional practice, so foreign students have participated this year, which, according to the system of reciprocity, enables students from B&H to take part in professional practice abroad.

Mtel Banja Luka supported the Safer Internet Day and the project Safety of Children on the Internet of the Ministry of Scientific and Technological Development, Higher Education and Information Society of Republika Srpska.

The values of a healthy lifestyle were promoted, through support for sports and sports events throughout B&H. With long-term support for sports clubs and events, donations of sports equipment to primary schools continued.

In addition to the traditional support for cultural institutions, numerous cultural and musical events throughout B&H, such as the Days of Vlado S. Milošević in Banja Luka, St. George's Day Festival, Banja Luka Biennale, numerous festivals and concerts of popular musicians from the country and the region, this year the holding of the Duka Fest, international student film festival, was also supported.

With numerous donations for humanitarian purposes, Mtel Banja Luka has helped the most vulnerable categories of society this year as well. Numerous associations were supported - people with Down syndrome, autism, premature babies, the Blue Phone, and valuable equipment was donated to health centers. Investments have also been made in the construction of access ramps. This year, too, there was no lack of support for the great humanitarian campaign "With love to brave hearts", which has been held for 10 years. In addition to the donation for this campaign, Mtel also provided a short humanitarian number to raise funds through calls.

### **9.3. Mtel Podgorica**

The local community can count at any moment on the active role of Mtel Podgorica in its development. The principle of the Company's management is based on investing in long-term and stable relationships with everyone: employees, business partners, customers and fellow citizens on the one hand and on the commitment to have an active, daily role in the society development - on the other hand. It received the prestigious award Iskra, which was given by the Fund for Active Citizenship in the category Contribution at the national level for 2019.

Also, in a contest for corporate social responsibility, the Union of Employers of Montenegro awarded the Company in the category of Community Care for 2019. The Company organized a



prize game called "Support with your heart" for its users of mobile and fixed telephony, multimedia and the Internet.

Support for various educational projects continued, as a friend of science and education, recognized for years. Thus, Mtel Podgorica continued to support the project "Open Days of Science" as a general sponsor, as well as a friend of the "Knowledge Factory", which is held year after year as part of the "Open Days of Science" and provides a chance for students and pupils to get acquainted with the latest trends in the field of information technology through education and entertainment.

Mtel Podgorica is a proven friend of sports activities that bring together young people and influence the development of sports awareness and a healthy lifestyle and is known as a reliable partner in this segment. The society financially supported various sports: basketball, water polo, football and karate. Support for the Basketball Association of Montenegro, BC Mornar and FC Budućnost continued. The Company donated funds to FC Mornar, FC Ribnica, FC Bokelj and many other local and regional clubs.

In the course of 2019, Mtel Podgorica also supported the regionally famous Bedem Fest in Nikšić. Supported by Mtel Podgorica, movie lovers enjoyed the film projections as part of the highly attended Jada Film Fest.

Mtel Podgorica continuously supports the activities that encourage raising awareness of citizens about vital issues for human health. In 2019, the largest fund for donations was spent on the health system of Montenegro. The donation of over 1 million euros to the Telemedicine project is the largest donation of the Company so far, and probably in Montenegro as well. Also, in 2019, the project "True Story" was supported, a specialized educational campaign on prevention as the main way to fight breast cancer.

## 9.4. Socially responsible activities of other companies

In the course of 2019, **YUNET** participated in a donation to the Čika Boca Association (Boost Team), which consists of parents, guardians and friends of children suffering from and treated for malignant diseases. Participation was part of a campaign for children with Batten's disease. It is not a monetary donation, but funds for these children were donated by purchasing certain products offered by the Association, which have the logo of YUNET and the Association for Helping Children. Through a donor agreement, YUNET participated in encouraging the development of sports for children (volleyball). In accordance with the Law on Environmental Protection, mts banka pays a fee for the protection and improvement of the environment. In accordance with the legal regulations governing this area, mts banka entrusts all disposed electronic equipment to a company registered for the purchase of electronic waste for recycling.

mts banka hands over the hazardous waste to the company with which it has concluded a contract for delivery and collection of hazardous waste. According to the decision of the Archives of the City of Belgrade, mts banka entrusted the physical destruction of worthless registry material to the company that gives paper for further processing and recycling.

**Telus** operates in accordance with the ISO14001 standard, an environmental management system and manages the waste it collects.

Cable operators, which have been operating under the **Supernova** brand since its launch on 1 April 2019, had sponsorship investments such as: donation to the international and state touring car champion Mikica Vesnić in the amount of 30,000 euros; donation in the field of culture - "Theater on the Square" in the amount of 10,000 euros in favour of the Forward agency.

In the course of 2019, the company **Exe NET** participated in the sponsorship of the Nišville Music Festival.

# 10

## FINANCIAL STATEMENTS



## 10. FINANCIAL STATEMENTS

### 10.1. Consolidated Income Statement of Telekom Srbija Group

Table 9. Consolidated Profit and Loss Account

In million RSD	2018	2019	Growth %
<b>Operating revenues</b>	<b>125,454</b>	<b>133,678</b>	<b>6.6%</b>
Fixed telephony	30,922	29,330	-5.1%
Mobile telephony	62,201	62,975	1.2%
Internet retail	11,916	13,503	13.3%
Multimedia	12,739	18,321	43.8%
ICT services	851	840	-1.3%
Other operating revenues	6,825	8,709	27.6%
<b>Operating expenses</b>	<b>-113,373</b>	<b>-126,817</b>	<b>11.9%</b>
Costs of salaries and allowances	-25,300	-23,608	-6.7%
Operator's costs	-10,022	-10,202	1.8%
Costs of material and maintenance	-22,693	-24,697	8.8%
Depreciation costs	-26,723	-41,492	55.3%
Lease costs	-6,124	-1,138	-81.4%
Other operating expenses	-22,511	-25,680	14.1%
<b>EBIT</b>	<b>12,081</b>	<b>6,861</b>	<b>-43.2%</b>
EBIT rate	9,6%	5,1%	-
<b>EBITDA</b>	<b>38,804</b>	<b>48,353</b>	<b>24.6%</b>
EBITDA rate	30,9%	36,2%	-
Financial expenses, net	-135	-1,857	-
Profit tax, net	-1,084	-2,538	-
<b>Net profit</b>	<b>10,862</b>	<b>2,466</b>	<b>-77.3%</b>
Net profit rate	8.7%	1.8%	-

Key operating indicators:

- In 2019, total generated operating revenues amount to 133.7 billion dinars and they 7% higher compared to 2018.
- In the same period, the operating expenses increased by 12% and they amounted to 126.8 billion dinars.
- *EBIT* equals 6.9 billion dinars (43% decline) with 5.1% margin and *EBITDA* of 48.4 billion dinars (25% growth) with 36.2% margin.
- Financial expenses, net, equal 1.9 billion dinars.
- Net profit amounts to 2.5 billion dinars (77% lower) with 1.8% rate.
- Operating revenues increased by 8.2 billion dinars:
  - Multimedia increased by 5.6 billion dinars and it amounts to 18.3 billion dinars.
  - Internet retail increased by 1.6 billion dinars and it amounts to 13.5 billion dinars.
  - Mobile telephony revenues increased by 0.8 billion dinars and amount to 63.0 billion dinars (postpaid services increased by 7%).



- On the other hand, fixed telephony revenues decreased by 1.6 billion dinars and they amount to 29.3 billion dinars (revenue decline from generated traffic and monthly fees).
- Operating revenues increased by 13.4 billion dinars:
  - Depreciation costs increased by 14.8 billion dinars and equal 41.5 billion dinars. The growth is largely caused by capitalization effects of the right to distribution and production of multimedia content, as well as the lease agreements in keeping with the newly adopted IFRS 16 “Leasing”.
  - The costs of participation in a consortium increased by 2.4 billion dinars (Parent Company) and they amount to 3.2 billion dinars.
  - The costs of material and maintenance increased by 2.0 billion dinars and equal 24.7 billion dinars.
  - The costs of lease decreased by 5.0 billion dinars (effects of IFRS 16).
  - The costs of salaries and fringe benefits decreased by 1.7 billion dinars and amount to 23.6 billion dinars.

Table 10. Consolidated Income Statement

In million RSD	31/12/2018	31/12/2019	growth %
<b>NON-CURRENT ASSETS</b>	<b>254,710</b>	<b>364,362</b>	<b>43.0%</b>
Intangible assets and goodwill	94,122	149,348	58.7%
Real estate, plants and equipment and advances	143,708	163,459	13.7%
Assets with usage right	-	34,586	-
Other	16,880	16,969	0.5%
<b>CURRENT ASSETS</b>	<b>68,384</b>	<b>66,083</b>	<b>-3.4%</b>
Inventories	5,648	7,583	34.3%
Receivables and other current assets	32,303	32,604	0.9%
Contractual assets	5,330	7,321	37.4%
Cash and cash equivalents	15,832	8,723	-44.9%
Other	9,271	9,852	6.3%
<b>TOTAL ASSETS</b>	<b>323,094</b>	<b>430,445</b>	<b>33.2%</b>
<b>TOTAL EQUITY</b>	<b>171,177</b>	<b>170,491</b>	<b>-0.4%</b>
Equity capital	154,023	154,110	0.1%
<b>Interest without controlling rights</b>	<b>17,154</b>	<b>16,381</b>	<b>-4.5%</b>
<b>LONG-TERM LIABILITIES</b>	<b>79,963</b>	<b>151,489</b>	<b>89.4%</b>
Long-term loans	76,035	98,899	30.1%
Leasing-based liabilities	-	28,767	-
Liabilities against the production and distribution of multimedia content	-	17,903	-
Other	3,928	5,920	50.7%
<b>CURRENT LIABILITIES</b>	<b>71,954</b>	<b>108,465</b>	<b>50.7%</b>
Long-term and short-term loans currently due	30,833	45,331	47.0%
Operating liabilities	25,357	27,993	10.4%
Leasing liabilities	-	5,746	-
Contractual liabilities	204	204	-
Other short-term liabilities and accruals and deferred income	15,560	29,191	87.6%
<b>TOTAL LIABILITIES</b>	<b>323,094</b>	<b>430,445</b>	<b>33.2%</b>

Table 11. Consolidated Cash Flows

In million RSD	2018	2019	Growth %
<b>Earnings before taxation</b>	<b>11,946</b>	<b>5,004</b>	<b>-58.1%</b>
Profit adjustments	28,485	30,266	6.3%
<b>Net cash in from operating activities</b>	<b>40,431</b>	<b>35,270</b>	<b>-12.8%</b>
<b>Net cash out from investment activities</b>	<b>-68,919</b>	<b>-64,269</b>	<b>-6.7%</b>
<b>Net cash in from finance activities</b>	<b>34,973</b>	<b>21,890</b>	<b>-37.4%</b>
Net cash-in/(cash-out) of cash and cash equivalents	6,485	-7,109	-
Cash and cash equivalents at the beginning of the year	9,347	15,832	69.4%
<b>Cash and cash equivalents at the end of the year</b>	<b>15,832</b>	<b>8,723</b>	<b>-44.9%</b>

Table 12. Ratio Analysis of Consolidated Business Results

In million RSD	2018	2019	Growth %
Total debt	106,868	144,230	35.0%
Net debt	91,036	135,507	48.8%
Net debt/EBITDA	2.35	2.80	-
Total liabilities/EBITDA	3.92	4.66	-
Debt ratio	34.7%	44.3%	-
Quick liquidity ratio	0.86	0.51	-

## 10.2. Parent Company financial statements

Table 13. Telekom Srbija's Income Statement

In million RSD	2018	2019	Growth %
<b>Operating revenues</b>	<b>88,750</b>	<b>90,800</b>	<b>2.3%</b>
Fixed telephony	27,217	25,524	-6.2%
Mobile telephony	43,324	45,985	6.1%
Internet retail	9,529	8,859	-7.0%
Multimedia	4,863	5,034	3.5%
ICT services	518	663	28.0%
Other operating revenues	3,299	4,735	43.5%
<b>Operating expenses</b>	<b>-79,815</b>	<b>-85,672</b>	<b>7.3%</b>
Costs of Salaries and allowances	-17,484	-14,269	-18.4%
Operator's costs	-10,558	-10,797	2.3%
Costs of material and maintenance	-15,673	-17,421	11.2%
Depreciation costs	-15,919	-27,599	73.4%
Lease costs	-4,668	-693	-85.2%
Other operating expenses	-15,513	-14,893	-4.0%
<b>EBIT</b>	<b>8,935</b>	<b>5,128</b>	<b>-42.6%</b>
EBIT rate	10.1%	5.6%	-
<b>EBITDA</b>	<b>24,854</b>	<b>32,727</b>	<b>31.7%</b>
EBITDA rate	28.0%	36.0%	-
Financial revenues, net	1,972	611	-69.0%
Profit tax, net	-735	-2,262	207.8%
<b>Net profit</b>	<b>10,172</b>	<b>3,477</b>	<b>-65.8%</b>
Net profit rate	11.5%	3.8%	-

Key operating indicators:

- Operating revenues in 2019 amount to 90.8 billion dinars and they increased by 2% compared to 2018. Operating expenses increased by 7% and they amount to 85.7 billion dinars.
- *EBIT* amount to 5.1 billions dinars (43% decline) with 5.6% margin. *EBITDA* amount to 32.7 billion dinars (32% increase) with 36.0% margin.
- Financial revenues, net, amount to 611 million dinars and they are 69% lower compared to 2018.
- Net profit amount to 3.5 billion dinars (66% lower) with 3.8% rate.
- Operating revenues increased by 2.1 billion dinars compared to the last year:
  - Mobile telephony revenues increased by 2.7 billion dinars and they amount to 46 billion dinars.
  - Multimedia revenues increased by 171 million dinars and they reach the amount of 5 billion dinars.
  - The revenues from ICT services increased by 145 million dinars and they amount to 663 million dinars.
  - Fixed telephony revenues decreased by 1.7 billion dinars and they amount to 25.5 billion dinars.
  - The revenues from the Internet retail decreased by 670 million dinars and they amount to 8.9 billion dinars.
  - Within other operating revenues, the largest increase can be attributed to the revenue from share in a consortium which increased by 2.4 billion dinars.

Operating expenses increased by 5.9 billion dinars compared to the last year:

- Depreciation costs increased by 11.7 billion dinars as a consequence of the effects of capitalizing on the right to distribution and production of multimedia content (6.9 billion dinars) and the agreement on the lease in accordance with MSFI 16 Leasing (4 billion dinars).
- The costs of salaries and allowances are reduced by 3.2 billion dinars (severance pays for voluntary leave of employees in 2018).
- The costs of material and maintenance increased by 1.7 billion dinars, largely due to increased costs of the sold phones and devices.
- Within other operating expenses, the largest increase goes to the expenses against the share in the consortium which increased by 2.5 billion dinars, while the costs of sold TV content decreased by 3.7 billion dinars (capitalization effect).

Table 14. Telekom Srbija's Balance Sheet

In million RSD	31/12/2018	31/12/2019	Growth %
<b>NON-CURRENT ASSETS</b>	<b>205,128</b>	<b>285,210</b>	<b>39.0%</b>
Intangible assets	12,287	35,556	189.4%
Real estate, plants and equipment and advances	85,681	94,577	10.4%
Assets with usage right	-	27,724	-
Other	107,160	127,353	18.8%
<b>CURRENT ASSETS</b>	<b>38,466</b>	<b>38,868</b>	<b>1.0%</b>
Inventories	3,115	3,590	15.2%
Receivables and other current assets	15,082	19,872	31.8%
Contractual assets	4,503	6,331	40.6%
Cash and cash equivalents	8,679	2,655	-69.4%
Other	7,087	6,420	-9.4%
<b>TOTAL ASSETS</b>	<b>243,594</b>	<b>324,078</b>	<b>33.0%</b>
<b>CAPITAL</b>	<b>141,682</b>	<b>145,159</b>	<b>2.5%</b>
<b>LONG-TERM LIABILITIES</b>	<b>56,027</b>	<b>114,337</b>	<b>104.1%</b>
Long-term loans	54,052	72,827	34.7%
Leasing-based liabilities	-	23,576	-
Liabilities against the production and distribution of multimedia content	-	15,609	-
Other	1,975	2,325	17.7%
<b>CURRENT LIABILITIES</b>	<b>45,885</b>	<b>64,582</b>	<b>40.7%</b>
Long-term and short-term loans currently due	18,091	25,101	38.7%
Operating liabilities	15,748	14,885	-5.5%
Leasing liabilities	-	4,256	-
Contractual liabilities	204	204	-
Other short-term liabilities and accruals and deferred income	11,842	20,136	70.0%
<b>TOTAL LIABILITIES</b>	<b>243,594</b>	<b>324,078</b>	<b>33.0%</b>

Table 15. Telekom Srbija's Cash Flow

In million RSD	2018	2019	Growth %
<b>Earnings before taxation</b>	<b>10,907</b>	<b>5,739</b>	<b>-47.4%</b>
Profit adjustments	18,050	21,992	21.8%
<b>Net cash in from operating activities</b>	<b>28,957</b>	<b>27,731</b>	<b>-4.2%</b>
<b>Net cash out from investment activities</b>	<b>-51,004</b>	<b>-51,534</b>	<b>1.0%</b>
<b>Net cash in from finance activities</b>	<b>25,648</b>	<b>17,779</b>	<b>-30.7%</b>
Net cash-in/(cash-out) of cash and cash equivalents	3,601	-6,024	-
Cash and cash equivalents at the beginning of the year	5,078	8,679	70.9%
<b>Cash and cash equivalents at the end of the year</b>	<b>8,679</b>	<b>2,655</b>	<b>-69.4%</b>

Dividends from subsidiaries Mtel Banja Luka and Telus amount to 2.2 billion dinars and 55 million dinars, respectively.

Table 16. Telekom Srbija Ratio Analysis

In million RSD	2018	2019	% growth
Total debt	72,143	97,928	35.7%
Net debt	63,464	95,273	50.1%
Net debt/EBITDA	2.55	2.91	-
Total liabilities/EBITDA	4.09	4.61	-
Debt ration	30.9%	39.6%	-
Quick ratio	0.74	0.54	-

# 11

## RISK MANAGEMENT



## 11. RISK MANAGEMENT

### 11.1 Telekom Srbija

Risk management is incorporated in the Company's accounting policies and financial policies, as well as in specific methodologies related to the risks of revenue collection, adopted by the Executive Board and Supervisory Board.

For key business processes, Telekom Srbija implements the procedures in the Methodology of Business Process Management, which define the risk management method (identification, analysis, assessment, monitoring and reporting on risks).

The goal of the Company and Methodology is to set up the Integrated Risk Management System, as a unique framework for risk management, a systematic and uniform risk assessment and optimization.

#### Operational risks

The Company passed the Risk Management Procedure to provide for the loss of revenue, observing the relevant current standards, the world's best practice and legal regulation governing this area. This Procedure addresses the optimization of revenue loss risk in all phases of the service provision process, i.e. the overall cycle of sale and service provision to customer.

Main types of risks are described in the Register of Operational Risks (potential risks in the Company, conducive to the loss of revenue), updated at least once a year. The level of acceptable risk is determined by the Company's internal by-laws. This register includes primary and secondary risks and control points. The primary risks are: the risks related to service management, the risks in the phase of sale and closing contracts with customers, the risks pertaining to the customer database, the risks related to network and switching systems, the risks related to rating and billing, the risks related to collection of receivables, the risks related to finance and accounting, the risks related to regulation and HR. An uncontrolled revenue outflow is thus prevented, by fostering operational efficiency.

Implementation of the SAP solution and continuous upgrade of new modules enables the Company to automate the processes and establish better control over operational risks.

By virtue of the Code of Corporate Conduct, the Company has defined the combat against corruption and other illegal activities, and through the activities of enhancing corporate culture, implementing business models, it successfully handles the reputational risk.

By and inclusive of 2019, the Company has regulated risk management in the area of IT security, according to the requirements of the current versions of ISO standards:

- ISO 9001:2015. and ISO 27001:2013, Design, development, implementation, maintenance and provision of IT/ICT services to external and internal customers from the locations of the Division for IT Support and ICT Services;
- ISO/IEC 20000-1:2011, Service Management System that supports the provision of IT/ICT services for external and internal customers in line with the catalogue of Telekom Srbija's services, from the locations of the Division for IT Support and ICT Services;
- ISO 22301:2012, Maintenance and provision of IT/ICT services to external and internal customers from the location of the IT Division and Technical Division;
- ISO 45001:2018, the Company was awarded the certificated for the Safety and Health at Work Management System, and safe working environment; and
- ISO 14001, the Company as the member of the UN Global Compact, applies the principles of environment protection and waste management.

## **Financial risks**

The Company actively manages financial risks for the purpose of minimizing potential negative impacts on financial positions and Company's operation in the conditions of unpredictability of financial markets. Market risk management, liquidity risk, credit risk and capital risk is defined by the Company's accounting and financial policies.

### **Market risks**

**Volatile foreign currency risk.** Risk management policy established the risk management policy from the foreign currency exchange risk (primarily EUR). It does not include derivatives, which is why hedging accounting does not apply.

**The risk of volatile market interest rates.** The Company is exposed to risks that affect its financial position, business results and cash flows through the effects of volatile market interest rates. The risk of volatile interest rates usually stems from long-term loans from banks and suppliers which entail a variable interest rate, pegged to Euribor and increased by a margin. An analysis of risk exposure to volatile interest rates is therefore conducted on a dynamical basis, taking into consideration alternative financing and refinancing sources, primarily for long-term commitments given that they represent the major interest-bearing position.

**The risk of volatile service fees.** The primary driver of risk exposure to volatile service fees is the competition. Besides, RATEL has imposed, inter alia, the obligation to control the prices for regulated markets where the Company has been declared an operator with significant market power (SMP). The company is facing a fierce competition in mobile telephony, internet and multimedia, and the emergence of fixed telephony operators. The company is trying to reduce the exposure to this type of risk by rolling out versatile services, combining the service bundles, and modernizing the network and enhancing the quality of the services rendered.

### **Liquidity risk**

For the purpose of managing liquidity risk, financing policies have been adopted, defining the terms of payment, maximum amount of advance payment to equipment suppliers and work contractors, grace period and the length of repayment of a part of the purchase repaid through loan, subject to the value and type of the contracted commitment. The expected cash-ins are tracked from the collection of trade receivables and together with the expected cash-outs based on the payment of liabilities towards suppliers and other liabilities.

### **Credit risk**

The credit risk the Company was exposed to refers to trade receivables, deposits in banks and financial institutions, loans granted to employees and cash and cash equivalents. The exposure to the credit risk relative to trade receivables is primarily established through individual features of each customer. There is no significant risk concentration given that there is a wide range of unrelated customers with individually small liabilities. The credit risk is managed by taking relevant measures and activities, such as the client risk assessment, monitoring the client's business and its financial standing, as well as managing receivables and bad debts. In case of a default, the Company suspends further provision of services to such clients, and other measures are taken as well: rescheduling debts, instigating court proceedings, out-of-court settlement and the like.

### **The risk of capital**

The purpose of the capital management is to retain the capacity to continue operations for an unlimited period of time in foreseeable future, in order to preserve an optimal capital structure aimed at reducing the capital expenses, and to secure dividends to shareholders. For the purpose of maintaining the optimal capital structure, the Company may consider the following options: adjustment of payment of dividends to shareholders, pay-back of capital to shareholders, issuance of new shares or the sale of funds to reduce debts.



## 11.2 Subsidiaries

### Mtel Banja Luka

The importance of introducing the Information Security Management System – ISMS – does not only imply compliance of business with legal and market requirements, but more importantly – improving the relationship with customers and building trust of mtel customers. The system ensures that customer information are adequately protected in all processing phases, as there is clearly defined assignment of tasks and responsibilities for information security on all levels of organization and among the employees themselves. The awarded certificate confirms that Mtel Banja Luka has reduced the information security risks to minimum. All users of Mtel services can rest assured that their shared information are treated according to internationally recognized practice.

In late 2017, the Company has set up an integrated management system (IMS), which unifies requirements of two internationally recognized standards ISO 9001:2015 and ISO/IEC 27001:2013, for all business processes in the Company. The Company's strategy outlines fundamental principles of the company's management regarding the integrated management system.

The IMS Rules of Procedure defines the Policy of integrated management system, which represents a framework for establishing and reviewing the IMS goals, including the goals pertaining to quality and security of information, whereunder the organization undertakes to periodically appraise the efficiency of IMS, towards securing effectiveness of business processes and constant improvements.

In 2019, internal audit of all organizational units was performed, for all business processes, and at the end of every year an external audit in the Company is successfully performed according to both implemented standards.

The IMS policy sets forth, inter alia, the following principles:

- Compliance with the law, regulatory and other regulations, for the purpose of maintaining an equitable and efficient market competition;
- Development of the long-term and correct relationships with partners and suppliers;
- Protection of the business secret of the Company, its business partners and customers and their privacy as well;
- Permanent care about the integrity, availability and confidentiality of information;
- Protection of information, and other assets, in a manner proportionate to the risk posed, through an efficient application of the measures of protection and procedures in keeping with financial justifiability and the Company's technological strategy.

### Logosoft

Two internationally recognized certificates have been retained – international standards ISO/IEC 27001: 2013 for the information security management system and ISO/IEC 20000-1: 2011 for the IT service management system.

During 2019, Logosoft intensively worked on preparation for the introduction of yet another ISO certificate - ISO 9001: 2015 for the quality management system, which served to establish its position of the regional leader in the area of information security and service management.

## Mtel Podgorica

In its regular operations and to various extent, the Company has been exposed to certain financial risks. Risk management in the Company is focused on minimizing potential adverse effects on the Company's financial position and operations in the circumstances of unpredictable financial markets. Risk management is defined in the Company's accounting policies, financial policies and the Articles of Association, adopted by the Board of Directors. In 2019, there were no changes in the risk management policies.

### Market risks

**The risk of volatile foreign currency exchange rates.** The Company has not been significantly exposed to the FX exchange rate risk in its operations in its local and international operations, as the largest portion of business transactions is made in EUR.

**The risk of volatile interest rates.** The Company is exposed to various risks that impact its financial position and cash flows through the effects of fluctuating interest rates on the market. Given that the Company does not have significant interest-bearing assets, the Company's revenues are largely independent of the fluctuating interest rates. In 2019, the largest portion of credit liabilities had a variable interest rate, pegged to EURIBOR. The Company performs the risk exposure analysis as regards the fluctuating interest rates on a dynamic basis, taking into account alternative financing and refinancing sources, primarily that associated with long-term liabilities, as they represent the major interest-bearing position.

**The risk of volatile prices.** The Company is not exposed to the risk of volatile prices of proprietary securities given that the Company has no investments classified as available for sale. On the other hand, the Company is exposed to the risk of volatile service fees, as it is faced with intensive competition in this industry in all services, which it tries to compensate for by introducing versatile services.

### Liquidity risk

For the purpose of managing liquidity risk, the Company's management maintains the adequate amount of cash reserves, non-utilised and reserve credit lines, by constant control of projections and current cash flows and establishing the scale of maturity of financial assets and liabilities. Likewise, the business policy created a dispersion on the decision-making levels in the process of procuring the goods/services.

### Credit risk

The Company is exposed to credit risk to limited extent. Security from credit risk is established by taking specific measures and activities on the Company level. The Company does not have significant concentration of credit risk due to the base of different unrelated customers, save for total exposure. The Company uses the reminder system that leads to termination of own services as the main instrument for collecting the outstanding payables. Besides disabling further service use, the following collection mechanisms are used: debt rescheduling, compensation with legal entities, sued debts, out-of-court settlements, etc.

### Capital risk management

The Company opted for financial concept of capital and its retention whereunder the capital is defined based on nominal cash units. The Board of Directors manages capital risk by acting in individual cases in order to mitigate the risk and ensure the conditions for the Company to continue the envisaged business concept, and also to have maximum payment of remunerations to its founders by optimizing debts and balances of assets. The Board of Directors considers the value of capital and risks related to each class of capital. On these grounds, the Company reconciles the total structure of capital through new investments, assumption of new liabilities or repayment of the existing ones. The entire Company structure related to capital management

remains unchanged compared to the previous year. The Company keeps track of the capital based on debt ratio.

## **mts banka**

The Executive Board of mts banka ("Bank") is competent and responsible for the implementation of the Risk Management Strategy, Risk Management Policy and Capital Management Strategy and Plan, and for adopting the procedures and methodologies on governing the processes for managing specific types of risks, or for identification, measurement, monitoring and control of risks.

The measurement procedures, or risk assessment procedures, contain quantitative and/or qualitative methods whereunder changes in risky profile and emergence of new risks can be timely notices. The risk management procedures include a description of risk measurement procedures, as well as a description of procedures for monitoring and control of risks.

The Asset and Liabilities Committee (ALCO committee) monitors the Bank's exposure to the risks arising from the structure of its balance sheet liabilities and receivables and off-balance items and it proposed measures regarding the FX risk management, liquidity risk and interest rate risk, and it performs other tasks defined in the Bank's by-laws.

The Business Compliance Centre is obliged to identify and assess, at least once a year, the main compliance risks and to propose plans for managing such risks whereof it compiles a report submitted to the Executive Board and the Business Monitoring Committee. The Centre is responsible for identification and monitoring the compliance risk regarding the Bank's operations and for managing such risk, which includes in particular the risk of sanctions imposed by the regulatory body and financial losses, as well as reputational risk.

**Credit risk.** For the purpose of mitigating the credit risk, the Bank negotiates security instruments, in line with the procedures governing the approval of exposure and establishing security instruments, for the collection of its claims (special-purpose deposits, mortgages on housing and business real estates, pledge over movables, warranties of legal persons and individuals and credit insurance).

**Liquidity risk.** The Asset and Liabilities Committee manages the Bank's liquidity on a daily basis. The liquidity management procedure sets forth internal indicators regarding the measurement of liquidity coverage ratios. In accordance with the Decision on liquidity risk management, the Bank is obliged to maintain the liquidity coverage ratios, on an aggregate basis in all currencies, at the level not lower than 100%.

**Foreign currency risk.** In accordance with the Decision on the bank's capital adequacy, the Bank is obliged to maintain the foreign currency ratio so that it does not exceed 20% at the end of any day. The Bank's strategic documents define the zones and levels of exposure to foreign currency risk. The Bank defines the tendency to FX exposure, up to 15% regulatory capital of the Bank, i.e. on the level it considers as the zone of low or acceptable FX risk exposure.

**Operational risks.** In identifying exposure to operational risks, the Bank incorporates the following: exposure to legal risk, reputational risk, the risk arising from the introduction of new products and services, the risk arising from the activities assigned by the Bank to third parties, the risk of information systems. The Bank has established the highest acceptable level of losses based on harmful events the source of which is operational risk (including all types of risks observed within the operational risk) in the amount of 1% of the Bank's capital.

## Telus

For the sake of risk management, Telus holds the following certificates:

- The certificate on the established and applied standard SRPS ISO 9001 – Quality Management System (as of 2008);
- OHSAS 18001 standard – the system of managing health and safety and work (as of 2012);
- ISO 14001 quality standard – the system of managing environmental protection (as of 2013); and
- SRPS A.L2.002 standard (as of 2017).