



Annual Report
for 2009

 **Telekom Srbija Group**

Table of Contents

I INCORPORATION AND ACTIVITY	- 10
TELEKOM SRBIJA A.D., BELGRADE	- 12
TELEKOM SRPSKE A.D., BANJA LUKA	- 14
MTEL D.O.O., PODGORICA	- 14
TELUS A.D., BEOGRAD	- 15
FIBERNET D.O.O., PODGORICA	- 15
II MANAGEMENT AND ORGANIZATIONAL STRUCTURE	- 16
III BUSINESS ENVIRONMENT	- 20
REPUBLIC OF SERBIA	- 22
Macroeconomic environment	- 22
Telecommunications market and regulatory framework	- 22
BOSNIA AND HERZEGOVINA AND REPUBLIKA SRPSKA	- 24
Macroeconomic environment	- 24
Telecommunications market and regulatory frame	- 24
MONTENEGRO	- 26
Macroeconomic environment	- 26
Telecommunications market and regulatory frame	- 26
IV HUMAN RESOURCES	- 28
TELEKOM SRBIJA GROUP	- 30
TELEKOM SRBIJA	- 31
TELEKOM SRPSKE	- 32
MTEL	- 33
TELUS	- 33
V SERVICES	- 34
TELEKOM SRBIJA	- 36
NEW SERVICES – TELEKOM SRPSKE	- 40
NEW SERVICES – MTEL	- 41
VI FINANCIAL AND OPERATING RESULTS	- 42
TELEKOM SRBIJA GROUP	- 44
Financial overview	- 44
Investments	- 48
Customers	- 49
TELEKOM SRBIJA	- 52
Financial overview	- 52
Investments	- 54
Customers	- 56
TELEKOM SRPSKE	- 58
Financial overview	- 58
Investments	- 60
Customers	- 62
MTEL	- 64
Financial overview	- 64
Investments	- 66
Customers	- 67
TELUS	- 68
Financial overview	- 68
FIBERNET	- 69
Financial overview	- 69
Investments	- 69
VII REPORT ON CORPORATE SOCIAL RESPONSIBILITY	- 70
Introduction	- 72
Vision and values	- 72
Reporting on corporate social responsibility – internal	- 73
Reporting on corporate social responsibility – external	- 79
Corporate Social Responsibility in daughter companies of Telekom Srbija	- 84



The Director General's introductory speech

Dear Stakeholders,

In 2009, we remained committed to the fulfillment of our vision and the achievement of the strategic goals defined by the Strategic Plan 2008-2012.

RECORD BUSINESS RESULT

Also, under very difficult circumstances, we managed to secure a faster growth in our revenues as opposed to our costs, return a large part of the loan and significantly reduce the overall indebtedness, improve communication on the group level and establish quality control over the subsidiaries, continue socially responsible operations, keep our customers content, strengthen our positions on competitive markets and generate the highest net profit since the company's founding, which we are especially proud of.

CRISIS, ECONOMIC AND REGULATORY CHALLENGES

On the other hand, 2009 was full of challenges. The global crisis did not by-pass the economies of the countries where we operate, Serbia, Bosnia and Herzegovina and Montenegro. We faced a general decline in the consumption and a more difficult collection of receivables.

Apart from this, business operations in Serbia are still burdened by large foreign exchange rate differences and an additional "crisis tax" on mobile telephony services, along with an uncertain and insufficiently predictable regulatory framework. During the year, new competitors started to emerge on the fixed services market and the segment of infrastructure building was deregulated.

Due to the crisis measures in the Serbian public sector that also largely refer to our company, it was not possible to greatly encourage the employees, so that

some of our key personnel left the company. Preventing the churn of knowledge and retaining our key personnel is one of the company's goals in 2010.

Probably the most important change that we have to deal with is saturation in mobile telephony traffic (voice and sms), i.e. a certain change in the needs of our customers.

ADJUSTING THE STRATEGY TO NEW CIRCUMSTANCES AND SECURING FURTHER GROWTH

Bearing all this in mind, the management is considering the space and possibilities for adjusting our strategy to the new circumstances on the electronic communications market and the economic situation in general in order to propose to the Managing Board concrete measures that will ensure further sustainable growth of the company.

I am convinced that by good and timely forecasts, i.e. a careful harmonization of strategic and operative management and an additional improvement of organizational and managerial performances, we will be able to find adequate answers to all the forthcoming challenges that will bring us a new and long period of successful operations, to the satisfaction of our shareholders and other stakeholders – our employees, customers, creditors and suppliers.

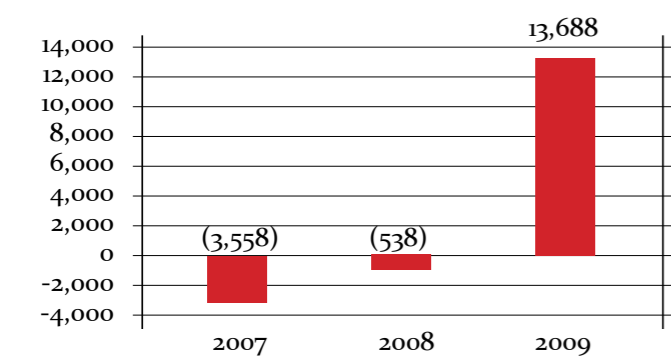
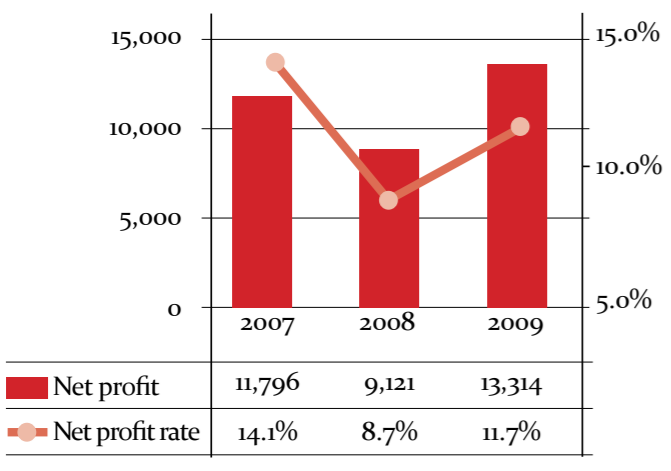
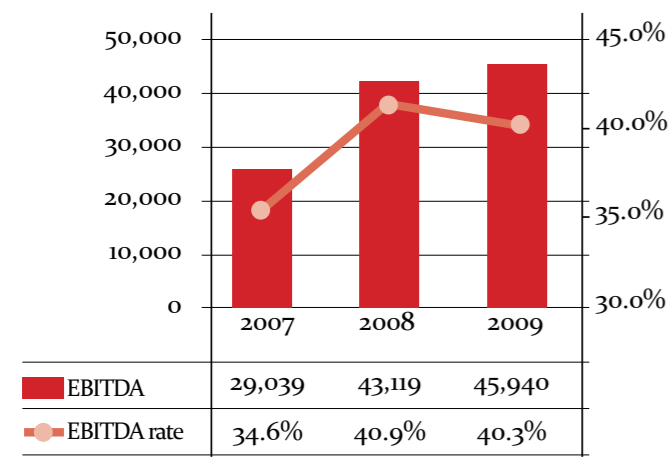
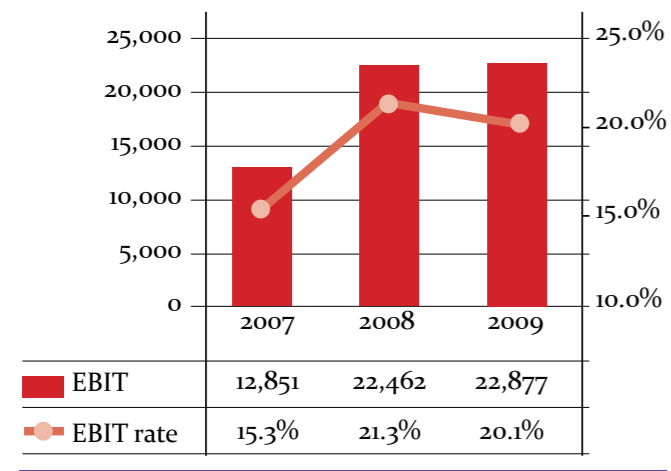
GRATITUDE

Finally, I would like to thank my colleagues for their deep commitment and loyalty to the company, our employees for their good work and our shareholders for the trust they have placed in us.



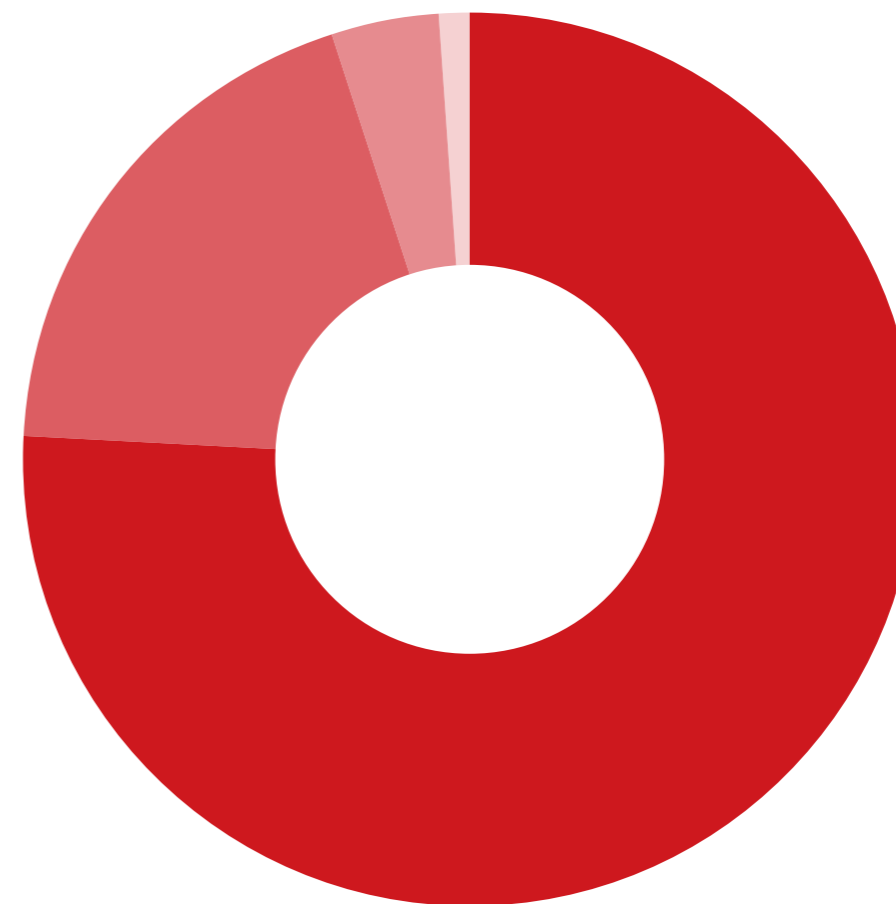
Branko Radujko
Director General of Telekom Srbija

Share of individual Group members in Group's overall revenue



Key financial indicators of the Group

Free cash flow of the Group



- 76% Telekom Srbija
- 19% Telekom Srpske
- 4% Mtel
- 1% Telus

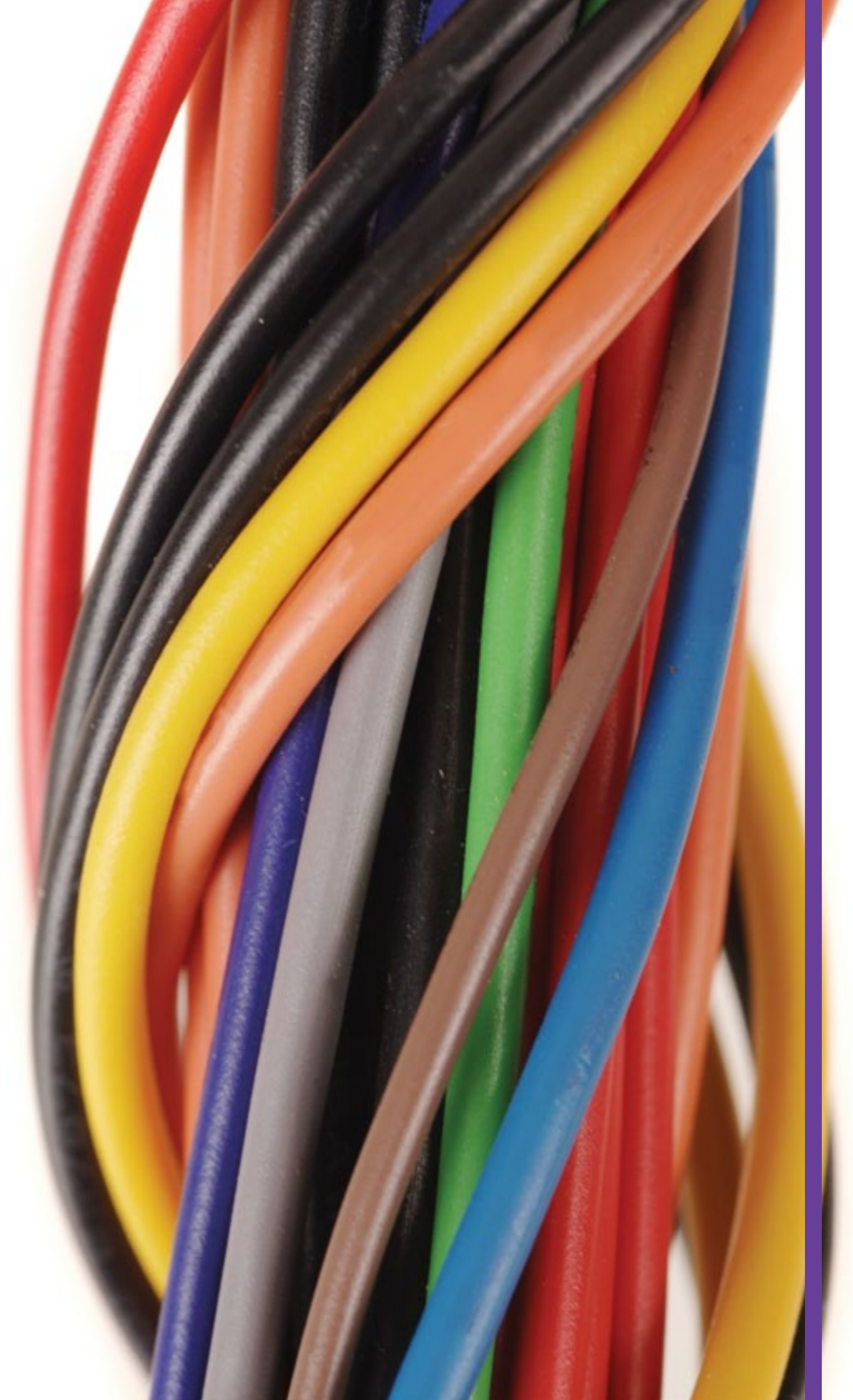
Mission

“New services that we introduce, technologies that we apply, each change of the Company and its continuous adjustment are oriented towards our customers, their needs for communication and entertainment. With our employees as a driving force. To the satisfaction of our shareholders.”

Vision

“We wish to enrich and improve people’s lives, offering them global connectivity and excellent communications, as a regional leader in the future information society.”

Incorporation and Activity



TELEKOM SRBIJA A.D. BELGRADE

Telecommunications Company “Telekom Srbija” a.d. (hereafter: Company or Parent Company) seated in Belgrade, Takovska no. 2, was founded by Public Enterprise of PTT Traffic “Srbija” (hereafter: PE PTT) as a single-member joint-stock company in the process of restructuring the PTT system of Serbia at the end of May 1997. PE PTT transferred certain exclusive and non-exclusive rights for the conduct of the activity to the Company during the initial period of 20 years, with a possibility of extension for an additional period of 10 years. Given the transfer and assignment, the Company issued a certificate which represents 1,080,000 fully paid and registered ordinary voting shares with a nominal value of 10 thousand dinars each and the Golden Share to the government of the Republic of Serbia. The Golden Share vests the owner with the voting right and the right to attend sessions of the General Meeting, granting consent to the proposal for the appointment of Managing Board members and a proposal for the appointment of director general of the Company, amendments to the Articles of Association and such other rights as are laid down by the Company’s Articles of Association. This share may be owned only by the government of the Republic of Serbia which is represented by its authorized representative.

Within the privatization of part of the capital in June 1997, 49% of the shares were sold to the Dutch affiliate of Telekom Italia (29% of the shares) and Greece’s OTE (20% of the shares).

In February 2003, an agreement was concluded based on which PE PTT purchased part of the shares owned by Telekom Italia (its Dutch affiliate). As of mid-2003 when the said agreement was concluded, the Company has been owned by the following two shareholders:

PE PTT Traffic “Srbija”	80%
OTE, Greece	20%

PE PTT Traffic “Srbija” is a public company the main activity of which is the receipt, transfer and delivery of postal items. Besides, it also conducts payment operations, provides marketing and logistics services, and cable TV and Internet services. It is also registered for the conduct of other services. For mobile operators, it sells cards and electronic top-ups for mobile handsets.

It was founded in 1990 through association of the then SOUR PTT Traffic “Srbija” and RO PTT Traffic “Vojvodina”. In 1997, the Company span off from it. PE PTT is one of the founders and owners of the shares of Poštanska štedionica a.d.

At present, PE PTT, as the oldest public operator on the postal and telecommunications market in Serbia is a successful system which, integrated into the world postal trends, is contributing to the overall development of the country.

OTE is Greece’s telecommunications company (Hellenic Telecommunication Organization). It was founded in 1949 as a state-run company and currently, it is a joint stock company whose shares are listed on the Greek, New York and London stock exchange. As of 1 January 2001, it has been stripped of the monopoly in the telecommunications industry in Greece.

OTE, together with its subsidiaries, forms part of the leading telecommunications group in South-Eastern Europe with a potential basis of 60 million customers.

The core activity of OTE Group is the provision of fixed and mobile telephony services, Internet services, satellite communications services, data transfer and lease of lines services.

The core activity of the Company is the provision of telecommunications services, the most important of which are as follows:

- Fixed telecommunications services in this country and abroad;
- Internet services;
- Mobile telephony services;
- Multimedia services.

Besides the above services, the Company’s activities also include the maintenance and repair of telecommunications facilities and network, spatial and urban planning, design and construction of telecommunications facilities, etc. The Company also provides services in the sphere of lease, management and protection of telecommunications infrastructure. Besides, the Company also enjoys the right of issuing telephone directories including White and Yellow Pages, and operator-assisted call services and the services of using the electronic directory in the field of fixed telephone services. In the course of 1998, the Company introduced a GSM mobile network.

On 28 July 2006, the Company received a Licence for the public mobile telecommunications network and public mobile telecommunications network services in accordance with the GSM/GSM1800 and UMTS/IMT-2000 standards, issued by the Republic Telecommunications Agency (“RATEL”).

On 13 April 2007, the Company received a Licence for the construction, possession and operation of a public fixed telecommunications network and the provision of public fixed telecommunications network services, issued by RATEL.

On 16 June 2009, the Company obtained a Licence for fixed wireless access for the public telecommunications network and services (CDMA). The Licence was issued for a period

of 10 years and it was to launch the provision of commercial services within six months from the date of entry into force of the Licence.

Telekom Srbija Group includes the Parent Company Telekom Srbija a.d., Belgrade and its subsidiaries: Telekom Srpske a.d., Banja Luka, Mtel d.o.o., Podgorica, Telus a.d., Beograd and FiberNet d.o.o., Podgorica.

The Company’s participation in the capital of its subsidiaries:

Telekom Srpske a.d., Banja Luka	65%
Mtel d.o.o., Podgorica	51%
Telus a.d., Belgrade	100%
FiberNet d.o.o., Podgorica	100%

On 4 February 2010, the TS:NET BV subsidiary was founded with its seat in Amsterdam, the Kingdom of the Netherlands. The capital stock amounts to EUR 1,2 million and includes the contribution in cash in the amount of EUR 61 thousand and the contribution in kind in the amount of EUR 1,2 million, with the Company being the sole shareholder. The core activity of TS:NET BV is the lease of telecommunications equipment and the conduct of other accompanying activities for the purpose of creating the conditions for the construction and operation of the Company’s international transport network.

We strive for full convergence of the system and networks by enriching portfolio of products and services through achieving a technological “All-IP Next Generation Network” and a procedural – controlling vision of “NG OSS/BSS”

TELEKOM SRPSKE A.D. BANJA LUKA

Joint Stock Company Telekomunikacije Republike Srpske, i.e. Telekom Srpske a.d. with the seat in Banja Luka, Kralja Petra I Karađorđevića 93, has been a legal successor of "JODP for Telecommunications of RS" since November 2002. Namely, pursuant to the Law on Privatization of the Republic of Srpska and Decision passed by the Government of the Republic of Srpska, 20% of the state-owned capital of the subsidiary was privatized in 2002. Under the Decision rendered by the Basic Court in Banja Luka of 12 December 2002, the new name "Telekomunikacije RS" a.d., Banja Luka was entered into the register as well as the status change due to the sale of a part of the state-owned capital. On June 18, 2007, upon acquisition of 65% of the state-owned capital, Telekom Srbija a.d. officially became the majority owner of the subsidiary.

Telekom Srpske has a full ownership over two subsidiaries TT Inženjering d.o.o., Banja Luka and M:TEL, Multimedijalne komunikacije d.o.o, Zagreb. On February 1, 2010, the subsidiary company signed the Agreement on the purchase of a 49% share in Mtel d.o.o. Podgorica and paid the full contracted price to that purpose during February.

The ownership structure of the subsidiary is as follows:

Telekom Srbija a.d.	65%
The Pension and Disability Insurance Fund of Republika Srpska	10%
ZIF Zepter Fund, Banja Luka	5%
Restitution Fund of Republika Srpska	5%
Other shareholders	15%

The shares of the subsidiary that are owned by other shareholders are listed in Banja Luka Stock Exchange in Republika Srpska.

The core activity is the provision of telecommunications services in the field of fixed and mobile telephony in the national and international traffic. The subsidiary is also registered for the provision of other telecommunications services, including other fixed telephone services, data services, lease of lines, value added services, Internet services and multimedia services. The subsidiary also provides the services in the sphere of lease, design, construction, reconstruction, installation, management and protection of telecommunications infrastructure. During 2000, the subsidiary introduced the GSM mobile telephony network.

On October 12, 2004, the Regulatory Agency for Communications of Bosnia and Herzegovina ("CRA") issued a GSM licence to the subsidiary for the period of 15 years as of the date of issuance. In March 2009, the subsidiary was also issued with a licence for Universal Mobile Telecommunications Systems (UMTS licence) for the period of 15 years.

MTEL D.O.O. PODGORICA

In a consortium with Ogalar B.V., Amsterdam, the Parent Company was issued in 2007 with a special licence for construction, possession and operation of the public mobile telecommunications network and provision of public mobile telecommunications services, as well as the licence for the provision of public telecommunications services via fixed wireless access (WiMax) in Montenegro. For that purpose, on April 4, 2007, a new legal entity Mtel was incorporated in which the Company was a majority founder with a 51% capital. The subsidiary was registered on April 4, 2007 in the Central Register of the Commercial Court in Podgorica, in accordance with the Law on Business Companies of the Republic of Montenegro.

On December 22, 2009, the Managing Board of the Company approved the increase in the

Company's founder's stake in the amount of EUR 20,4 million.

On February 1, 2010, the Agreement on the Sale of Minority Stake in the subsidiary was signed between Ogalar B.V. and Telekom Srpske a.d., Banja Luka. The Central Register of the Commercial Court in Podgorica submitted, on 16 February 2010, the Certificate on the change of the founder to evidence the registration of the ownership transformation of Mtel d.o.o., Podgorica.

Closing with March 15, 2010, the Company and subsidiary Telekom Srpske paid the amount of EUR 20,4 and 19,6 million, respectively, to increase the capital stock of subsidiary Mtel.

The ownership structure of the subsidiary is as follows:

Telekom Srbija a.d.	51%
Telekom Srpske a.d.	49%

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

TELUS A.D. BELGRADE

Business Company for the Maintenance and Security of Facilities, Property and Other Services Telus a.d., Belgrade was established under the Decision (No. 25837/8 and 25837/9) on the separation of activities related to cleaning, regular maintenance of business premises and physical security, which the Managing Board of the Company passed on March 31, 2005. Under the Decision rendered by the Business Registers Agency of the Republic of Serbia, the subsidiary was entered into the Register of Business Entities on April 19, 2005. Subsidiary Telus was incorporated as a closed joint stock company and the Company was the sole founder. After the incorporation, the subsidiary hired 840 employees of the Parent Company and, later in 2006, another 767 employees of PE PTT.

The Contract on Business and Technical Cooperation with the Parent Company was concluded on May 1, 2005 with a 5-year validity term. The Contract stipulated the use of services provided by the subsidiary in line with its registered activity. Besides, the subsidiary also concluded the Contract on the Business and Technical Cooperation with PE PTT on January 1, 2006 with a 5-year term.

The core activity of the subsidiary is the provision of services related to maintenance and security of facilities and property.

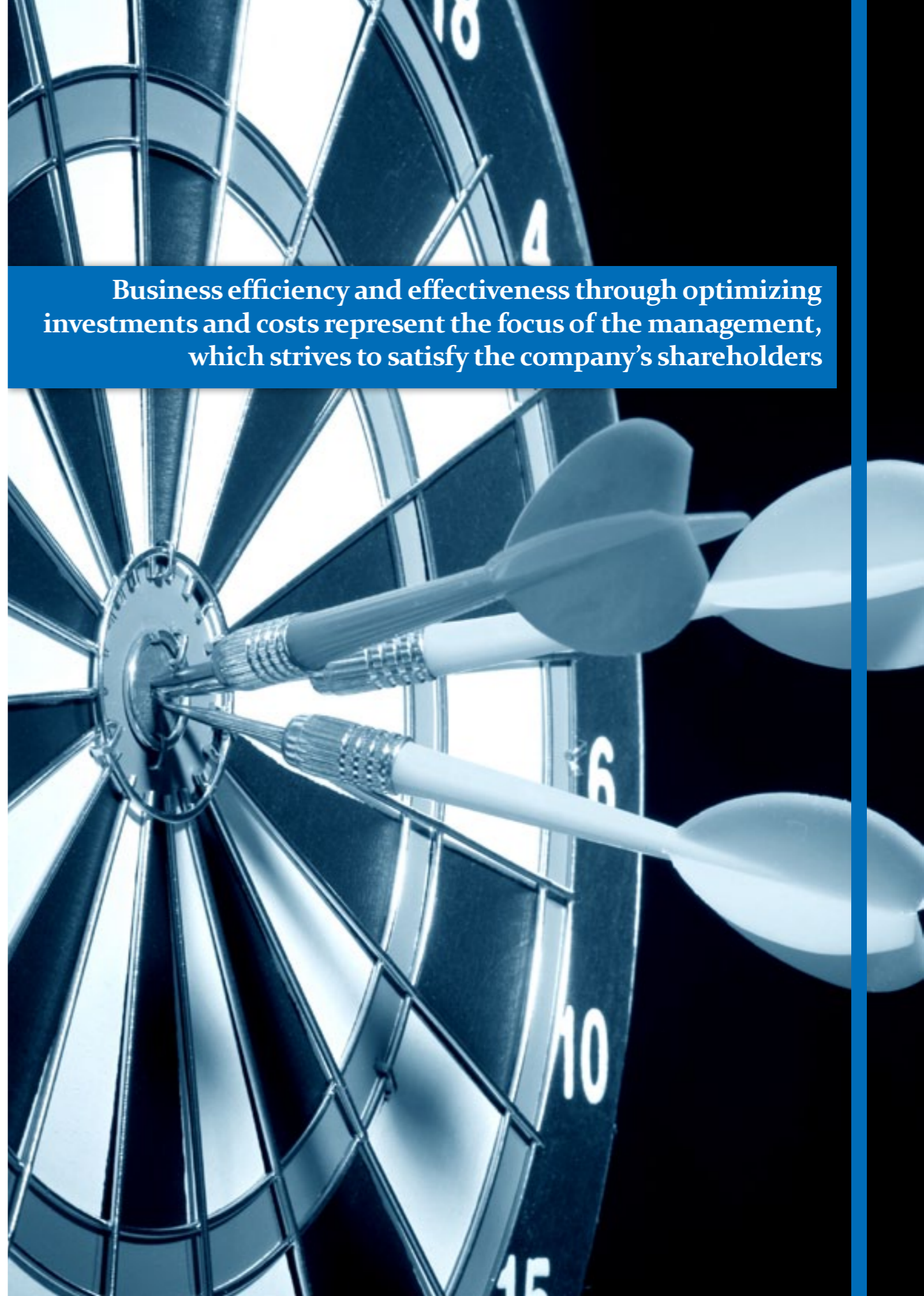
FIBERNET D.O.O. PODGORICA

On July 8, 2008, the Company concluded a Joint Venture Agreement with Montenegro Railways for laying, operation and maintenance of the optical and power supply cable along the Bar-Vrbnica railway. Pursuant to that agreement, on December 3, 2008, the Managing Board of the Company passed the Decision on the incorporation of subsidiary FiberNet d.o.o. Podgorica. The subsidiary was registered on December 17, 2008 in the Central Register of the Commercial Court in Podgorica, in accordance with the Law on Business Companies of the Republic of Montenegro.

FiberNet was founded as a limited liability company and the Company is the sole founder and owner. According to the contractual provisions, 50% of the ownership over the newly constructed optical and power supply capacities is to be transferred to Montenegro Railways with the obligation envisaging a two-year exclusive operation without the right of commercialization, while 50% remain the ownership of the Company, which undertook to provide regular maintenance of the entire investment. The core activity of the subsidiary is the construction, possession, operation and maintenance of the transport and telecommunications network, and provision of telecommunications services.

Management and Organizational Structure II

Business efficiency and effectiveness through optimizing investments and costs represent the focus of the management, which strives to satisfy the company's shareholders



The Company is a single business system structured according to functional and territorial and market principle, achieving its business goals through the following business functions:

1. **Core function** – functions of commercial and technical affairs which model and accomplish the Company's vision and mission and establish the core activity wherein the Company is recognized on the services market within the environment of competition and customers, and they are organized under the following names:

- Commercial Affairs Division – organized in the form of functions: marketing and sales, service management, customer care and wholesale and multimedia;
- Technical Affairs Division – organized in the form of functions: planning and development, technical preparation (engineering), network operation and maintenance, capital construction and information technologies;

2. **Economic function** – which ensures financing sources and arranges the Company's financial structure, manages funds, budget and control and accounting activities;

3. **Corporate and logistics functions** – human resources function, legal affairs and logistics, which ensure the efficiency of the Company's input and output system components, as well as internal components of the system's operations;

4. **Support functions** – strategy functions, internal audit, PR and Yellow and White pages, which create the Company's mission and vision and contribute to their achievement by an optimal planning of development and business activities, and which create guidelines for conforming of the Company's in-house

values to the challenges introduced by market and environment.

Management bodies are envisaged by the Company's Articles of Association. Pursuant to the Law on Business Companies, the Company has:

- General Meeting;
- Managing Board;
- Executive Board of Directors;
- Director General.

The composition of the Company's bodies, their designation, scope of responsibilities, method of work and decision-making are provided for in the Articles of Association.

The Company's Managing Board consists of 9 (nine) members – the Chairman of the Managing Board and 8 (eight) members, of whom 2 (two) representatives of the minority shareholder – Greek company OTE, and 6 (six) representatives of the founder. The representatives of employees make up one third of the Managing Board.

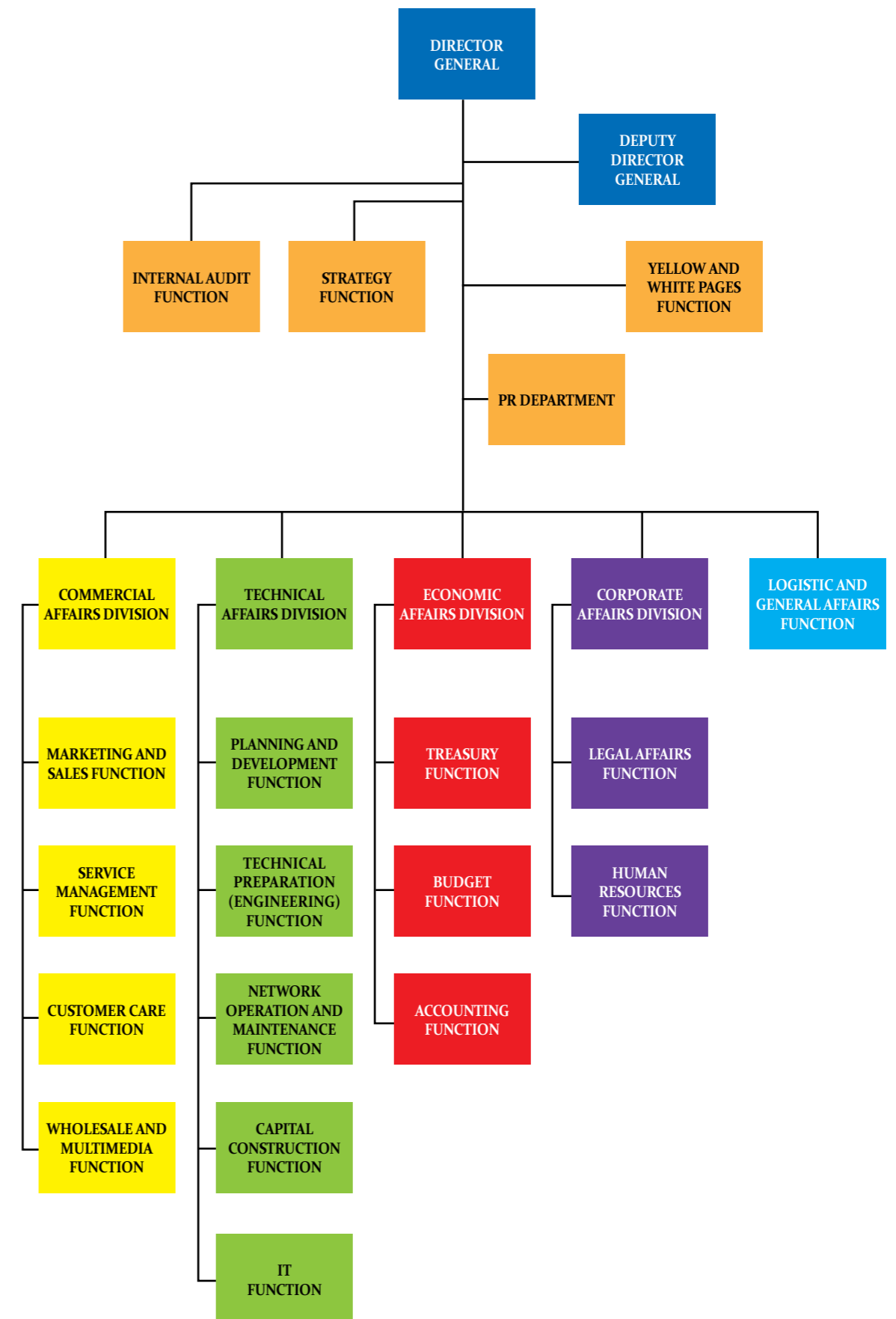
The Executive Board of Directors is set up in the Company as an ancillary and executive body of the Director General.

The Company's management is organized in two levels, as follows:

- Strategic level, comprised of the Director General and Deputy Director General;
- Tactical management comprised of chief officers of divisions, directors of functions and managers of departments.

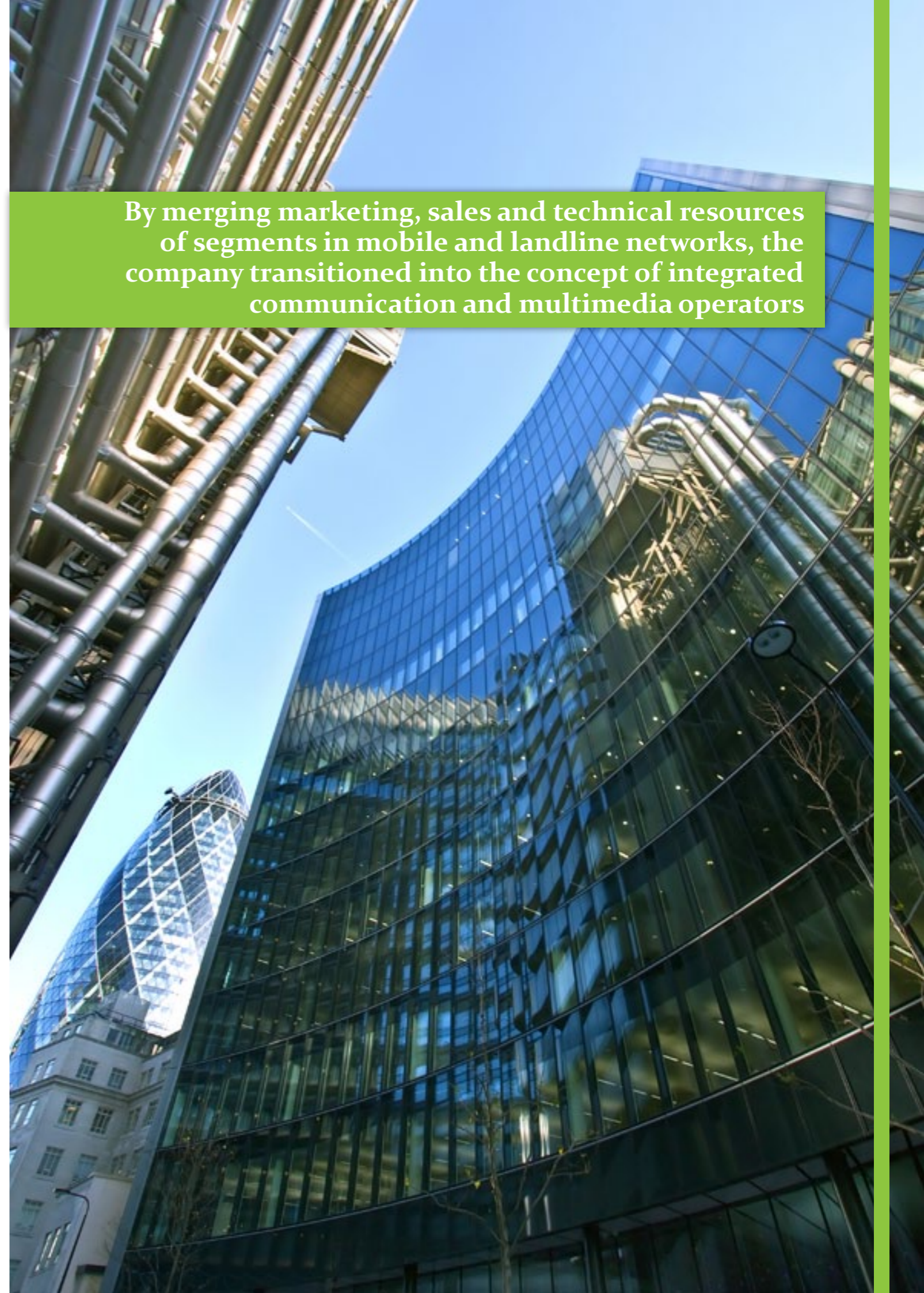
Out of total number of employees, 96 hold executive positions.

The organizational scheme of the Company is presented on the following chart:



Business Environment III

By merging marketing, sales and technical resources of segments in mobile and landline networks, the company transitioned into the concept of integrated communication and multimedia operators



Macroeconomic environment

Total economic activities in Serbia in 2009, measured by gross domestic product (GDP) and expressed in fixed prices in 2002, fell by 2.9% compared to previous year.

In the sector of traffic, warehousing and communications, the sphere of telecommunications experienced a considerable growth that of 28.5% as compared to the previous year.

According to the estimates of the Republic Bureau for Statistics, the overall population in Serbia was 7,334,935 as at 1 January 2009.

Total number of employees in Serbia in 2009 was 5.1% lower compared to previous year. Salaries recorded a nominal growth in 2009, so that they were 8.5% higher compared to 2008. In real values salaries decreased by 0.1%. The unemployment rate in 2009 was 16.1%.

In 2009, the volume of foreign economic exchange in Serbia, regarding both exports and imports, was lower compared to previous year. However, since the import was more significantly reduced than export, the foreign trade deficit in 2009 decreased by EUR 3 million versus 2008 and amounted to EUR 5 million.

The year 2008 was marked by an actual growth in GDP of 5.5% and a single figure inflation of 6.8% on the annual level. However, the global economic crisis which emerged in late 2008, started to reflect on economic trends in Serbia. Measured by the standard methodology of the Republic Bureau for Statistics, that monitors trends in retail prices, inflation in Serbia equaled 10.1% in 2009.

Telecommunications market and regulatory framework

New Telecommunications Law of the Republic of Serbia was endorsed in 2003. The Republic Telecommunications Agency (RATEL) was established in 2005, which was prerequisite for the implementation of regulation in the sphere of telecommunications as provided for in the said Law.

RATEL performs the following activities:

- More closely defines the performance of activity and performs control in the sphere of telecommunications;
- Encourages interconnection of telecommunications networks, i.e. operators on a non-discriminatory basis;
- Resolves disputes between telecom operators with regard to interconnection, particularly the terms pertaining to the network access and/or the lease of lines;
- Issues licences and permits to telecom operators and allocates radio-frequencies in keeping with the law;
- Regulates tariffs when a public telecommunications operator has a significant market power, thus creating conditions for lifting of monopoly in this field, i.e. for liberalization and creation of a competitive market of telecommunications services;
- Resolves disputes between the users and a telecommunications operator as well as between telecommunications operators themselves;
- Compiles and maintains a database of significance in the sphere of telecommunications and makes regularly announcements in the field of telecommunications;

- Monitors the development in the field of telecommunications, collects information from telecom operators and provides information to customers, operators and international organizations;
- Follows and ensures the application of local and international standards and technical regulations;
- In the sphere of radio communications, manages the radio-frequency spectre in the Republic, issues licences for radio stations, keeps records in the sphere of radio communications;
- Establishes cooperation with international organizations and administrations of other countries which conduct the tasks of managing the radio-frequency spectre.

The Company was declared as SMP operator and in 2009 was the only fixed network operator in Serbia. On 22 January 2010, Telenor d.o.o., Belgrade was awarded the Licence for public fixed telecommunications networks and services for the territory of the Republic of Serbia, for a 10-year period. Telenor is obliged to launch commercial provision of services within one year from the licence award date. According to the applicable Telecommunications Law, the Company has no obligation to offer the service of

unbundled access to local loop regardless of the emergence of a new fixed network operator in the Serbian market.

Besides, in June 2009, RATEL issued two licences for fixed wireless access for public telecommunications network and services - CDMA (Telekom Srbija and Media Works). RATEL issued 31 licences to telecom operators for public telecommunications network and 40 VoIP licences (delivery of voice communications over IP networks).

On the mobile telephony market, there are three operators - MTS (Telekom Srbija), Telenor and Vip Mobile (Telekom Austria). At the end of 2009, Rules on number portability in public mobile telecommunications networks were adopted, which shall be applied as of 2011.

On the Internet services market, 189 ISPs have licences for the provision of services. Beside the Company, the major ADSL providers in Serbia are EUnet, SezamPro, Beotel, PTT, Neobee, etc. There are 74 cable operators in Serbia where the biggest ones are: SBB, Radijus Vektor, Ikom, Kopernikus Technology, PTT-KDS. SBB has the largest market share among the cable operators, which was declared as SMP operator in the sphere of broadband access.

Market share in 2009			
	Fixed Telephony	Mobile Telephony	ADSL
Telekom Srbija	100%	60%	70%
Telenor	-	29%	-
VIP Mobile	-	11%	-
Others	-	-	30%
Total	100%	100%	100%

Macroeconomic environment

According to an estimate made by the Statistics Agency of Bosnia-Herzegovina (the estimate of 30 June 2008), there is a total of 3,842,265 inhabitants in the territory of Bosnia-Herzegovina.

According to the Republic Statistics Institute of Republika Srpska, there is a total of 1,437,477 inhabitants in Republika Srpska (the estimate of 31 December 2008).

According to the 2009 estimates, the inflation rate in Bosnia-Herzegovina amounts to 0.4% and in Republika Srpska to 0.1%.

The gross domestic product per capita for 2009 at the level of Bosnia-Herzegovina amounts to some 313 thousand dinars (KM 6,5 thousand) and at the level of Republika Srpska to some 289 thousands dinars (KM 6 thousand).

In 2009, the average net salary in Republika Srpska amounted to 38 thousand dinars (KM 788).

The unemployment rate in Bosnia-Herzegovina for 2009 was estimated at 24%. According to the statistics of the Employment Bureau, in Republika Srpska, the unemployment rate amounts to some 35%.

Telecommunications market and regulatory frame

On 2 September 2003, the Assembly of Bosnia and Herzegovina adopted a new Communications Law, which regulates the sector of telecommunications, radio and broadcasting (including cable TV) and related services and resources.

Likewise, the Communications Law regulates the operation of the Bosnia-Herzegovina Communications Regulatory

Agency (CRA), founded in 2001. CRA is an independent institution that regulates the area of telecommunications and electronic media in accordance with the general principles of legality, objectivity, transparency and non-discrimination.

The Agency activities include:

- Licensing for provision of telecommunications services in accordance with legal regulations;
- Issuing licenses for telecommunications networks and frequencies;
- Preventing monopoly and anti-competitive activities and supporting the process of deregulation, privatization and liberalization, introduction of competition in the telecommunications market;
- Monitoring the status of tariffs for telecommunications services in the market and taking necessary measures if required;
- Protecting the interests of all users and operators of telecommunication services in Bosnia and Herzegovina in terms of access, quality and price of services;
- Cooperating with all the telecommunications operators certified by the Agency;
- Improving new technologies and services in accordance with the users' requirements, etc.

In early 2006, all services in Bosnia-Herzegovina telecommunications market were liberalized, thus creating further conditions for development of competition.

The largest market share in the market of fixed telephony services belongs to three operators: BH Telekom d.d., Sarajevo, Telekom Srpske a.d., Banja Luka and Hrvatske telekomunikacije d.d., Mostar. These operators provide services only on the local market,

although licenses are valid throughout the territory of Bosnia-Herzegovina. In January 2010, the said operators were declared as the operators with significant market power in the fixed telephony domain. In the previous period, CRA has issued 9 additional licenses for public fixed telecommunications networks and services in the territory of Bosnia-Herzegovina.

In the mobile services market, the largest market share belongs to three operators: BH Telekom, Telekom Srpske and Hrvatske telekomunikacije and they generally provide services in the local markets. The above mentioned operators have a UMTS license

since March 2009, and in January 2010 they were declared the operators with significant market power in the mobile telephony services market.

In the Internet services market, 80 providers have a license for provision of Internet services in the territory of Bosnia-Herzegovina. Aneks, Banja Luka (owned by Telekom Slovenije), is one of the greatest competitors in the provision of ADSL services in the territory of Republika Srpska.

There are 69 cable operators in Bosnia-Herzegovina, whose licenses are valid in the national, regional or local market.

Market share in 2009

	Fixed Telephony	Mobile Telephony	ADSL
BH Telekom	52%	49%	46%
Telekom Srpske	34%	40%	27%
HT Mostar	14%	11%	n/a
Others	-	-	27%
Total	100%	100%	100%

Macroeconomic environment

The global economic and financial crisis significantly influenced the general economic ambiance of the Republic of Montenegro in 2009. The slowdown of the economic activity imminently led to a reduction in development performances in the national economy.

The main characteristics in 2009 were as follows: a negative growth rate of GDP, occurrence of budget deficit, an increase in non-liquidity of the economy, followed however by a significant inflow of direct foreign investments and stabilization of the banking sector. On the other hand, there was a decrease in the inflation rate and deficit of the current account of the payment balance.

In 2009, the recession interrupted the swift economic development of Montenegro achieved in the 2005-2008 period, when the average annual GDP growth amounted to about 8%. The gross domestic product in 2009 amounted to 290 billion dinars (EUR 3 billion) and there was a drop of 7% as compared to 2008.

The inflation rate measured by the consumer price index amounted to 4.9%. This significant reduction as compared to 2008 (7.7%), was contributed to by a limited offer of loans and lower aggregate demand, as well as a smaller import volume.

According to Monstat's data, in 2009 there were a total of 620 thousand inhabitants in Montenegro, whereof 266 thousand represent an active working population. The unemployment rate amounted to 18% in 2009.

The average gross salary in 2009 amounted to 61 thousand dinars (EUR 643), whereas the average net salary amounted to 44 thousand dinars (EUR 463). As compared to 2008, the average net salary saw an increase of 11.3%, while the actual net salaries were increased by 7.6% in 2009.

Telecommunications market and regulatory framework

The Agency for Electronic Communications and Postal Services (ECPS), founded in 2001, is in charge of regulating the field of electronic communications in Montenegro.

ECPS conducts the following activities:

- Preparing expert basis for drafting regulatory acts, adopting procedures and standards for enforcement of the law and by-laws;
- Issuing and revoking licenses and frequencies;
- Regulating prices;
- Preventing monopoly, i.e. anti-competitive activities in the telecommunications market;
- Supervising the work of operators in the electronic communications sector;
- Coordinating the activities pertaining to the use of radio frequencies;
- Permanent monitoring of the radio frequency spectrum;
- Promoting the rational use of electronic communications infrastructure;
- Organizing the electronic database in the electronic communications sector;
- Entering records into registries;
- Supervising the fulfillment of the obligations mandatory for the operators of the electronic communications networks i.e. electronic communications services, in the event of extraordinary circumstances;
- Performing other activities in accordance with legal regulations.

A new Law on Electronic Communications was adopted in 2008, while its full implementation is expected during 2010.

Crnogorski Telekom is the only operator in the traditional fixed telephony in Montenegro. In April 2007, within a public

tender procedure, ECPS granted 3 licenses for the provision of public telecommunications services via fixed wireless access (WiMax), to Mtel, Broadband Montenegro and T-Mobile Crna Gora, followed by another licence issued to the operator Promonte in October 2007. Mtel put its FWA network into operation in late 2007. Network population coverage was 40%. Promonte started commercial operation of its network during 2008. Network population coverage was 25%. Broadband Montenegro and T-Mobile Crna Gora have not yet started providing the said services. At the end of 2009, a WiMax license was also granted to Verat d.o.o.

Likewise, the Agency granted 8 licenses for the provision of the public service of voice transfer over networks based on Internet Protocol (VoIP).

There are three mobile operators in the telecommunications market of the Republic of Montenegro - Mtel, T-Mobile (Crnogorski Telekom) and Promonte (Telenor), which were also granted UMTS licenses in May 2007.

There are 10 cable operators in Montenegro, the major ones being Total TV, Crnogorski Telekom (T-Com) and Broadband Montenegro.

Market share in 2009

	Fixed Telephony	Mobile Telephony
Crnogorski Telekom	96%	37%
Promonte	-	37%
Mtel	4%	26%
Total	100%	100%

Business objectives are focused on extensive development of broadband networks and services through opening the door of Future Internet world.

Human Resources **IV**

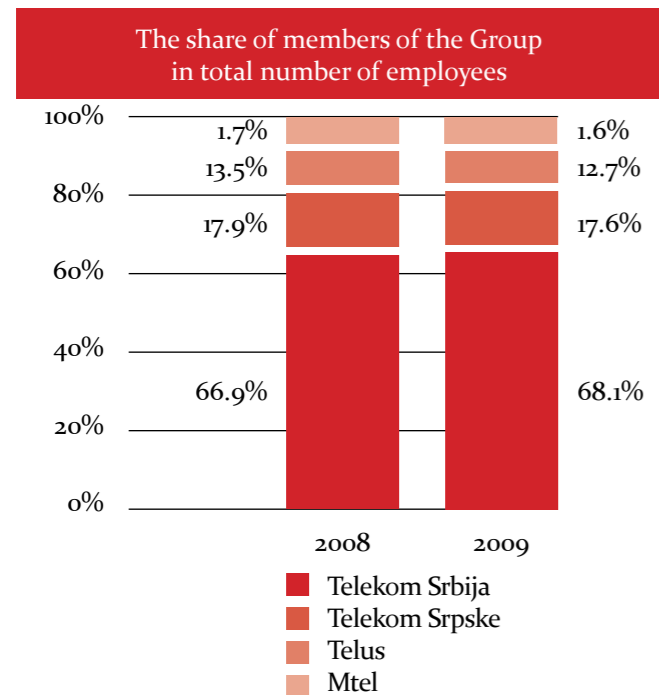
We find driving force in ambitions, competences and satisfaction of our employees



Telekom Srbija Group

In 2009, the total number of employees on the level of Telekom Group was 14,179. Of the total number of employees, 68.1% refer to the Parent Company (9,655 employees), 17.6% to the Telekom Srpske subsidiary (2,494 employees), 12.7% to Telus subsidiary (1,803 employees), 1.6% to the Mtel subsidiary (226 employees), while only one person is employed in the FiberNet subsidiary.

The share of members of the Group in total number of employees, in 2008 and 2009, is shown in the graph below:



Apart from the employees engaged on employment contract, for both indefinite and definite period of time, the member companies of Telekom Group also engage workers on contracts for temporary engagement, service contracts, workers from youth employment agencies, mediators and representatives.

Considering the education structure of employees on the level of the Group, employees with high school education account for the largest share (33.0%). They are followed by employees with university education (22.6%) that include

employees with a special studies degree, master degree and a PhD. These are succeeded by qualified workers, semi-qualified workers and workers with primary school education (20.5%), highly qualified workers (14.5%), while employees with college education represent 9.4% of total number of employees.

The qualification structure of employees within Telekom Srbija Group in 2009 and 2008 is shown in the table below:

Qualification structure of employees				
Qualification degree	2009		2008	
	Total	Share	Total	Share
PhD, Master, University	3,196	22.6%	3,076	21.7%
College	1,338	9.4%	1,344	9.5%
Highly qualified	2,054	14.5%	2,045	14.4%
High school	4,679	33.0%	4,751	33.4%
Qualified, semi-qualified, primary school	2,912	20.5%	2,984	21.0%
Total	14,179	100.0%	14,200	100.0%

Regarding the age structure of employees within the Group, the largest share belongs to employees between 41 and 50 years of age (37%), followed by those between 31 and 40 years of age (33%), between 51 and 60 years of age (22%), up to 30 years of age (7%), while the share of employees over 60 is 1%.

The age structure of employees within Telekom Srbija Group in 2009 and 2008 is shown in the table below:

Age structure of employees				
Age	2009		2008	
	Total	Share	Total	Share
up to 30	1,057	7.4%	1,113	7.9%
31-40	4,662	32.9%	4,976	35.0%
41-50	5,229	36.9%	5,172	36.4%
51-60	3,065	21.6%	2,783	19.6%
over 60	166	1.2%	156	1.1%
Total	14,179	100.0%	14,200	100.0%

Telekom Srbija

Telekom Srbija, as a company concerned with professional development, intensively takes care of its employees, invests in them and stimulates their work. Since it operates on a competitive labour market, the Company is obliged to take care of its employees, make them feel as part of a big family that works for the benefit of all, make them share all their problems and jointly enjoy all the achieved results.

In 2009, the employees took part in numerous training programs, workshops, conferences, forums, fairs and seminars, both in the country and abroad. The total number of participants that took part in different forms of education in 2009 was 653. At other events (conferences, forums, seminars, fairs), there were 809 participants. The total number of training programs and events that Company's employees attended in 2009 was 495.

The Company also finances the employees' education. In 2009, there was a total of 134 employees who used this possibility and in particular: 89 undergraduates, 19 postgraduates, 11 specialist studies students and 15 master students.

The total number of employees as at December 31, 2009 was 9,655 (there were 9,505 employees as at December 31, 2008), of which 97.8% are permanently employed, while 2.2% are employed for a definite period of time. There are other forms of engaging human resources in the Company: temporary engagement, mediation, representation and service contracts.¹

Special attention is devoted to the employment of young people. Of the total number of those employed for a definite period of time, 59 were employed through the "First Chance employment program" organized by the Serbian government, the Ministry of Economy and Regional Development and the National Employment Service.

Regarding the qualification structure in 2009, the largest share in the total number of employees belongs to employees with high

school education 33.9%, while the share of employees with university education 24.8%. The share of employees with college education is 11.0%. The qualification structure of employees did not significantly change in 2009 compared with 2008.

The qualification structure of employees in the Company in 2009 and 2008 is shown in the table below:

Qualification structure of employees				
Qualification degree	2009		2008	
	Total	Share	Total	Share
PhD, Master, University	2,393	24.8%	2,295	24.1%
College	1,066	11.1%	1,079	11.4%
Highly qualified	1,595	16.5%	1,601	16.8%
High school	3,275	33.9%	3,211	33.8%
Qualified, semi-qualified, primary school	1,326	13.7%	1,319	13.9%
Total	9,655	100.0%	9,505	100.0%

The age structure of employees, which was not significantly different in 2009 compared to previous year, shows that the largest share belongs to employees between 41 and 50 years of age (39.0%). Employees up to 40 years of age account for 37.5%, while employees over 51 years of age account for 23.5% of the total number of employees.

The age structure of employees in the Company in 2009 and 2008 is shown in the table below:

Age structure of employees				
Age	2009		2008	
	Total	Share	Total	Share
up to 30	597	6.2%	592	6.2%
31-40	3,027	31.3%	3,286	34.6%
41-50	3,768	39.0%	3,645	38.4%
51-60	2,122	22.0%	1,884	19.8%
over 60	141	1.5%	98	1.0%
Total	9,655	100.0%	9,505	100.0%

1. The number of employees engaged in this way is variable and it is not included in the total number of employees

In 2009, the number of newly employed workers in the Company was 253. The qualification structure and the age structure of newly employed workers shows that the largest number of newly employed workers have university education (55.3%) and that they are up to 30 years old (75.5%).

A churn of 219 employees was recorded in the Company in 2009. The grounds for leaving the Company were different, including voluntary layoff from the Company. A total of 175 employees applied for the competition announced in November 2009 and voluntarily left the Company.

In the period 2004-2009, a total of 3,447 employees voluntarily left the Company.

TELEKOM SRPSKE

The total number of employees as at December 31, 2009 equaled 2,494, which is 40 employees less compared to previous year. This reduction largely refers to workers who left the subsidiary as technological redundancy and on the grounds of regular retirement.

Regarding the qualification structure, the largest reduction is recorded in the number of workers with high school education.

The number of new workers in 2009 was 52. Regarding the qualification structure, the largest number refers to workers with university education (75%).

The number of employed workers, per qualification structure, in 2009 and 2008, is shown in the table below:

Qualification structure of employees				
Qualification degree	2009		2008	
	Total	Share	Total	Share
PhD, Master, University	690	27.7%	663	26.1%
College	233	9.3%	226	8.9%
Highly qualified	427	17.1%	411	16.2%
High school	768	30.8%	861	33.9%
Qualified, semi-qualified, primary school	376	15.1%	377	14.9%
Total	2,494	100.0%	2,538	100.0%

As can be seen from the information presented in the table, as at December 31, 2009, the largest share in the qualification structure belonged to employees with high school education (31%), while employees with university education accounted for 28%.

Of the total number of employees, 925 or 38% refer to women, while 1,539 or 62% refer to men.

The age structure of employees in the subsidiary in 2009 and 2008 is shown in the table below:

Age structure of employees				
Age	2009		2008	
	Total	Share	Total	Share
up to 30	223	8.9%	270	10.6%
31-40	894	35.8%	900	35.4%
41-50	813	32.6%	862	34.0%
51-60	564	22.7%	484	19.1%
over 60	-	-	22	0.9%
Total	2,494	100.0%	2,538	100.0%

As can be seen from the information presented in the table, employees between 31 and 40 years of age account for the largest share of employees (36%), followed by employees between 41 and 50 years of age (33%).

MTEL

As at December 31, 2009, there were 226 employees in the Mtel subsidiary whose average age is 35 and of whom 42% have university education.

The qualification structure of employees in the subsidiary in 2009 and 2008 is shown in the table below:

Qualification structure of employees				
Qualification degree	2009		2008	
	Total	Share	Total	Share
PhD, Master, University	94	41.6%	100	40.5%
College	12	5.3%	11	4.5%
High school	115	50.9%	136	55.0%
Qualified	5	2.2%	-	-
Total	226	100.0%	247	100.0%

The age structure of employees in the subsidiary in 2009 and 2008 is shown in the table below:

Age structure of employees				
Age	2009		2008	
	Total	Share	Total	Share
up to 30	106	46.9%	114	46.1%
31-40	89	39.4%	100	40.5%
41-50	29	12.8%	32	13.0%
over 51	2	0.9%	1	0.4%
Total	226	100.0%	247	100.0%

At the end of 2009, 112 (49%) of the total number of employees were women, while 119 (51%) were men.

TELUS

As at December 31, 2009, the Telus subsidiary had 1,803 employees, of which 88% are engaged for an indefinite period of time. Apart from that, 508 workers are engaged on contracts for temporary engagement.

The qualification structure of employees arises from the description of the company's activity itself which primarily refers to the provision of services of maintenance and physical and technical security of business facilities.

Qualification structure of employees				
Qualification degree	2009		2008	
	Total	Share	Total	Share
PhD, Master, University	18	1.0%	17	0.8%
College	27	1.5%	28	1.5%
Highly qualified	32	1.8%	33	1.7%
High school	521	28.9%	543	28.5%
Qualified	420	23.3%	435	22.8%
Semi qualified	519	28.8%	550	28.8%
Primary school	266	14.7%	303	15.9%
Total	1,803	100.0%	1,909	100.0%

The age structure of employees in the subsidiary in 2009 and 2008 is shown in the table below:

Age structure of employees				
Age	2009		2008	
	Total	Share	Total	Share
up to 30	131	7.3%	137	7.2%
31-40	651	36.1%	689	36.1%
41-50	619	34.3%	633	33.1%
51-60	377	20.9%	414	21.7%
over 60	25	1.4%	36	1.9%
Total	1,803	100.0%	1,909	100.0%

As can be seen from the information presented in the table, the largest share belongs to employees between 31 and 40 years of age who account for 36.1% in both 2008 and 2009.

Services V

A new digital world, which is often mobile, always broadband and full of virtual services and experiences, certainly is a company's new challenge



Telekom Srbija

The core activity of Company is provision of services in the field of telecommunications. Since its incorporation, the Company has provided the fixed telephony and data transmission services. The expansion of the Company's operations and development of telecommunications services gave rise, together with fixed telephony, to the development of mobile telephony services, Internet and multimedia, and a wide range of value-added services.

The fixed telephony services are provided by the Company to the residential and business customers.

Fixed telephony services are:

- Standard telephone line (POTS) with value-added services;
- ISDN (BRI, PRI) line with value-added services;
- Wireless services (WLL, CDMA);
- Public telephony;
- White and Yellow pages;
- IN services (Premium Rate, FreePhone, Televoting, Universal Access Number);
- VSAT services (voice services and connection via satellite lines);
- International telephone services and other international services;
- Data transmission (lease of lines in local traffic, lease of international lines, services of the MPLS network: L2VPN, L3VPN) and
- Internet Wholesale (SMIN, ADSL, direct access to the international Internet).

During 2009, the following new services were introduced in the field of fixed telephony for residential customers:

- **Broadband telephone line** – enables the customers to use telephone services in the local and international traffic, as well as value-added services via the broadband

access and IMS platform for the provision of multimedia services (IP Multimedia Subsystem – IMS);

- **Cost-saving services** – one of the measures aimed at improving the basic telephone service is introduction of value-added services under the commercial name “Cost-saving services“. The cost-saving services consist of the following packages: InoCall Plus (intended for the customers who make frequent calls to international destinations; the users of this package can make calls from their fixed phones towards fixed and mobile networks abroad in 46 countries in the world, at significantly lower prices), Calls towards mobile (intended for the users who make frequent calls to local mobile networks making it possible for the users to make such calls from their fixed phones in local traffic at significantly lower prices) and Night calls (offering favourable prices during night hours, each day, from 9:00 p.m. till 7:00 a.m. charged 0 dinars in national local and long-distance traffic).

In the field of fixed telephony for business customers, the following new services were introduced in the course of 2009:

- **Business inoCall** – the service enables that the calls made from predefined telephone lines towards certain international destinations be charged through a single special account (Halo Plus account), at promotional prices, with a full and efficient control of the costs of international calls;
- **Business inoCall plus** – the service represents a value-added service for the conventional telephone line, ISDN BRI and ISDN PRI lines and enables the business customers in fixed telephone network to generate telephone traffic towards certain international destinations at promotional prices. This service is more convenient

for use as compared to Business InoCall because it does not require dialing any additional code when making calls to international destinations while the amount in the monthly bill is not limited;

- **IP Centrex** – intended primarily for business customers and offers the following options:
 - Connection of telephone lines on one or several locations in a single private telephone network;
 - The functionality of the PBX exchange;
 - Making phone calls in the national and international telephone traffic and using value-added telephone services.

As for **mobile telephony**, the prepaid and postpaid customers are provided by the following services:

- GPRS services;
- 3G services;
- Roaming;
- VAS services.

Owing to the application of modern technologies, the public mobile telecommunications network offers a range of new services, improves the quality of the existing services by increasing the territorial and population coverage in the Republic of Serbia. The population and territorial coverage in Serbia (with Kosovo) by the mobile telephony signal in 2009 was as follows:

Territorial coverage by GSM signal:	83.2%
Population coverage by GSM signal:	88.7%
Territorial coverage by UMTS signal:	46.7%
Population coverage by UMTS signal:	63.2%

New services and modern technologies that we apply are focused on our subscribers and their demand for communication and entertainment.

During 2009, the following new services were introduced in the mobile telephony:

- **Card to Card** – enables on-line transfer of money from one DinaCard to another. This service is offered to the users of DinaCard that are registered for money transfer in the mPayment system of the Company and whose DinaCard issuing banks support this service;
- **Express credit** – offers to prepaid customers a possibility of paying limited top-ups in real time, in situations when they are not able to top-up their credit otherwise, in cases the Company provides credit top-ups for the end users;
- **mTicketing** – PSC - enabling the mt:s users to order via SMS a ticket for a certain event, where the ticket is delivered in the form of a bar code to the phone set from which the SMS was sent, and the ticket price and service fee are charged to the user's mobile account;
- **Sale of Prepaid Top-ups from Mondo Portal** – enables the user to make prepaid top-ups from the Mondo Web Shop via payment cards;
- **Top-up of VoIP Air-time via Mobile Accounts** – implies that a user has an open user account with a VoIP provider. The user sends an SMS with certain details specifying the package or the number of hours that the user wishes to buy to a short number;
- **USSD Menu** - enabling the users to receive, by using a simple USSD command, apart from their prepaid/postpaid account balance, various other commercial services and information, amusing content (e.g. horoscopes, jokes or „Magic Ball“), and current promotional drives of the Company (e.g. Favourite Number, 3G service application, tariff add-ons, purchase of InoCall vouchers, etc.);
- **Videomail or mt:s mailbox** - enabling the users of 3G mt:s network to have insight into the voice and video mail regardless of

the model, screen size and memory of the 3G handset. The main idea of the videomail service is to provide the user with a simple and intuitive access to a single mailbox through which it would receive all messages (video, voice or fax);

- **SMS Directory** - enabling browsing and finding desired information about fixed numbers of legal entities and/or individuals and obtaining the information of legal entities and/or individuals based on the telephone number in the form of an SMS;
- **Prepaid Mobile Internet** - intended for the users who wish to have the Internet available at any place and at any moment with a full control of costs. The goal of this service is to have the mobile Internet adopted by a wider group of users. The user purchases in advance the necessary volume of data without assuming any contractual obligations with respect to the service. The service is currently offered in two options: the user can purchase the "Prepaid Mobile Net", a package containing a modem, 4GB data and SIM card or it can purchase only the SIM card and pay top-ups with some of the offered "Data Plus Prepaid Top-ups";
- **Three Favourite Numbers for Prepaid Users** - the prepaid mobile customers with numbering ranges 064 and 065, who send the application for this service will be entitled to define, free of charge, up to 3 favourite numbers to which they will be able to make free calls in the period of 30 days;
- **InoCall service via mobile** - the service enables the mt:s users to make international calls from their mobile sets towards fixed and mobile networks in 46 countries worldwide, at rather favourable prices applied also to the users of fixed network.

During 2009, new value-added services were introduced for mobile business customers:

- **Biznet Prepaid Top-ups** - the right to use the service is granted to mt:s users which, under the concluded contracts, charge the amounts

paid for credit top-up by the mt:s end-users. The service allows for the user to send an SMS via postpaid SIM cards connected to the public GSM network, requesting that credit top-up be effected for the end-user in the amount defined by the end-user;

- **Biznet e-POS Terminal** - the right to use the service is granted to the customers which, under the concluded contracts, via e-POS terminals, charge the amount paid for prepaid top-up by the mt:s end-users and the collection of payments for other goods and services falling in the scope of their operations. The service enables the users to perform transactions via e-POS terminals using the postpaid SIM cards installed in e-POS terminals and connected to the public GSM network and interconnected through a single access point. The users of this service can use only the services of the incoming national telephone traffic via the subscriber number of the SIM card, while the use of other mobile services is not possible for them.

The most significant changes on the telecommunications market in the previous period were noticed in the Internet services, primarily in the broadband Internet access. The most represented method of access to the broadband Internet is the ADSL access. The Company has been investing efforts to make the broadband Internet access available to as many users as possible.

The connection to the Internet is also possible via the cable modem (the network developed by cable operators) and wireless technologies (in frequency ranges around 2,4 GHz and 5,8 GHz and via UMTS networks of mobile operators).

The Company offers state-of-the-art **Internet services**, of which the most important are:

- Direct Internet Access;
- ADSL;
- Web hosting;
- Dial-up;
- Registration of Internet domain and other services associated with Internet services.

In the course of 2009, a new offer was introduced for residential customers - convergent packages:

- **Family package + ADSL** - the service represents an integrated package of fixed telephony, mobile telephony and Internet and includes two services: family package and Internet access through ADSL. The family package consists of at least two postpaid numbers and offers the possibility of defining a single fixed telephone line, where postpaid users are entitled to lower prices when making calls to each other.

Besides the above, another new service offered to residential customers during 2009 was Fixed Internet Service:

- **The Internet Access via FTTB and GPON TELCO infrastructure** - enables Internet access which is not based on a telephone pair. Internet POP (Point of Presence) and aggregation equipment are placed in the residential building where end-users live. This contributes to the quality of access because access no longer depends on the quality of pairs. The user CPE equipment is connected to the aggregation device via a high-quality UTP/FTP cables or fiber optics. This concept provides for much higher access bit rates (up to 100 Mbs) than those offered in the ADSL access via pairs.

As for the Internet Business Customers, the following new services were offered during 2009:

- **High Speed Internet Access (HSIA)** - intended for business customers (except Internet Service Providers), who wish to have a permanent connection with the global Internet. The service enables connection of User locations with the global Internet by using the resources of various access networks and IP/MPLS network of the Company and it implies symmetrical access

to the global Internet at the rates (bit rates) equal to or higher than 1 Mbit/s up to 100 Mbit/s. Unlike DPI - Retail, the user can select the desired access rate but not the access technology;

- **Internet + Voice** - for the purpose of promoting the sale and attractiveness of the Direct Internet Access Service (DPI) - retail, the Internet+Voice Service was created for the business customers which use the services of the fixed telephone network. Created were 7 service packages that included Internet access (Ethernet optical access with bit rates 5, 6, 7, 8, 10, 16 and 20 Mbit/s) and telephone traffic.

The following value-added Internet services were offered to business customers in 2009:

- **Virtual Server** - the service is provided to business customers by leasing the virtual server using the VMware technology, for the purpose of accommodating and installation of various user applications. The Virtual Server Service enables to the users access and software administration that they can use for their own needs (e.g. servers for various purposes - file, web, mail, ftp, database, etc.) with the allocation of resources hardware (processor capacity, memory, disc space, IP addresses). The user is able to see its server on the Internet and to access its server from any Internet point at any time;
- **Biz WLAN** - represents a managed service that implies lease and maintenance of the necessary active equipment and Internet access for providing wireless access to the Internet on the location of the Biznis user to which the Company renders the service. BIZ WLAN offers the possibility of establishing a fast access to Internet on in-door premises in which the Company's equipment is installed. This service offers unhindered access to Internet sites, reading and sending of mails, transfer of data via FTP protocol and the possibility of using a VPN client (provides for

a smooth and safe access by the users to their corporate networks). The wireless Internet access is available to all users who possess notebooks or PDA devices that support the WLAN technology and also via mobile handsets of new generation.

Using the existing telecommunications infrastructure, the Company entered the market of **multimedia services** and it currently offers the IPTV service with value-added services Video on Demand and Content Recording.

During 2009, the following new services were offered to multimedia business customers:

- **TelePresence** - a contemporary technological solution that enables a successful organization of business meetings when participants are geographically remote. It represents a video conference raised to the highest level so that the participants have the impression that other parties are physically present, although they may be anywhere in the world. The entire communication (image, voice, the data from a PC, Internet and the like) is transmitted via IP/MPLS network to end points - "rooms", with the requested level: QoS (Quality of Service), QoE (Quality of Experience), reliability and protection of private information about the participants. It is implemented on separate premises - "rooms", technically equipped with all requisite components that enable full implementation of the service. The "rooms" are currently installed in four locations: Beograd, Kosovska Mitrovica, Banja Luka and Podgorica;
- **International TV signal broadcasting** - enables transmission of analogue radio and TV signal via the terrestrial network of the Company on international routes.

The plan for 2010 envisages the Web TV Service. Web TV (Streaming, VoD, etc) is the service that includes access to various video content (TV channels, Video clips, etc) on the

Internet. Thus, the customers can have access to streamed content and Video on demand. The target market would be the expats, but there is possibility of creating an offer for the national market, as well. That offer would be focused on Video on Demand more than on TV channels, while the national TV channels would be more interesting for the expats.

Besides the above listed services, the Company's activities also include maintenance and repair of telecommunications plants and network, spatial and urban planning, designing and construction of telecommunications facilities, etc.

New services – Telekom Srpske

3G network was introduced in Telekom Srpske subsidiary in 2009.

3G technology, apart from significantly higher quality of communication and mobile Internet, brings a whole set of new services, enables much faster Internet and business network access, as well as watching multimedia contents, video clips, movies and TV programme via mobile handset.

UMTS (Universal Mobile Telecommunication System) is a part of technology of the third generation used by "m:tel"², which enables the provision of broadband services in wireless and mobile communications. Likewise, UMTS enables cheap mobile communications with transfer bit rates up to 7,2 Mbps, with increased voice traffic quality.

With new handsets conforming to the 3G standards, the usage of key benefits of this technology has been made easier. Large displays, fast processors, multimedia applications, are only some of the features which evolved especially for 3G networks. The applications such as navigation, database queries, interaction with social networks are a part of new wave of utility value of a mobile handset.

3G bundles have been created for the users of "m:tel" postpaid tariff models for the customers

who mostly communicate via their mobile handsets. The bundles are dedicated to such customers who want fast data transfer on their mobile handset. A customer with a cell phone which does not support 3G standard or which is currently beyond the 3G network coverage remains online by means of GPRS/EDGE technology. The service is dedicated to all users of "m:tel" postpaid tariff models: M, L, XL and XXL.

Customers who need data transfer over computers are offered "m:net" bundles, where a unique offer in Bosnia-Herzegovina is presented - bundles with computers and a USB modem. "m:net" is a 3G service dedicated to such users who would like to be connected to the Internet at any time. Whether the user opts for Toshiba NB200 with 3G USB modem or only for the purchase of a "m:net" 3G modem, the limits of modern communication shall be erased.

Mobile access via 3G USB modem from the "m:tel" offer, are adapted to the service usage in our network. Hardware solutions, as USB stick or PC Card devices, serve as the devices for 3G network access. A compact design, tested on the "m:tel" 3G network, ensures the best way of Internet access, where it was not possible thus far. The Internet access is enabled in the entire "m:tel" mobile network, whether it is 3G or GPRS/EDGE.

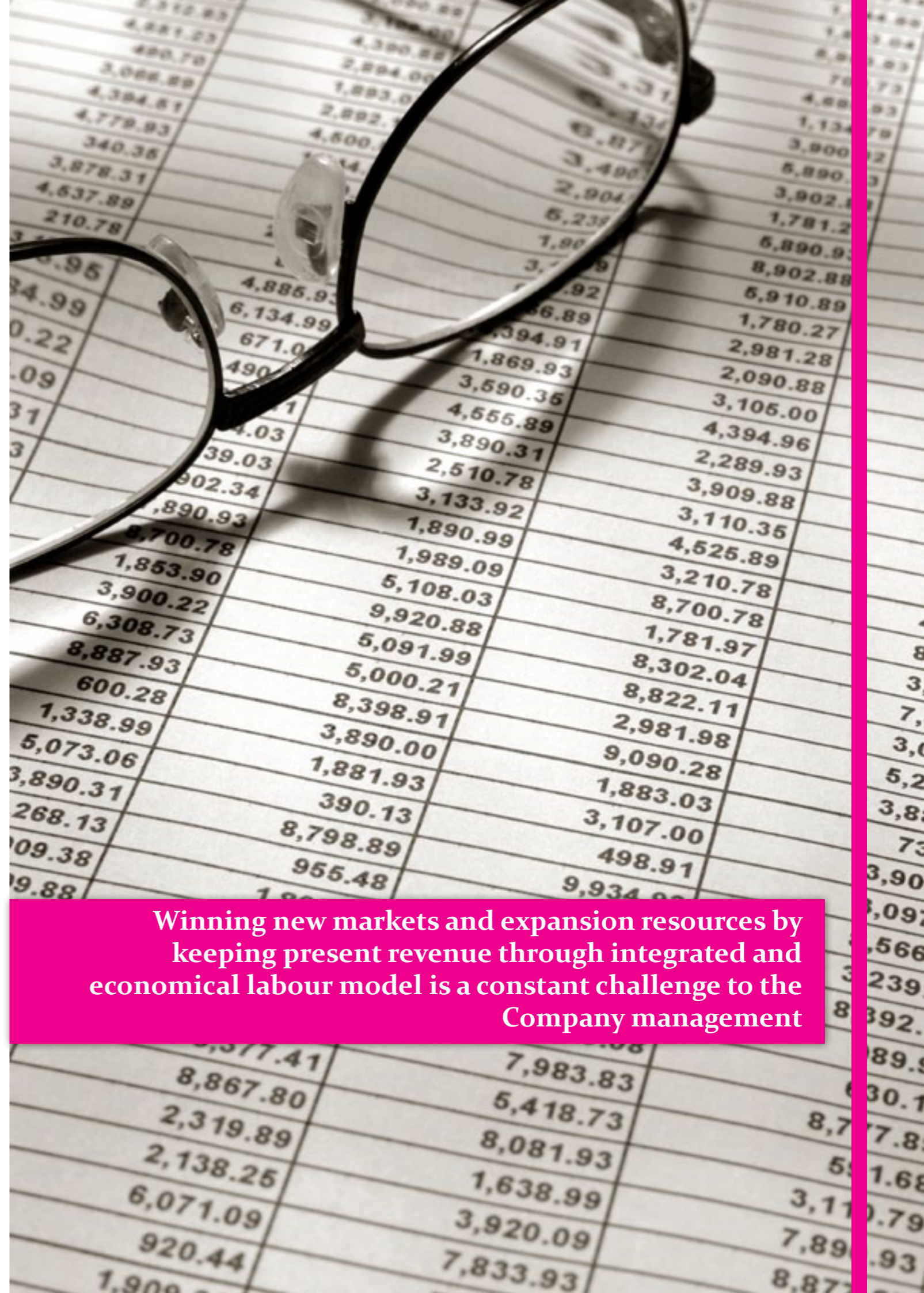
New services – Mtel

In order to retain the existing prepaid and postpaid customers, as well as to acquire new ones, and thus increase its market share, subsidiary Mtel developed a number of services for its customers in 2009.

New offers and services were carefully planned, so as to accommodate the needs of all customers, taking into account specific target groups. The most important services are as follows:

- **Friends** - enables free calls and SMSs with up to 3 selected numbers from 068 network, in both directions, for a period of 30 days;
- **To be continued** - all active postpaid customers (who have settled their liabilities), regardless of the bundle, are provided with an option to carry forward unspent minutes, SMS and MB from the previous month to the following month;
- **Services via WAP portal** (Mondo ticket, Horoscope, Chat) - the users of MONDO portal are provided with new services: Mondo ticket (information about sports results), Mondo horoscope, Mondo chat (non-stop contact with online users by selecting the relevant chat room);
- **Postpaid bundle Mtel 30** - new tariff bundle, where the customer gets for a subscription of 2,824 dinars (EUR 30), 360 minutes towards all mobile and fixed networks in Montenegro and 360 SMSs towards all networks in Montenegro, Serbia and the Republic of Srpska, as well as 30 MB;
- **Postpaid bundle Mtel One** - new tariff bundle, where calls are charged per second;
- **Autotrack** - enables tracking vehicles and monitoring their status, along with detection of significant events;
- **Mtel Secure Directory** - enables customers to store contacts from a SIM card on Mtel server;
- **Mtel Customer Portal** (for more efficient cost planning and control) - postpaid customers are provided with a portal offering a cost control option, info about payment methods, Q&A, invoice-to-mail forwarding;
- **My choice 105** - new USSD service facilitating the customer with a shorter way to information and activation of the selected service. It is dedicated to all prepaid, postpaid and business customers (current options are Account, Add, Call me and Top-up).

2. As of 2007, Telekom Srpske uses "m:tel" brand in the field of mobile telephony



Financial and Operating Results VI

Winning new markets and expansion resources by keeping present revenue through integrated and economical labour model is a constant challenge to the Company management

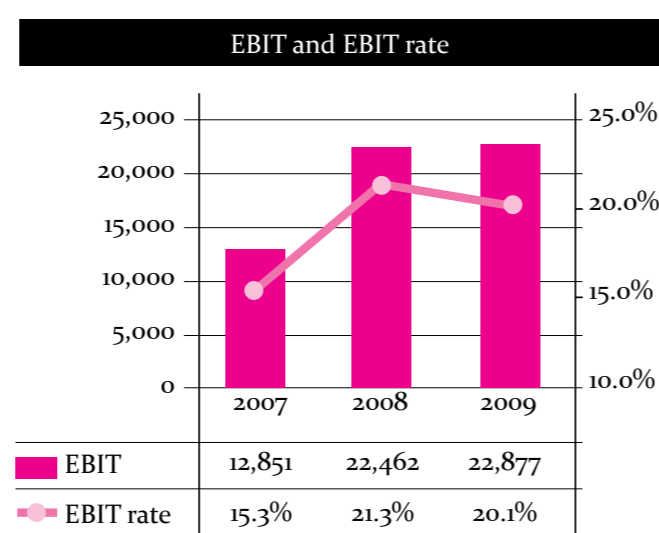
Financial overview

Consolidated Income Statement			
In million RSD	2009	2008	2007
Operating revenues	113,943	105,330	83,911
Operating expenses	(91,066)	(82,868)	(71,060)
Operating profit (EBIT)	22,877	22,462	12,851
EBIT rate	20.1%	21.3%	15.3%
Depreciation	23,063	20,657	16,188
EBITDA	45,940	43,119	29,039
EBITDA rate	40.3%	40.9%	34.6%
Net financial expenses	(8,581)	(12,374)	(369)
Profit tax	(983)	(967)	(686)
Net profit	13,314	9,121	11,796
Net profit rate	11.7%	8.7%	14.1%

The total generated operating revenues in 2009 amounted to 113,9 billion dinars, which is a 8.2% increase as compared to 2008. The operating expenses in the period concerned, amount to 91,1 billion dinars, which is a 9.9% increase as compared to 2008.

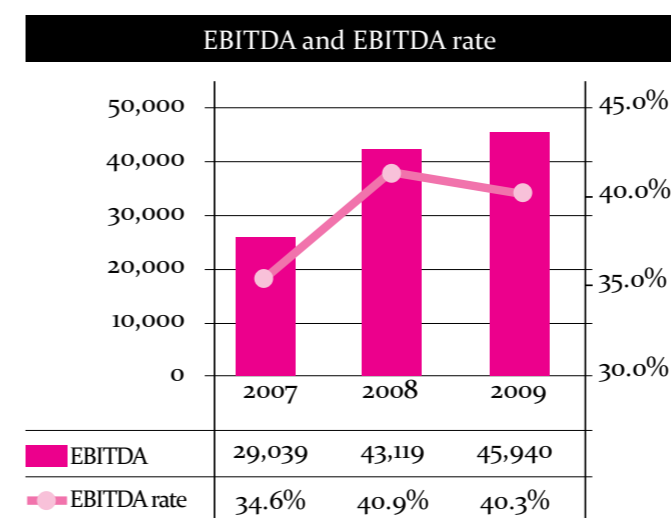
The net financial expenses of the period concerned amounted to 8,6 billion dinars, while the amount recorded in the previous year was 12,4 billion dinars. Such a trend can generally be explained by a decrease in the costs of interest in net amounts, which recorded a decline of 37.5% primarily due to the repayment of a part of the loan and decrease in EURIBOR rate, and they amount to 2,7 billion dinars.

The trends in the operating gains (EBIT) and EBIT rate in the three target years are shown in the next graph:



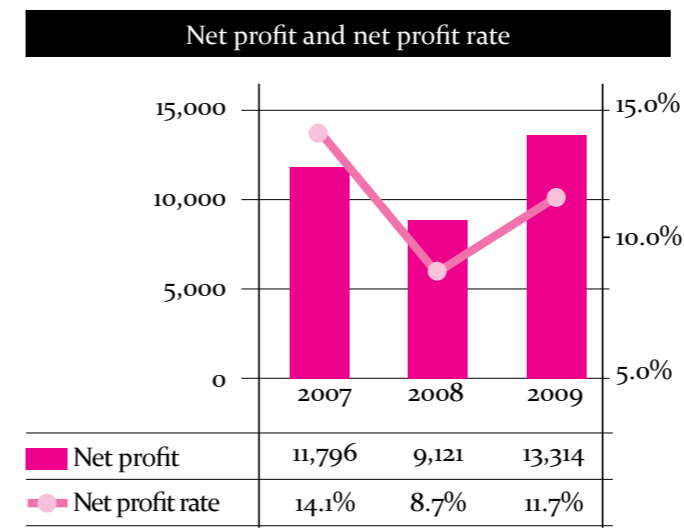
Despite the faster growth in the operating expenses as compared to the growth in operating revenues in 2009, EBIT, i.e. operating gains recorded a mild increase of 1.8% relative to the comparative year and it amounts to 22,9 billion dinars.

The trends in EBITDA and EBITDA rate in the target years are shown in the graph below:



In 2009, EBITDA of the Group also recorded a growth of 6.5% relative to the comparative year and it amounts to 45,9 billion dinars.

In 2009, the profit of the Group after taxation amounted to 13,3 billion dinars, which represents a 46.0% increase as compared to the previous year.



Operating revenues

The total operating revenues increased by 8.2% as compared to 2008, and they amount to 113,9 billion dinars. The growth in revenues is mostly the result of the retail sale of Internet services.

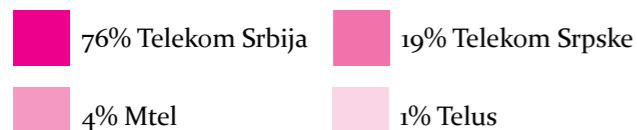
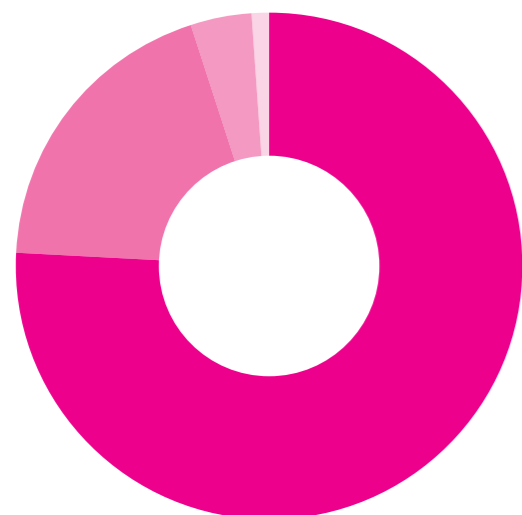
The operating revenues from **fixed telephony** recorded a 3.5% increase as compared to the previous year and they amount to 52,2 billion dinars. The most significant driver that influenced the revenue trends was the increase in revenues from subscription fees, primarily because of a 161% increase in the subscription fee charged by the Parent Company for POTS direct line that became effective on 1 November 2008. On the other hand, although the number of fixed telephony users recorded a mild growth (1.1%), the revenues from generated traffic decreased by 9.1%.

The operating revenues from **mobile telephony** increased by 8.5% and amount to 57,5 billion dinars. The revenues from postpaid traffic increased by 10.6%, and the revenues from prepaid services increased by 5.1% mostly due to the expanded customer base.

The crucial impact on the increase in operating revenues is attributable to the operating revenues from the **retail sale of Internet services**, which recorded a 117.6% growth and amounted to 4,0 billion dinars, but the share of these revenues in the total operating revenues is still low and accounts for 3.5%. The growth in the said revenues is mostly the result of a higher number of ADSL users in retail.

The share of certain members of the Group in the total operating revenues of the Group in 2009 is shown in the graph below:

The share of certain members of the Group in the total operating revenues



Operating expenses

Within the structure of total operating expenses, the largest share is attributable to the costs of depreciation, operator costs and costs of salaries and other personal costs, which account for more than 60% of the operating expenses incurred during 2009.

Marketing costs increased by 17.8% as compared to 2008 and they amount to 3,6 billion dinars. The main driver of the increase in the said costs is the increase in the costs of promotion of dealer sale and a mild increase in sponsorship costs. On the other hand, a decline was recorded in the costs of advertising, and in other costs of marketing.

Costs of lease increased by 18.6% and amount to 4,6 billion dinars. The main driver of these costs was a 15% decline in the average value of dinar

relative to the euro in 2009 as compared to 2008 (the majority of the lease agreements concluded by the Parent Company contain the foreign currency clause), and the new lease agreements.

Costs of salaries and other personal costs increased in total by 7.2% during 2009 and amount to 18,7 billion dinars. The main driver of this category of costs was the increase in gross salaries.

Operator costs recorded a 6.3% growth and, in 2009, they amounted to 14,3 billion dinars. The growth in these costs is mostly due to the increase in the costs of interconnection by 8.6% and increase in roaming costs by 4.2%.

Consolidated Balance Sheet			
In million RSD	2009	2008	2007
Stock	7,155	8,203	9,061
Receivables	15,524	13,899	11,727
Cash and cash equivalents	14,385	13,202	5,400
Other	4,771	4,871	5,115
Working assets	41,835	40,175	31,303
Intangible assets	60,989	59,572	51,888
Fixed assets	154,367	150,406	139,517
Other	2,993	2,873	2,495
Permanent assets	218,349	212,851	193,900
Total assets	260,184	253,026	225,203
Current portion of long-term loans	31,747	35,567	6,235
Liabilities from operations	11,209	12,271	13,170
Other short-term liabilities	13,616	11,968	7,786
Current liabilities	56,572	59,806	27,191
Deferred income	4,209	4,152	4,303
Long-term provisions	2,711	2,535	2,140
Deferred tax liabilities	2,134	2,099	1,955
Long-term loans	55,405	58,488	75,754
Long-term liabilities	64,459	67,274	84,152
Capital	139,153	125,946	113,860
Total liabilities	260,184	253,026	225,203

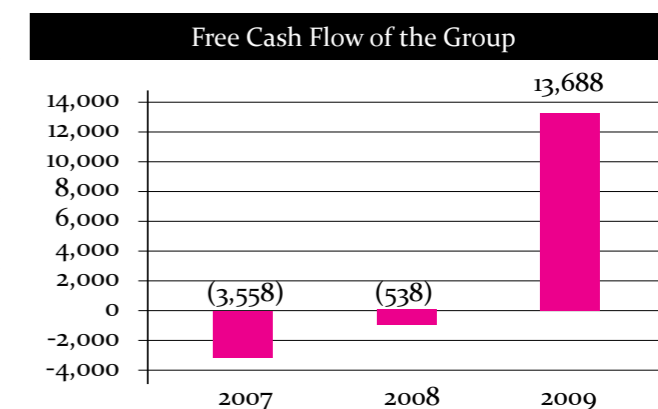
Ratio Analysis			
In million RSD	2009	2008	2007
Debt	87,152	94,055	81,989
Liabilities from operations	11,209	12,271	13,170
Other liabilities	22,670	20,754	16,184
Total liabilities	121,031	127,080	111,343
Debt	87,152	94,055	81,989
Cash and cash equivalents	14,385	13,202	5,400
Net debt	72,767	80,853	76,589
Capital	139,153	125,946	113,860
Total capital (Net debt+Capital)	211,920	206,799	190,449
Debt ratio (Net debt/Total capital)	34.3%	39.1%	40.2%
Debt coverage (Net debt/EBITDA)	1,58	1,88	2,64
Interest coverage	14,44	9,18	12,42
Total liabilities/EBITDA	2,63	2,95	3,83
Quick liquidity ratio	0.70	0.58	0.95

A reduction in the debt ratio as at 31 December 2009 mostly results from the repayment of liabilities against long-term loans, and an increase in capital due to the net profit generated by the Group in 2009.

In 2009, 2,63 EBITDA were needed for the settlement of liabilities, whereas in 2008, 2,95 EBITDA were needed for the same purposes.

Overview of the Group Cash Flows			
In million RSD	2009	2008	2007
Profit before taxation	14,297	10,088	12,482
Depreciation	23,063	20,657	16,188
Adjustment of profit and changes on working capital	(2,298)	(1,395)	(3,019)
Net cash-ins from operating activities	35,062	29,350	25,651
Net capital investments	(21,374)	(29,888)	(29,209)
Free cash flow	13,688	(538)	(3,558)
Net cash-in/(cash-out) from other investment activities	883	635	(49,416)
Net (cash-out)/cash-in from financing activities	(13,388)	7,705	52,095
Net cash-in/(cash-out)	1,183	7,802	(879)
Cash at the end of the year	14,385	13,202	5,400

The free cash flow of the Group in the relevant years is shown in the graph below:



In 2009, due to higher cash-ins from operating activities, and a more prudent investment policy, there are sufficient funds available for settling financial liabilities (free cash flow is positive and much improved as compared to previous years).

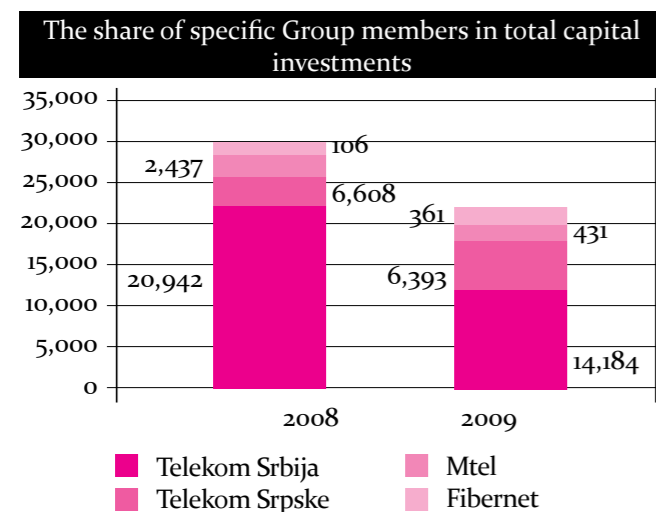
Investments

Total capital investments in 2009 on the Telekom Srbija Group level amount to 21,4 billion dinars. A comparative overview of capital investments realized in individual companies within the Group in 2009 and 2008 is presented in the table below:

Total investments			
In million RSD	2009	Growth rate	2008
Telekom Srbija	14,184	-32.3%	20,942
Telekom Srpske	6,393	-3.3%	6,608
Mtel	431	-82.3%	2,437
Telus	1	-94.3%	10
Fibernet	361	241.2%	106
Total	21,370	-29.0%	30,103

Observed per Group member the largest investments in 2009 were realized in the Parent Company (14,2 billion dinars), while the lowest level of investments was in Telus subsidiary (0,6 million dinars).

The share of specific Group members in total capital investments in 2008 and 2009 is presented in the chart below:



As for the investments in specific fields in 2009, the investments in fixed telephony amount to 8,1 billion dinars and account for 38% in total investments of the Group, mostly due to investments of the Parent Company.

The investments of Telekom Srbija Group in mobile telephony account for 28% total investments and amount to 5,9 billion dinars, where the greatest investments in this area were realized in Telekom Srpske subsidiary.

Total investments in the Internet and multimedia amount to 2,9 billion dinars and they were made by the Parent Company (83%) and subsidiary Telekom Srpske (17%).

The remaining part of investments is related to investments in information technologies and logistics support.

The above structure of capital investments is presented in the table below:

Total investments			
In million RSD	2009	Growth rate	2008
Fixed telephony	8,050	-29.0%	11,332
Mobile telephony	5,906	-32.5%	8,753
Internet and Multimedia	2,890	33.0%	2,174
IT Investments	2,021	-49.2%	3,980
Investments in logistics support	2,503	-35.2%	3,864
Total	21,370	-29.0%	30,103

Out of total investments made by Telekom Srbija Group in 2009, 73% was allocated to technical progress of the Group members, and 27% for infrastructure.

Total investments			
In million RSD	2009	Growth rate	2008
Technical investments	15,646	-29.0%	22,051
Infrastructural investments	5,724	-28.9%	8,052
Total	21,370	-29.0%	30,103

Within technical investments on the Telekom Srbija Group level, the largest investments were made in wireless and access network, followed by the investments in switching and management systems, Internet and multimedia and transport and optical network.

Technical investments			
In million RSD	2009	Growth rate	2008
Switching and management systems	2,991	-60.5%	7,576
Access network	3,645	-33.8%	5,508
Wireless network	3,506	-10.9%	3,936
Transport and optical network	2,426	1.8%	2,382
Internet and Multimedia	2,890	33.8%	2,161
Other technical investments	188	-61.4%	488
Total	15,646	-29.0%	22,051

On the Telekom Srbija Group level, total infrastructural investments realized in 2009 amounted to 5,7 billion dinars.

Infrastructural investments			
In million RSD	2009	Growth rate	2008
Investments in IT	3,105	-21.9%	3,978
Investments in logistics support	2,082	-39.7%	3,456
Other investments	537	-13.2%	618
Total	5,724	-28.9%	8,052

Of total infrastructural investments on the Group level, 54% refers to IT investments, 37% refers to logistics support investments, whereas 9% refers to other investments.

Within the IT investments, amounting to 3,1 billion dinars, 56% refers to the investments of the Parent Company, while 43% refers to the investments of Telekom Srpske subsidiary.

From the perspective of logistics support investments, the Parent Company and subsidiary Telekom Srpske mostly invested in the construction of RBS poles, subsidiary Mtel in real estate and land, while subsidiary Telus invested in labour equipment.

Customers

In 2009, the Group achieved a growth in the total number of customers in fixed and mobile telephony, as well as an increase of Internet and multimedia services users.

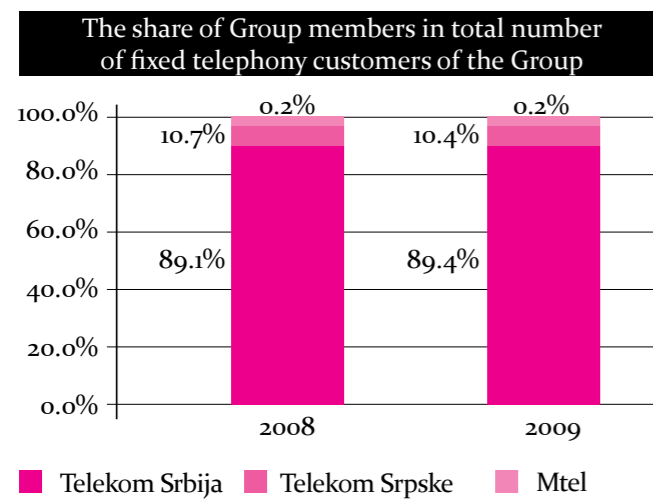
Fixed telephony customers

Fixed telephony services of the Group are used by 3,4 million customers.

The share of Group members in total number of fixed telephony customers of the Group is presented in the following table:

Total number of fixed telephony customers			
In thousand	2009	Growth rate	2008
Telekom Srbija	3,037	1.4%	2,995
Telekom Srpske	355	-1.4%	360
Mtel	7	14.5%	6
Total	3,399	1.1%	3,361

The share percentage of Group members in total number of fixed telephony customers of the Group is presented in the following chart:



In 2009, the Group had 3,2 million POTS users. The rest refers to CLL users (45,9 thousand), ISDN BRI users (97,1 thousand), ISDN PRI users (2,7 thousand) and WiMax users (6,9 thousand).

Total number of fixed telephony customers			
In thousand	2009	Growth rate	2008
POTS users	3,246	1.0%	3,215
CLL users	46	4.5%	44
ISDN BRI users	97	3.6%	94
ISDN PRI users	3	34.8%	2
WiMax users	7	14.5%	6
Total	3,399	1.1%	3,361

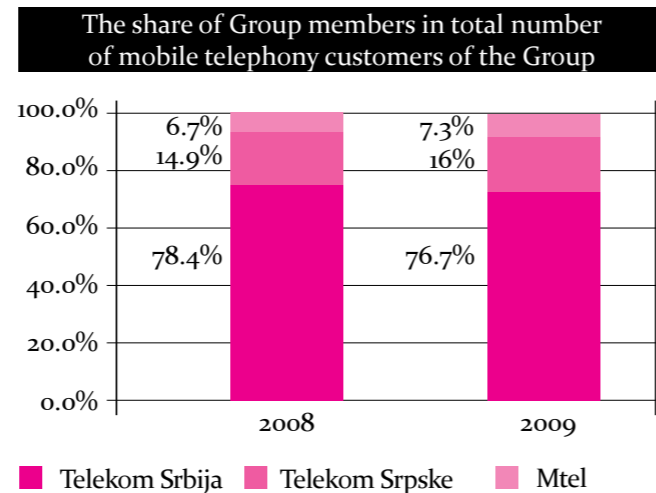
In the structure of POTS users 90% refers to residential and 10% to business customers, while in the structure of the ISDN BRI user 60% refers to the residential and 40% to business customers.

Mobile telephony customers

In 2009, the total number of mobile telephony customers at the Group level was 7,7 million.

The share of Group members in total number of mobile telephony customers of the Group is presented in the following table:

Total number of mobile telephony customers			
In thousand	2009	Growth rate	2008
Telekom Srbija	5,916	0.8%	5,867
Telekom Srpske	1,231	10.6%	1,113
Mtel	561	11.9%	501
Total	7,708	3.0%	7,481



From the information displayed in the previous chart it is evident that the share of Parent Company customers in the total number of mobile telephony customers is 77%, the share of Telekom Srpske subsidiary is 16% and the share of Mtel subsidiary is 7%.

In 2009, the number of prepaid customers is 6,2 million and it makes 80% of the total number of customers, while the number of postpaid customers amounted to 1,5 million and it had a 20% share in the total number of customers.

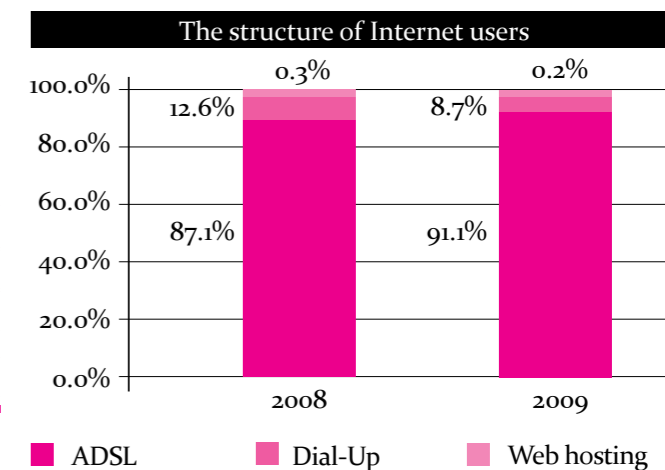
Total number of mobile telephony customers			
In thousand	2009	Growth rate	2008
Prepaid	6,156	0.4%	6,130
Postpaid	1,552	14.8%	1,351
Total	7,708	3.0%	7,481

In 2009, there was a larger increase of postpaid customers in relation to the prepaid customers' growth, where the postpaid customers increase was mostly related to the Parent Company.

In the previous period, the most important changes in the telecommunications market were evident in the Internet services segment, primarily regarding broadband Internet access.

As for the ADSL access, which is the most common manner of broadband Internet access, in 2009 there was an increase by 151 thousand customers at the Group level, so the total number of customers was 442 thousand. Of these, 73% are related to retail and 27% to wholesale.

The structure of Internet users in 2008 and 2009 is presented in the following chart:



Telekom Srpske subsidiary provides only ADSL retail services, which customers make 16% of the total number of the Group retail customers, while Mtel subsidiary does not provide ADSL services.

The total number of Dial-up service users in 2009 was 42 thousand, most of which refers to the customers of Telekom Srpske subsidiary.

Internet users			
In thousand	2009	Growth rate	2008
ADSL	442	51.9%	291
Dial-up	42	1.7%	42
Web hosting	1	40.1%	1
Total	485	45.3%	334

The number of IPTV users at the end of 2009 amounts to 23 thousand. Within the Group this service was provided only by the Parent Company in 2009, while in Republika Srpska the service provision commenced in 2010.

Financial overview

Income Statement			
In million RSD	2009	2008	2007
Operating revenues	89,198	84,893	74,609
Operating expenses	(70,192)	(67,475)	(62,234)
Operating profit (EBIT)	19,006	17,417	12,375
EBIT rate	21.3%	20.5%	16.6%
Depreciation	16,574	15,714	13,954
EBITDA	35,580	33,131	26,329
EBITDA rate	39.9%	39.0%	35.3%
Net financial expenses	(3,052)	(11,541)	(149)
Profit tax	(405)	(572)	(653)
Net profit	15,549	5,304	11,573
Net profit rate	17.4%	6.2%	15.5%

In 2009, the overall operating revenues were generated in the amount of 89,2 billion dinars, which represents a growth of 5.1% compared to 2008. In the viewed period, operating expenses equaled 70,2 billion dinars and recorded a 4.0% increase compared with 2008.

In the viewed period, the net financial expenses were incurred in the amount of 3,1 billion dinars, while the same expenses in 2008 equaled 11,5 billion dinars. Such a trend was largely the result of a reduction in the net amount of interest costs, which declined by 40.7% mostly due to the repayment of a part of the loan and decrease of EURIBOR rate, and amounted to 2,2 billion dinars. On the other hand, financial revenues in the viewed period were significantly influenced by revenues from Telekom Srpske dividends in the amount of 5,1 billion dinars.

The Company's profit, upon taxation, equals 15,5 billion dinars, which represents a growth of 193.1% compared with previous year.

A faster growth of operating revenues compared with the growth of operating expenses

led to an increase in EBIT, i.e. operating profit by 9.1% relative to the comparative year, which amounted to 19,0 billion dinars.

In 2009, there was also a growth of 7.4% in EBITDA relative to the comparative year, which then amounted to 35,6 billion dinars.

Operating revenues

The total operating revenues increased by 4,3 billion dinars compared with 2008 and amounted to 89,2 billion dinars. Higher revenues were mostly the result of Internet services retail, while mobile and fixed telephony contributed to the growth in approximately equal amounts.

Operating revenues from **fixed telephony** saw a growth of 2.7% compared with previous year and amounted to 45,1 billion dinars. The growth in revenues was mostly the result of a higher income from the subscription fees, primarily due to an increase in the subscription fee for a direct POTS connection of 161%, starting from 1 November 2008. On the other hand, although there was a slight increase in the number of fixed telephony customers (1.4%), revenues from local traffic declined by 12.2%.

Operating revenues from **mobile telephony** increased by 3.2% and amounted to 40,6 billion dinars. The pace of growth of mobile telephony revenues slowed down compared to previous years due to the saturation of the market. Revenues from postpaid traffic grew by 8.3% mostly due to an increase in the number of postpaid customers, while revenues from prepaid services saw a decline of 4.8%, mostly due to a 2.3% reduction in the number of prepaid customers and the promotional activities of the Company (free minutes, free SMSs, etc.).

The growth of operating revenues was largely the result of higher operating revenues from **Internet services retail**, which saw a growth of 106.1% and amounted to 3,3 billion dinars, while the share of the same in the total operating revenues is still low and equals 3.8%. The growth

in the said revenues is mostly the result of an increase in the number of ADSL users in retail.

Operating expenses

In the structure of the total operating expenses, the largest share belongs to depreciation costs, operator costs and the costs of salaries and other personal expenses, which account for over 60% of the operating expenses incurred in 2009.

Marketing costs increased by 21.2% compared with 2008 and equaled 2,8 billion dinars in 2009. The main reasons for an increase in the said costs are higher costs of promoting dealer sales and slightly higher sponsorship costs. On the other hand, there was a decline in the advertising costs and other marketing costs.

The costs of lease grew by 15.0% and amounted to 3,7 billion dinars. The growth of these costs was mostly the result of a 15% decline in the average dinar value in relation to the euro in 2009 compared with 2008 (most lease agreements contain a foreign currency clause), and new lease agreements.

The costs of salaries and other personal expenses grew in 2009 by a total of 3.3% and amounted to 13,0 billion dinars. The growth in this category is mostly the result of the growth of gross salaries. On the other hand, in 2009, the expenses against voluntary layoffs from the Company saw a decline of 63.8% compared with previous year and amounted to 389 million dinars (in 2009 and 2008, 175 and 530 employees left the Company on these grounds).

The costs of materials and maintenance fell by 2.5% compared with 2008 mostly due to reduction in direct sales, which has been more and more substituted by sale of mobile phones and postpaid packages by distributors. The costs of materials and maintenance in 2009 amount to 7,6 billion dinars.

Operator costs saw a decline of 1.4% and equaled 13,0 billion dinars in 2009. The decline in these costs was largely the result of lower costs of international settlement and the lease of international lines, which fell by 7.6% compared with 2008.

Balance Sheet			
In million RSD	2009	2008	2007
Stock	5,439	6,604	6,747
Receivables	13,486	12,163	10,665
Cash and cash equivalents	9,462	4,861	2,930
Other	2,917	3,131	4,061
Working assets	31,304	26,759	24,403
Intangible assets	8,224	10,982	7,713
Fixed assets	110,952	110,471	109,179
Investments in subsidiaries	58,046	57,289	57,162
Other	2,168	2,118	1,914
Permanent assets	179,390	180,860	175,969
Total assets	210,694	207,619	200,371
Current portion of long-term loans	23,547	30,768	4,733
Liabilities from operations	6,876	9,756	12,000
Other short-term liabilities	11,924	10,191	10,423
Current liabilities	42,347	50,715	27,156
Deferred income	3,787	3,733	3,889
Long-term provisions	2,067	1,899	1,577
Long-term loans	49,324	49,755	66,917
Long-term liabilities	55,178	55,387	72,383
Capital	113,169	101,517	100,832
Total liabilities	210,694	207,619	200,371

Ratio Analysis			
In million RSD	2009	2008	2007
Debt	72,871	80,523	71,650
Liabilities from operations	6,876	9,756	12,000
Other liabilities	17,778	15,823	15,889
Total liabilities	97,525	106,102	99,539
Debt	72,871	80,523	71,650
Cash and cash equivalents	9,462	4,861	2,930
Net debt	63,409	75,662	68,720
Capital	113,169	101,517	100,832
Total capital (Net debt+Capital)	176,578	177,179	169,552
Debt ratio (Net debt/Total capital)	35.9%	42.7%	40.5%
Debt coverage (Net debt/EBITDA)	1,77	2,28	2,61
Interest coverage	13,40	8,09	12,69
Total liabilities/EBITDA	2,73	3,19	3,78
Quick liquidity ratio	0.72	0.42	0.90

The decrease in debt ratio as at 31 December 2009 was mostly due to the repayment of a part of the liabilities under long-term loans and increase in the capital due to the generated net profit for 2009.

Some loan agreements define the liabilities of the Company envisaging that the Company should observe certain financial indicators the most important of which are Debt coverage and Interest coverage. As at 31 December 2009, the Company adjusted its financial indicators to the set parameters.

In 2009, the required EBITDA for the repayment of liabilities was 2,73, while in 2008, the required EBITDA was 3,19.

Cash Flows Overview			
In million RSD	2009	2008	2007
Profit before taxation	15,954	5,876	12,226
Depreciation	16,574	15,713	13,954
Adjustment to profits and changes in the working capital	(7,263)	(2,046)	(1,946)
Net cash-ins from operating activities	25,266	19,544	24,234
Net capital investments	(14,109)	(20,475)	(23,472)
Free cash flow	11,156	(932)	762
Net cash-in/(cash-out) from other investment activities	4,963	(3,389)	(52,655)
Net (cash-out)/cash-in from financing activities	(11,519)	6,251	48,550
Net cash-in/(cash-out)	4,600	1,931	(3,343)
Cash at the end of the year	9,462	4,861	2,930

In 2009, owing to higher cash-ins from operating activities and a more prudent investment policy, there were sufficient available funds to cover the financial liabilities (free cash flow is positive and is significantly improved as compared to 2008).

Investments

The telecommunications market in Serbia represents a free and open market where a large number of companies, both foreign and domestic, operate and within RATEL's regulations, attempt to promote the offer and quality of services in order to secure their market position. The trend shows that it is only through adequate capital investments that it is possible to make a progress on the market and to a certain extent, anticipate the trends in such a dynamic industry such as telecommunications.

The capital investments in the Company are of key importance and they amount to 14,1 billion dinars. In 2009, investments were directed towards improving technical capacities of the network, introducing new capacities which ensure the provision of telecommunications services in the geographical areas where it was impossible before.

The Company set aside 77% of the funds as investments in the technical development of its network, whereas 23% of the total funds were allocated as investments in IT and logistics support. With intensive investments into technical development, the Company wishes to create a flexible and reliable network that will lay the groundwork for a proper operation of service platforms, and to achieve a high level of customer satisfaction.

Investments			
In million RSD	2009	Growth rate	2008
Technical investments	10,982	-30.2%	15,741
Infrastructure investments	3,202	-38.4%	5,201
Total	14,184	-32.3%	20,942

In 2009, the development of technical investments was focused on the following:

In **fixed telephony** investments were primarily intended for the upgrade and modernization of access network capacities that will become the basis for the provision of new broadband services, an increase in the digitalization level and separation of two-party lines of the access network. As a result of investments in 2009, the degree of network digitalization rose to 96.8% (in 2008: 95.5%) and 34 thousand two-party lines were separated. In this period, the access network capacities were also expanded.

In **mobile telephony** investments were intended for the development of network capacities and quality in order to maintain high

quality of service. In the relevant period, 441 base stations were put into operation, where of 244 UMTS base stations and 197 GSM base stations. In this manner, the capacity for the provision of broadband services and the coverage of the territory and population in Serbia were expanded. Currently, the coverage of the territory and population by the GSM signal is over 80%. Likewise, part of the investment is also intended for IT, so that in this period the SDP platform was implemented and investments were made in the replacement of the billing system for mobile services. The Service Delivery Platform (SDP) is one of the strategic projects that will provide flexibility for the Company in the provision of various types of mobile services and their placement on the market in a shorter period of time.

In the **Internet** sphere investments are intended for developing the IP/MPLS network and increasing broadband Internet capacity. The investments in 2009 resulted in 175 thousand new ADSL ports, which represent a 54% increase in capacities. Full IT support to the Universiade in Belgrade was an important investment project in this period. This implied full IT infrastructure support, software support and the development of all applications for the needs of operative support to the organization of the Universiade.

In the sphere of **multimedia services** investments are intended for an upgrade of the IPTV service. The equipment for the expansion and upgrade of the IPTV platform was delivered, particularly for the nPVR (network Personal Video Recorder) service, IPTV service in the business customer segment and easier operation by the customers. In this period, the IPTV signal quality control system was also implemented (QoE – Quality of Experience).

In the **CDMA segment** in 2009, investments were made in the expansion of the wireless network and 61 CDMA base stations and 10 thousand CDMA terminals were installed, which ensured the connection of additional 19 thousand new customers.

In terms of investments in the technical capacities of the telecommunications network, the Company directed a major portion of investments in 2009 towards the access network (25%), followed by the Internet and multimedia (22%), wireless network (19%), transport optical network (17%) and switching management network (15%).

Technical investments			
In million RSD	2009	Growth rate	2008
Access network	2,742	-35.4%	4,242
Wireless network	2,088	-14.5%	2,442
Transport optical network	1,878	4.7%	1,793
Switching and management network	1,694	-66.5%	5,056
Internet and Multimedia	2,393	39.2%	1,720
Other technical investments	187	-61.7%	488
Total	10,982	-30.2%	15,741

In 2009, infrastructure investments amounted to 3 billion dinars. Investments in infrastructure mostly pertain to investments in IT (54%) and logistics support (46%).

The above structure of the capital investments in infrastructure in 2009 and 2008 is shown in the table below:

Infrastructural investments			
In millions RSD	2009	Growth rate	2008
Investment in IT	1,728	-26.8%	2,360
Investment in logistic support	1,474	-48.1%	2,841
Total	3,202	-38.6%	5,201

The most important projects in this period cover the refurbishment of the call centre, investments in TIS and GIS systems, and investments in servers, procurement of equipment for storage system, investments in SW and HW of information technologies of mobile telephony.

As regards the investments in logistic support, the radio base stations and radio relay poles were installed, new power generators were constructed and the equipment for testing copper pairs was procured. Likewise, in this period the customer services were refurbished and a number of other facilities were also adapted and equipped to serve other purposes or to meet new operating requirements of the Company.

Customers

Despite the challenging economic environment and an increasingly stronger competition in the sphere of mobile telephony and the Internet, the total number of customers increased as compared to 2008.

Fixed telephony customers			
In thousand	2009	Growth rate	2008
POTS	2,950	1.3%	2,912
ISDN	87	4.2%	83
Total	3,037	1.4%	2,995

In the course of 2009, 3 million customers use fixed telephony services, which represents some 42% market penetration. In 2009, the Company saw an increase in the number of customers of 1.4% as compared to 2008, but the number of new fixed customers is lower than the previous year, among the rest, due to alternative forms of communication such as mobile telephony and the Internet. In the fixed telephony structure, POTS connections have a share of 97%, whereas ISDN connections account for the rest of connections. In the POTS structure, CDMA connections saw the largest increase in new customers in 2009. As at 31 December 2009 the Company has approximately 44 thousand CDMA customers.

The development of fixed telephony depends on the implementation of state-of-the-art

technologies which provide for new types of services. Telephone lines are provided via the CDMA and CLL networks to customers in hardly accessible and rural areas where telecommunications infrastructure has not been built or is insufficiently developed. The development of IP technology provides telephone services to customers via the IP network such as IP phone and IP Centrex.

Mobile telephony customers			
In thousand	2009	Growth rate	2008
Prepaid	4,569	-2.3%	4,678
Postpaid	766	9.7%	698
Biznet	581	18.3%	491
Total	5,916	0.8%	5,867

The total number of customers on the mobile telephony market in Serbia exceeds the number of inhabitants, so that penetration amounted to 135% at the end of 2009 (128% in 2008). The Company is the market leader with a 60% share. Besides, in 2009, a positive change of 1% of new customers was recorded as compared to 2008.

Due to a high market penetration in Serbia, in the coming period, the number of new customers is expected to drop and a great competition to retain the existing customers is expected to take place. Market penetration keeps abreast of the trends in countries in the region.

Internet and multimedia			
In thousand	2009	Growth rate	2008
ADSL retail	272	66.7%	163
ADSL wholesale	117	13.7%	103
IPTV	23	2.293,4%	1
Total	412	54.2%	267

On the Internet market in Serbia, significant changes may be seen primarily in the number of customers, and then in the structure of Internet connections. The 2005-2008 period saw an increase in Internet service customers (including 3G network customers) of 0,9³ million customers. Likewise, in the relevant period, also visible is a drop in dial-up service users and increasingly greater customer needs for the broadband Internet, which testifies to the customers' interest in the service which provides for a better and easily accessible content.

At the end of 2009, the Company had 272 thousand ADSL users, which accounts for 70% of the ADSL Internet market. In the relevant period, the Company saw an increase in ADSL users in retail sale of 66%. As compared to the region, the number of broadband Internet lines is below average, so that the number of customers in this area is expected to continue to rise.

On the market in 2009, a significant increase is seen in the users of the mobile Internet which, as a new broadband Internet service, appeared in Serbia in 2008. The penetration of the mobile Internet in 2009 accounts for only 0.8%, but the number of customers doubled as compared to the past period and a further increase in the number of customers is expected. At the end of 2009, the Company has 38 thousand customers, which represents an increase as compared to 2008 and accounts for 64% of the total market.

As of October 2008, the Company has provided the service of RTV programme distribution via IP protocol (IPTV). The new service makes up 2.3% of the market in Serbia, but in the course of 2009, there was a positive change in new customers and a great interest in this service. On the basis of the results achieved in 2009, this service is assessed to have a potential to develop and become competitive on the market.

3. RATEL's data used

Financial overview

Income Statement			
In million RSD	2009	2008	2007
Operating revenues	23,500	19,793	16,001
Operating expenses	(17,916)	(14,167)	(12,457)
Operating profit (EBIT)	5,584	5,626	3,544
EBIT rate	23.8%	28.4%	22.1%
Depreciation	4,766	3,467	3,247
EBITDA	10,350	9,093	6,791
EBITDA rate	44.0%	45.9%	42.4%
Net financial expenses	(95)	(108)	(234)
Profit tax	(559)	(578)	(357)
Net profit	4,930	4,940	2,953
Net profit rate	21.0%	25.0%	18.5%

The presented results were significantly influenced by a fall in the average value of RSD/KM in 2009 as compared to 2008 in the amount of 15%.

In 2009, the total operating revenues amounting to 23,5 billion dinars were generated, which represents an 18.7% increase as compared to 2008. In the relevant period, operating expenses amount to 17,9 billion dinars and are 26.5% higher as compared to 2008.

Faster growth in operating expenses as compared to an increase in operating revenues led to a slight fall of operating profit of 0.7% and net profit of 0.2%.

On the other hand, EBITDA saw a rise of 13.8% amounting to 10,4 billion dinars in 2009.

Operating revenues

An increase in revenues was mostly due to an increase in revenues generated by mobile telephony in the amount of 2,4 billion dinars, whereas fixed telephony and Internet services

contributed to an increase of some 0,9 and 0,4 billion dinars respectively.

Operating revenues from **mobile telephony** increased by 22.9% in total, reaching 12,7 billion dinars. The main reasons for the increase lie in revenues from prepaid services (an increase of 28.0%) and revenues from postpaid traffic (22.0%).

Operating revenues from **fixed telephony** saw an increase of 9.8% as compared to the previous year reaching 10,1 billion dinars. The reason for such an increase primarily lies in an increase in revenues from subscription fees of 16.4%. Revenues from traffic saw a slight increase (3.3%).

Operating revenues from **Internet service** had a significant impact on an increase in operating revenues seeing a 147.1% growth and amounting to 760 million dinars, mostly due to an increase in ADSL service retail sale.

Operating expenses

Depreciation costs, operator costs and cost of salaries and other personal expenses have the largest share in the structure of total operating expenses as they represent more than 60% of operating expenses generated in the course of 2009.

Marketing costs increased by 20.2% as compared to 2008 and amount to 675 million dinars. The main reasons lie in an increase in advertising costs and other marketing costs.

Costs of lease increased by 44.1% mainly due to new lease contracts and amount to 567 million dinars.

Costs of salaries and other personal expenses rose by 25.1% in 2009 mainly due to

increase in gross salaries and amount to 4,0 billion dinars.

Costs of material and maintenance increased by 13.9% mainly due to an increase in transport and maintenance costs and amount to 1,3 billion dinars.

Balance Sheet			
In million RSD	2009	2008	2007
Stock	1,023	1,127	857
Receivables	2,169	2,090	1,484
Cash and cash equivalents	4,507	8,260	2,394
Other	1,712	1,837	712
Working assets	9,411	13,314	5,447
Intangible assets	6,198	4,362	4,030
Fixed assets	31,048	28,501	22,053
Other	616	357	266
Permanent assets	37,862	33,220	26,349
Total assets	47,273	46,534	31,796
Current portion of long-term loans	2,033	1,924	1,147
Liabilities from operations	2,265	2,307	993
Other short-term liabilities	1,337	1,589	1,268
Current liabilities	5,635	5,820	3,408
Deferred income	381	376	373
Long-term provisions	558	576	504
Long-term loans	5,470	4,507	3,809
Long-term liabilities	6,409	5,459	4,686
Capital	35,229	35,255	23,702
Total liabilities	47,273	46,534	31,796

Operator costs increased by 21.0% and amount to 2,7 billion dinars in 2009. An increase in these costs was mostly due to the growth of roaming and interconnection costs.

Cash Flows Overview			
In million RSD	2009	2008	2007
Profit before taxation	5,489	5,518	3,310
Depreciation	4,766	3,467	3,247
Adjustment of profit and changes in the working capital	(1,039)	4,254	(217)
Net cash-ins from operating activities	9,216	13,239	6,340
Net capital investments	(3,571)	(3,640)	(2,332)
Free cash flow	5,645	9,599	4,008
Net cash-in/(cash-out) from other investment activities	448	(1,169)	(22)
Net cash-out from financing activities	(9,846)	(2,564)	(2,708)
Net (cash-out)/cash-in	(3,753)	5,866	1,278
Cash at the end of the year	4,507	8,260	2,394

In 2009, due to lower cash-ins from operating activities, the free cash flow declined compared with 2008.

Ratio Analysis			
In million RSD	2009	2008	2007
Debt	7,503	6,431	4,956
Liabilities from operations	2,265	2,307	993
Other liabilities	2,276	2,541	2,145
Total liabilities	12,044	11,279	8,094
Debt	7,503	6,431	4,956
Cash and cash equivalents	4,507	8,260	2,394
Net debt	2,996	(1,829)	2,562
Capital	35,229	35,255	23,702
Total capital (Net debt+Capital)	38,225	33,426	26,264
Debt ratio (Net debt/ Total capital)	7.8%	n/a	9.8%
Debt coverage (Net debt/EBITDA)	0,29	n/a	0,38
Interest coverage	95,46	79,43	27,47
Total liabilities/ EBITDA	1,16	1,24	1,19
Quick liquidity ratio	1.60	2.34	1.40

The quick liquidity ratio fell from 2,34 to 1,60 mostly due to 7,7 billion dinars worth of dividends paid out to the shareholders in 2009.

Investments

The total investments of the Telekom Srpske subsidiary equaled 6,4 billion dinars (KM 134 million) in 2009.

Total investments			
In million RSD	2009	Growth rate	2008
Technical investments	4,328	-15.2%	5,106
Infrastructure investments	2,113	7.8%	1,961
Total	6,441	-8.9%	7,067

As can be seen from the information presented in the table, technical investments equaled 4,3 billion dinars (KM 90 million) and accounted for 67%, while infrastructure investments equaled 2,1 billion dinars (KM 44 million) and accounted for 33%.

Total investments			
In million RSD	2009	Growth rate	2008
Fixed telephony	1,720	-43.6%	3,051
Mobile telephony	3,155	70.6%	1,850
Internet and Multimedia	496	11.3%	446
Investments in IT	243	-74.1%	939
Investments in logistics support	827	5.8%	781
Total	6,441	-8.9%	7,067

Fixed telephony

Capital investments in fixed telephony in 2009 equaled 1,7 billion dinars (KM 36 million). In the capital investment structure, the largest share belongs to investments in the access network 53%, followed by investments in switching systems 28%, while investments in the transport network account for 11%.

Significant capital investments were made in the field of building infrastructure telecommunications facilities (construction of access networks, construction of a wireless access network CLL, cable ducts, junction cables, etc.).

In 2009, the subsidiary continued to invest in fixed telephony in order to achieve 100% of fixed network digitalization. Of the total investments in switching systems, 35% refer to digital switching systems, while 65% refer to national switching systems-multiservice access node.

Significant investments were also made in the transport network. Of the total investments in the transport network, 93% refer to the optical transport network, 1% to radio relays and 6% to SDH transmission systems. By increasing the capacities of the optical transport network, we create preconditions for connecting a large number of MSAN and DSLAM locations in the network, an increase in Internet traffic due to ADSL services, and a higher demand for Internet traffic created by Internet service providers and business customers and the introduction of new services such as IPTV.

Mobile telephony

Investments in mobile telephony in 2009 equaled 3,2 billion dinars (KM 66 million). In the investment structure, the largest share belongs to investments in radio equipment

(40%), followed by the procurement of an UMTS license (34%) and switching equipment (26%).

Investments in mobile telephony radio equipment largely refer to the delivery and installation of UMTS equipment and the extension of radio subsystems, the procurement and installation of transmission equipment and the installation of equipment. In 2009, funds were invested in the procurement of an UMTS license in the amount of 1,1 billion dinars (KM 23 million). Over 980 base stations were launched into operation.

Internet and multimedia

In 2009, investments in Internet and multimedia equaled 496 million dinars (KM 10 million). In the investment structure, the largest share of 28% belongs to investments in xDSL access equipment (concentrators), IP/MPLS network equipment 21% and IPTV 22%.

In 2009, the subsidiary continued expanding the existing Internet capacities and increased the capacities for ADSL services and data transmission services for business customers based on IP/MPLS technology.

Information technologies

Investments in this field in 2009 equaled 243 million dinars (KM 5 million). In the investment structure, the largest share belonged to investments in information technologies SW and HW 38%, investments in customer HW and SW 21%, investments in system HW and SW 13%, while investments in the computer network and projects account for 11% each.

Within investments in system SW and licenses, the most significant investment refers to the construction of a new portal. In

2009, the subsidiary extended its capacities, functions and corporate computer network availability due to greater needs of corporate services for network resources. Also, the passive part of the network was reconstructed in accordance with the opening of new contact centres.

Logistics support

Investments in logistics supports in 2009 equaled 827 million dinars (KM 17 million). In the investment structure, the largest part referred to investments in the construction of radio base poles (that include investments based on the turn-key project in the Bosnia-Herzegovina Federation) with share of 51%, investments in technological plants 14% and investments in refurbishments 8%.

Customers

Along with coping with world trends and the latest technological achievements in the telecommunications field, the Telekom Srpske subsidiary also pays great attention to the customers' needs and wishes.

Knowing that today they want much more than to be able to make a phone call, the subsidiary offers numerous additional services to business customers. Integrated business solutions with phone calls and data transmission in the mobile and fixed networks are enabled, and thus preconditions for successful operations were created.

Fixed telephony

The total number of fixed telephony subscribers in the Telekom Srpske subsidiary equaled 355 thousand as at 31 December 2009.

Total number of fixed telephony customers			
In thousand	2009	Growth rate	2008
Residential customers	285	-2.2%	291
Business customers	34	-2.0%	35
CLL customers	36	6.0%	34
Total	355	-1.4%	360

Of the total number of fixed telephony subscribers at the end of 2009, 86% were POTS connections, 4% ISDN connections, and 10% CLL connections.

Of the total number of fixed telephony subscribers, 90% refer to residential subscribers, including POTS, ISDN BRI and CLL connections, while 10% refer to fixed telephony business customers, in particular POTS, ISDN BRI, ISDN PRI and fixed GSM connections.

Mobile telephony

As at 31 December 2009, mobile telephony had 1,2 million customers, of which 87% were prepaid customers, 7% were postpaid customers and 4% were VPN customers. There were 32 thousand fiscal cash register users, which accounts for 2% of the total number.

Total number of mobile telephony customers			
In thousand	2009	Growth rate	2008
Prepaid	1,069	7.8%	991
Postpaid	84	2.1%	82
VPN	46	24.7%	37
Cash registers	32	865.5%	3
Total	1,231	10.6%	1,113

The total number of postpaid subscribers, apart from standard postpaid customers, also includes the users of the Total Net service and the Total Data service.

Internet

The total number of ADSL customers as at 31 December 2009 equaled 53 thousand.

The total number of Dial-up services as at 31 December 2009 equaled 42 thousand, of which 37 thousand refer to Dial-up residential customers, while the rest refers to business customers.

Total number of Internet customers			
In thousand	2009	Growth rate	2008
ADSL retail	53	122.9%	24
Dial-up residential customers	37	2.5%	36
Dial-up business customers	5	1.2%	5
Web hosting customers	1	9.6%	1
Total	96	44.8%	66

Financial overview

Income Statement			
In million RSD	2009	2008	2007
Operating revenues	4,854	4,044	939
Operating expenses	(5,324)	(4,036)	(2,099)
(Operating loss)/EBIT	(470)	8	(1,160)
EBIT rate	-	0.2%	-
Depreciation	1,069	679	185
EBITDA	599	687	(975)
EBITDA rate	12.3%	17.0%	-
Net financial expenses	(357)	(415)	(109)
Deferred profit tax	(142)	36	113
Net loss	(969)	(371)	(1,156)

The presented results were significantly influenced by a 15% decline in average RSD/EUR value in 2009 compared to 2008.

Total operating revenues achieved in 2009 amounted to 4.9 billion dinars, which represents a 20.0% growth compared to 2008. In the reporting period, the operating expenses amounted to 5.3 billion dinars, with a growth of 31.9% in relation to the comparative period.

A faster growth in operating expenses compared to the growth of operating revenues had an impact on EBITDA decline of 12.8% compared to the previous year. In 2009 EBITDA amounted to 599 million dinars.

Operating revenues

The increase in operating revenues in 2009 was mainly induced by the **mobile telephony** operating revenues increase of 19.3% in relation to the previous year. The main reason is primarily increase in number of customers.

The operating revenues from **fixed telephony and Internet** recorded a growth of 47.7% compared to the previous year and amounted to 155 million dinars. The most significant impact on this trend had the increase in revenues from WiMax subscription of 101.1%, compared to 2008, and a 14.4% increase in the revenues from traffic.

Operating expenses

In the structure of total operating expenses, the largest share belonged to the depreciation costs, operator costs and costs of salaries and other personal costs, which accounted for over 60% of the operating expenses incurred in 2009.

Marketing costs decreased by 20.4% compared to 2008 and amounted to 184 million dinars. The main reason for a drop in these costs is a decline in the costs of advertising and other marketing costs. On the other hand, there was a slight increase in the sponsorship costs.

The costs of lease increased by 25.0% and reached 308 million dinars. The growth of these costs was most significantly influenced by the new lease agreements.

The costs of materials and maintenance decreased by 13.2% compared to 2008 and amounted to 570 million dinars. The reason for a drop in these costs is reduction of promotional activities, i.e. 51.1% reduction of the costs of sold mobile phones and packages. On the other hand, maintenance costs increased by 58.1% compared to the previous year.

Operator costs recorded a growth of 11.8% and in 2009 amounted to 1.6 billion dinars. The growth of these costs was mostly influenced by the interconnection costs.

Balance Sheet			
In million RSD	2009	2008	2007
Stock	48	71	172
Receivables	484	1,259	225
Cash and cash equivalents	11	16	65
Other	73	160	448
Working assets	616	1,506	910
Intangible assets	2,204	2,305	1,410
Fixed assets	5,287	5,226	3,637
Other	214	303	183
Permanent assets	7,705	7,834	5,230
Total assets	8,321	9,340	6,140
Current portion of long-term loans	3,211	3,044	404
Liabilities from operations	2,841	2,723	946
Other short-term liabilities	455	298	223
Current liabilities	6,507	6,065	1,573
Deferred income	42	44	40
Long-term provisions	14	9	-
Deferred tax liabilities	155	120	49
Long-term loans	3,929	4,339	5,226
Long-term liabilities	4,140	4,512	5,315
Capital	(2,326)	(1,237)	(748)
Total liabilities	8,321	9,340	6,140

Ratio Analysis			
In million RSD	2009	2008	2007
Debt	7,140	7,383	5,630
Liabilities from operations	2,841	2,723	946
Other liabilities	666	472	312
Total liabilities	10,647	10,578	6,888
Debt	7,140	7,383	5,630
Cash and cash equivalents	11	16	65
Net debt	7,129	7,367	5,565
Capital	(2,326)	(1,238)	(748)
Total capital (Net debt+Capital)	4,803	6,129	4,817
Debt coverage (Net debt/EBITDA)	11,91	10,73	n/a
Interest coverage	2,49	2,23	n/a
Total liabilities/EBITDA	17,79	15,40	n/a
Quick liquidity ratio	0.08	0.22	0.44

Increase of the debt coverage coefficient was induced by a drop in EBITDA.

Cash Flows Overview

In million RSD	2009	2008	2007
Loss before taxation	(827)	(407)	(1,269)
Depreciation	1,069	679	185
Adjustment of loss and changes on working capital	126	767	668
Net cash-ins/(cash-outs) from operating activities	367	1,039	(417)
Net capital investments	(535)	(988)	(2,192)
Free cash flow	(167)	51	(2,608)
Net cash-in/(cash-out) from financing activities	162	(100)	2,673
Net (cash-out)/cash-in	(5)	(49)	65
Cash at the end of the year	11	16	65

In 2009, reduced cash-ins from operating activities was insufficient to cover net capital investments leading to a negative free cash flow.

Investments

Total investments of Mtel subsidiary in 2009 amount to 431 million dinars (EUR 4,6 million).

Total investments			
In million RSD	2009	Growth rate	2008
Investment into mobile telephony network	168	-90.5%	1,767
Investment into WiMax network	56	-86.4%	413
Construction works	128	-11.0%	144
Other investments	79	-30.3%	113
Total	431	-82.3%	2,437

Investments into the **mobile telephony network** are mostly related to investments in radio equipment (installation of RBS and RR equipment), in order to increase the coverage of the territory by 2G and 3G signal.

Investments in traffic pricing equipment are related to the procurement of a test billing system, procurement of NRTRDE (Near Real-Time Roaming Data Exchange) platform, as well as billing system license extension for 30 thousand subscribers during 2009.

The largest part of investments into the **WiMax network** is related to the installation of CPE devices due to an increase in the number of WiMax network users.

Investments in **construction works** are related to construction or refurbishment of the base station sites, in accordance with the network building plan, in order to increase the signal coverage of the territory.

Investments in **computer equipment** are related to the purchase of desktop and laptop computers, servers, printers, and active network equipment. Servers and active network equipment are intended for implementation of

the end-user services (VAS, mobile telephony, WiMax) and corporate services.

Other investments for the most part include investments into antenna poles for base stations in order to increase the signal coverage of the territory.

Customers

The realized market share at the end of December 2009 amounts to 26%, with 209% penetration on the Montenegrin mobile telephony market (according to the definition of the Telecommunications Agency).⁴

The number of mobile telephony subscribers was significantly increased at the end of 2009. Together with the increase in the number of prepaid customers, the number of biznet customers increased as well, given that such customers, within the postpaid customer segment, represent the strategic commitment of the subsidiary.

The number of customers, at the end of 2009, amounted to 561 thousand. The largest share is attributable to prepaid customers with 92%, whereas postpaid and biznet customers have 4% each.

Mobile telephony customers

In thousand	2009	Growth rate	2008
Prepaid	518	12.4%	461
Postpaid	23	-14.9%	27
Biznet	20	47.8%	13
Total	561	11.9%	501

The growth of prepaid customers, in 2009, was realized through promotional campaigns.

Biznet customers are of special importance, primarily because at issue are big companies, foreign representative offices and successful companies, which are also a reference for good business cooperation. In this segment, there is a very strong competition, given that the subsidiary is the third operator and the competition on the market has already acquired the largest number of major customers. In 2009, add-on services were offered, in order to encourage major customers to migrate to the subsidiary's network.

In 2009, 871 new WiMax customers were connected, whereby the total number of WiMax customers amounted to 7 thousand at the end of 2009.

4. Mtel uses a definition according to which the number of subscribers is calculated as per the activity in a 12-month period, which is contrary to the definition of the Telecommunications Agency, according to which the number of customers is calculated as per activity in a 90-day period.

Financial overview

Income Statement			
In million RSD	2009	2008	2007
Operating revenues	1,590	1,660	1,456
Operating expenses	(1,508)	(1,590)	(1,392)
Operating profit (EBIT)	82	70	64
EBIT rate	5.2%	4.2%	4.4%
Depreciation	23	14	12
EBITDA	105	84	76
EBITDA rate	6.6%	5.1%	5.2%
Net financial revenues	13	9	1
Profit tax	(12)	(15)	(13)
Net profit	83	64	52
Net profit rate	5.2%	3.9%	3.6%

In 2009, the share of revenues generated from the business activities with the Parent Company account for 62%, from PE PTT 32%, and others 6% (2008: Parent Company 57%, PE PTT 38%, others 5%).

Balance Sheet			
In million RSD	2009	2008	2007
Stock	4	1	1
Receivables	145	199	166
Cash and cash equivalents	34	39	11
Other	220	63	47
Working assets	403	301	225
Permanent assets	36	56	60
Total assets	439	357	285
Liabilities from operations	30	33	19
Other short-term liabilities	90	108	95
Current liabilities	120	141	114
Long-term provisions	71	51	60
Capital	248	165	111
Total liabilities	439	357	285

Cash Flows Overview			
In million RSD	2009	2008	2007
Profit before taxation	95	79	65
Depreciation	23	14	12
Adjustment of profit and changes on working capital	(5)	(44)	18
Net cash-ins from operating activities	113	52	95
Net capital investments	(1)	(10)	(10)
Free cash flow	112	42	85
Net cash-out from other investment activities	(117)	(6)	(10)
Net cash-out from financing activities	-	(8)	(70)
Net (cash-out)/cash-in	(5)	28	5
Cash at the end of the year	34	39	11

Ratio Analysis			
In million RSD	2009	2008	2007
Liabilities from operations	30	33	19
Other liabilities	161	159	155
Total liabilities	191	192	174
Total liabilities/EBITDA	1,82	2,30	2,27
Quick liquidity ratio	3,38	2,22	2,01

Financial overview

Income Statement		
In million RSD	2009	2008
Operating revenues	-	-
Operating expenses	(5)	-
Operating loss	(5)	-
EBITDA	(5)	-
Net financial revenues/(expenses)	4	(1)
Net loss	(1)	(1)

In the structure of total operating expenses the largest share is attributable to salary costs (75%).

Financial revenues in 2009 refer to sight-deposit interest rates and amount to 4,6 million dinars.

Balance Sheet		
In million RSD	2009	2008
Cash and cash equivalents	371	26
Other	42	15
Working assets	413	41
Permanent assets	508	175
Total assets	921	216
Liabilities from operations	4	71
Other short-term liabilities	-	15
Current liabilities	4	86
Capital	917	130
Total liabilities	921	216

Cash Flows Overview		
In million RSD	2009	2008
Loss before taxation	(1)	(1)
Depreciation	-	-
Adjustment of loss and changes on working capital	(108)	3
Net (cash-outs)/cash-ins from operating activities	(109)	2
Net capital investments	(313)	(97)
Free cash flow	(422)	(95)
Net cash-in from other investment activities	5	-
Net cash-in from financing activities	762	121
Net cash-in	345	26
Cash at the end of the year	371	26

Investments

Works on the construction of optical and power supply cable on the Vrbnica - Bar route are conducted simultaneously in four sections, as follows: Vrbnica - Kruševo, Kruševo - Kolašin, Kolašin - Zlatica and Zlatica - Bar.

In 2009, total value of works on the construction of optical and power supply cable amounted to 170 million dinars (EUR 1,8 million).

The value of other intangible capital investments in 2009 amounted to 12,7 million dinars (EUR 135 thousand).

In 2009, total value of delivered material and equipment for the construction of optical and power supply cable amounts to 178,9 million dinars (EUR 1,9 million).



**Report on
Corporate Social
Responsibility VII**

The vision of Telekom Srbija Group is to become a leader in the activities of socially responsible business practices in the region, partnership with other organizations that promote sustainable development and work on raising the awareness of other corporate stakeholders regarding the importance of investing in the community

Introduction

Telekom Srbija Company has a perennial tradition of investing in development of the society and providing support to different projects in sectors of culture, sport and education. As a company with enviable economic profit, Telekom Srbija has justified its reputation many times in respect of investing in development of the society. To vouch for that is the information from the public survey that was conducted by Medium Gallup Agency, which showed that Telekom Srbija has been presented as the most responsible CSR company for the second consecutive year. The public sees Telekom Srbija Company as a strong and stable corporate subject which, despite the rush of foreign competition, manages to remain a regional leader in sector of telecommunications and, accordingly, in technological innovations in telecommunications as well.

Vision and values

The vision of Telekom Srbija is leadership in CSR activities in Serbia, partnership with other organizations that promote sustainable development and work on constant improvement and increase of awareness of other corporate participants in constant investments in the community.

In order to achieve this vision, Telekom Srbija is trying to cherish the following values:

1. participation – the goal of corporate social responsibility represents joint efforts of all interested parties of the community to resolve issues whose dimensions are overstepping the role of individual member of the society. Only through synergy, with combined forces, we can reach the common

goal. Therefore, partnership with other organizations on the local level, especially with private and non-government sector, is the key step in the implementation of CSR campaigns in the region.

2. appropriateness – as a national company with the major share in the communications market, Telekom Srbija is absolutely the biggest donor in the region, and its philanthropic activities are deeply incorporated in corporate strategic plans, so they are its essential part, and not an optional activity. Therefore, the corporate philanthropy is one of the pillars of the company, and CSR is a way in which we contribute to sustainable development, not through individuals but through projects that have a large number of users, through infrastructure, which is becoming a common good and this way through the entire society.

3. education – represents the key to development of a wealthier and fairer society and one of the most significant values of CSR practice. Through education and increase of awareness on global issues (pollution, waste management, poverty, respect of basic human rights) we try to develop a better understanding of the community, to enable more efficient performance, to develop new tools and this way make the most direct influence on the solution to the problem. One of crucial activities is inclusion of our employees, as our most important stakeholder, in CSR activities through voluntary engagement in the local community.

4. persistence – dedication of the Company to projects and activities in order to expand good practice to other corporate subjects as well as work on creating the reputation of a good “corporate fellow-citizen“.

Reporting on corporate social responsibility – internal

Corporate management

Telekom Srbija, like every active and responsible corporate subject in the society, respects positive legal regulations and ethical principles which are generally accepted in business and rejects and condemns means of illegal and improper behaviour in order to achieve business goals.

Telekom Srbija carries out all of its goals only through quality of its services and correct relation with the users of its network. When it comes to wider public, Telekom Srbija is trying to make sure that not only the suppliers of goods and services, but also the market and the entire public are informed about Company's activities and it takes care that fair competition is respected, because it believes that this is in its own interest, that is, in the interest of employees and owners of Telekom's capital, but also in the interest of customers of the network of Telekom Srbija.

We regularly publish business reports on the quality of services. Our strategy and our goals are transparent for all interest groups. We lead proper accounting in accordance with positive legal regulations in the country. In accordance with the Law on free access to information, we communicate financial and non-financial information (trade, income, profit) regarding the employees, the community, environmental protection, engagement of interest groups etc. to different interest groups. Information on incomes is transparent, and the annual balance

sheets together with the auditor's report, can be found on the corporate website. Also, Telekom Srbija is sending regular periodical reports to relevant state institutions: to the relevant Ministry Department, Government, RATEL, which contain different types of information regarding customers and services offered to the customers, as well as other reports that may be required by different state institutions. Employees have insight in individual decisions of the General Director of the Company through internal websites through which we publicly appeal to the employees to be responsible towards the environment, the surrounding, resources and we regularly invite them to get involved more actively and to be an important part of humanitarian activities.

Employees

Employees are a strategic resource of Telekom and the management recognizes their important role and significance as a key factor in achieving the best possible business results of the Company. Starting from this fact, the management pays special attention to matters that have to do with safety and health protection of employees at their work place. In that sense, in agreement with positive legal regulations we are conducting all legally stipulated activities which are used to resolve matters regarding safety guarantees and health protection of the employees at their work places.

Affirmation of employees is a strategic goal of the management of this Company which is trying to secure equal opportunities and conditions for promotion of every individual, as well as further development on professional and every other level. This matter is inextricably linked to respect of employees' rights and is a part of measures that are conducted in order to achieve harmonization of relations within the Company. This clearly points to the intention that exists to maintain and improve an internal environment within the Company, in which the

employee can integrate with the goals of the organization. Different forms of internal and external training include active promotion of talents, skills and proficiency of our employees, which leads to their personal improvement. So, the employees are offered solutions in form of assistance in establishing balance between life and work. We promote diversity in respect of gender, age, disability, ethnic groups and life styles. We practice constant communication with our employees and we have constructive cooperation with union representatives. The Company is establishing relations of cooperation and communication with employees with the objective to avoid unnecessary conflicts and waste of internal energy of the employees.

During 2009, we conducted several programs whose direct beneficiaries were the employees:

1. Policy of social and material protection:
 - Solidarity Assistance Program intended for employees and their family members during the period when they cannot work, for provision of medications and orthopedic aids etc. (350 employees in 2009)
 - Collective Insurance Program includes all employees in case of work-related or non-work-related injury (24 hours), death, and in case of surgery and treatments.
 - Voluntary Pension Insurance Program secures monthly payments as pension insurance in the deductible amount; during the service, the employee has the right to additional pension.
 - There is also the scholarship program for children of deceased employees all through their regular education, the beneficiaries of which are children of deceased employees (135 children in 2009).
2. Policy of health prevention and health protection of employees:
 - Program of preventive medical examinations in order to increase the general level of employee's health protection and preventive

discovering of serious and malignant illnesses. The program has been adapted to the gender and age of employees (4160 employees in 2009).

- Rehabilitation and Recreation (spa type) Program includes employees from certain targeted groups (chronically ill, employees under special work conditions etc) with the objective to increase health and work ability of the employees by sending them to specialized rehabilitation and recreation centres (800 employees in 2009).
- Sport Recreation Program has the objective to increase the level of sport culture through participation of employees in different forms and contents of sport recreation (4,500 employees in 2009).

3. Policy of family care, protection of maternity and care for the employer (securing the compensation in case he is prevented to work due to illness or non-work-related injury in the amount of 80% of average income in the company in the last three months, and in the amount of 100% in case of work-related injury or professional illness; compensation in case of illness or complications in pregnancy maintenance in the amount of 100% of the base for compensation for the first 30 days of inability to work; program for part-time employment during the pregnancy and maternity leave for a woman who has the status of an engaged person in the company without full-time employment before the pregnancy (60 women in 2009).

4. Policy of expert training and continuing education of employees:
 - program of additional training and prequalification of employees, innovation of existing and acquiring of new professional knowledge and skills (team building, managerial and negotiating skills, project management - 516 employees in 2009);
 - program of knowledge innovation by

attending seminars, workshops, conferences and expert lectures – 905 employees in 2009;

- program of support for getting a diploma of college education through Company's participation in costs of education – 190 employees in 2009.

- program of expert improvement through participation of employees in special trainings for gaining information on new communication techniques.

5. Policy of employees' CSR (support to activities of individuals or associations of employees which contribute to Company's corporate social responsibility. Support is based on mutual cooperation, joint planning and envisioning of activities, expressed in form of material and logistics assistance.

6. Policy of voluntary leave from the Company (with the goal to harmonize interests/ to synchronize needs of the company and employees in sector of expressed needs of the employees' – targeted groups to leave the company, i.e. of the company in sector of personal structure management. In the period from 2004 to 2009, 3,272 employees left the company this way.

7. Policy of harmonizing relations with the employees (support program for employees through work of expert teams of lawyers, psychologists and social workers (so-called assistance group for employees); activities of counseling in legal and psychological matters; activities of so-called group for conflict resolution, and all with the objective to increase the level of psycho-social and work abilities of the employees as a contribution to harmonizing internal relations in the Company (100 employees in 2009).

8. Policy of internal informing of employees (program of permanent, precise and timely informing through Company's intranet

computer network and Company's magazine "Telekom svet", in order to increase the level of informing the employees on all important issues in the Company relating to the Company.

9. Other incentives that the Company is offering to employees (enabling the employees to use the services of mobile telephony/internet/ADSL and other under more favourable conditions and material assistance to employees in form of a six-month loan in the amount of average (net) income in the Company.

The environment

In order to save the environment, Telekom Srbija is installing measures in its activities, which contribute to preservation of vital values of the community. The assumptions for introduction of the environmentally friendly business concept are:

- Introduction of unique policy of the Company towards environmental problems,
- Introduction of unique strategy for environmental protection related to activities of the Company,
- Establishment of information and communication flows between organizational units for the purpose of timely informing,
- Coordination and cooperation within Telekom and external institutions in research and solving of environmental problems.
- Establishment of individual standards, in accordance with the international ones, which have to be respected by all employees, as well as forming expert teams for permanent monitoring of environmental problems and new market demands.

Telekom Srbija also takes measures for environment protection by adopting the ecologically oriented technologies and methods with the goal to reduce the negative impact on environment. In the course of our business, we take care of environment protection aspects such as regular check of electro-magnetic radiation released from the radio-base stations and radio-relay links, including the environmental impact studies, rational energy consumption, prevention of generation of waste dangerous for human health, adequate disposal of waste materials and their recycling. By investing and installing the most up to date telecommunication technology, the Company contributes to the application of clean technologies and those requiring less electric powering in comparison to the appliances used in previous decades. The Company contributes to reduced generation of electronic waste by installing modern telecommunication devices, much smaller in volume and with the concept of wireless transmission of signals, the volume of generated waste in the network is considerably reduced.

Telekom Srbija generates different kinds of waste and currently, our company possesses certificates for 25 types of waste (both dangerous and non-dangerous). These types of waste are regularly disposed of, and the Ministry of Environment Protection is regularly informed on that through legally prescribed channels.

The waste that is not dangerous is purchased by the companies that possess complete documentation prescribed by the Ministry in charge and other institutions, as well as a certificate for this kind of services. For other kinds of dangerous waste, the public invitations for provision of services are conducted by the Law on Public Procurements. Until conclusion of the contract for disposal of these types of

waste, the waste is kept on the premises of the Company in the manner prescribed by the law.

The waste paper is given to the company in charge with which Telekom has concluded the contract on repurchasing. The radioactive waste which appears through replacement of the fire alarm system is regularly delivered to the Institute for Nuclear Science Vinča, which is the only certified institution for dealing with this type of waste. 46 types of dangerous materials used or stored in the Company were recorded in the previous year and there are clear records on them, which are given to the Ministry in charge. Also, the company encloses the data required for forming the Integral Pollutants' Database and the data for making the hazard map.

Noise released in the environment usually comes from chillers, air-conditioning devices installed on the facilities of the Company. If it is assessed that the noise level released in the environment is higher than the values prescribed by the law, the measuring takes place and if the level is higher than allowed, all required measures to reduce it are taken.

Electromagnetic radiation released in the environment usually comes from radio-base stations of mobile telephony. Before installing the base station, an environment impact study is conducted in which all technical data and protection measures for that base station are stated. Upon receiving the approval for the impact study the base station is commenced. There are rules and standards regulating the allowed radiation level. Before commencing the radiation level is measured and if there is a complaint on the radiation level by third parties, an institution is engaged to measure it. In accordance with the Law on Protection from non-ionising radiation the measuring of the level of electromagnetic radiation is conducted once in two years. Thus far there has been no radiation beyond the allowed limit registered.

Business partners

Value of the brand and image that Telekom Srbija has on the market is also connected with the process of public procurements, which is transparent and is conducted in accordance with the Law on Public Procurements.

Telekom Srbija conducts the public procurements in accordance with the following principles:

- efficient and economic use of public resources,
- providing competition among bidders,
- transparency of public procurement,
- equality among bidders

Applying the CSR strategy, Telekom Srbija operates in accordance with the public interest of internal and external stakeholders.

At the same time, Telekom Srbija maintains partner relations not only with the world giants in the telecommunications area but also with small and medium companies from the country and from abroad. With the new organization of Telekom a special sector is formed which develops services in cooperation with the partners, with entrepreneurs being paid a particular attention.

In last year, Telekom Srbija invested considerable resources in improving the existing telecommunication infrastructure and development of broadband Internet which facilitates a favourable telecommunication environment allowing an easy access to internet for modern business of SMEs.

As Telekom Srbija participates in world telecommunication exhibitions every year as a sector leader in Serbia, we tend to promote the services of other smaller companies from the Republic of Serbia. GSM Congress in Barcelona was a good opportunity for Telekom Srbija to present the services offered by four companies (Wireless Media, LMG mobile business solution, Certus and Dedekom).

A good example of support to SMEs is cooperation with Wireless Media which develops software solutions intended for the mobile internet. In cooperation with Wireless Media, Mondo wap and Web portals were launched. Mondo wap is the most visited mobile site in the region with 2,5 million users and over one million pages opened every day. Completely domestic software solution MAIP (Multi access Internet portal), developed by Telekom and Wireless Media experts, was selected as the best one at the international tender in Oman within the Telecommunication Company Nawras. Our product was chosen at the tender among the competition that included a global giant like Ericsson and several proven Indian companies. Stimulation of production of domestic software by Telekom Srbija proved to be a correct strategy because our country also benefits from this project. Wireless Media keeps growing year by year thanks to support and strength of Telekom, because extending the range of services and number of users of our Company's services is followed by expansion of the companies operating with us.

Understanding the local self government and the needs of the economy

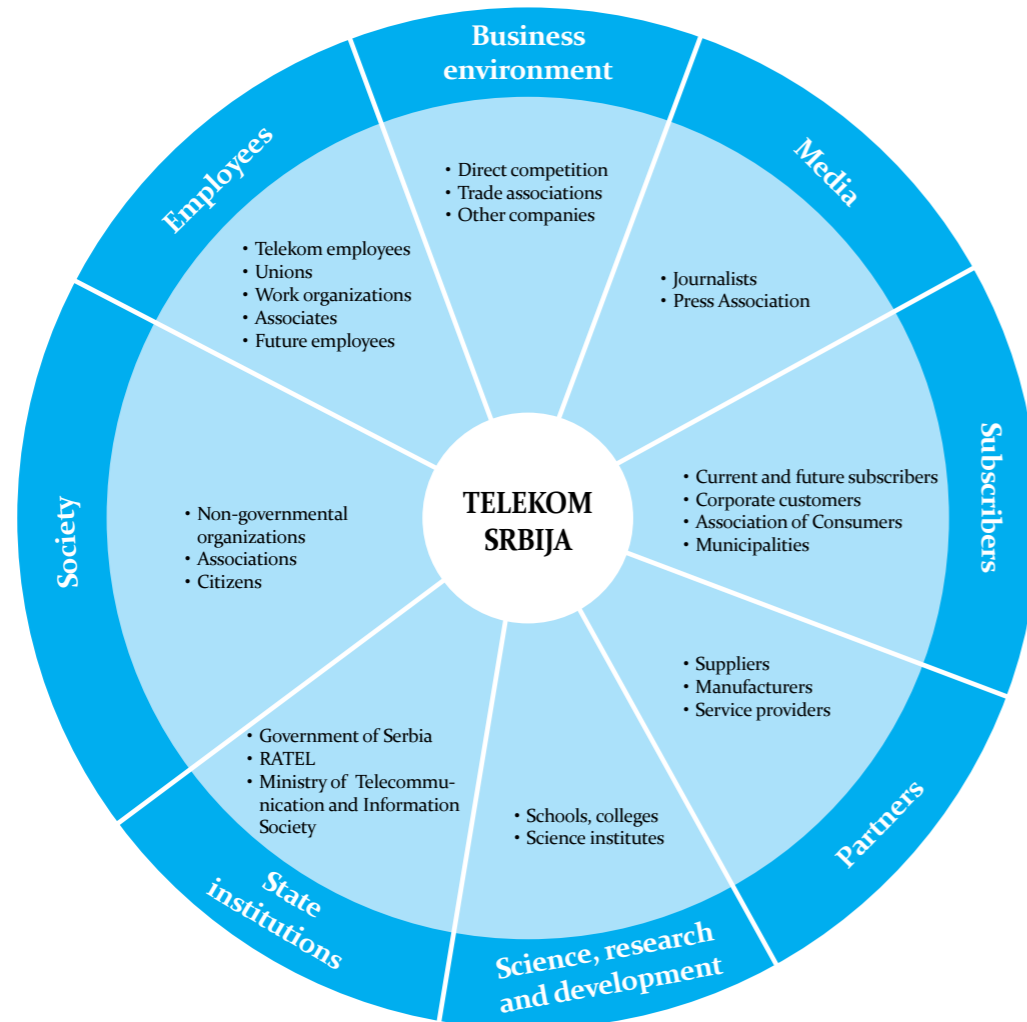
By consigning technological and human resource capacities and developing new services the company improves the work of the local self-government and creates a better ambience for development of its economic entities, leading the policy of Corporate Community Investments. One of the most important projects in which Telekom Srbija is included together with the local self-government certainly is the building of a complete telecommunication infrastructure in industrial technological park in the Municipality of Vršac. It is estimated that the impact of the park on the local economic development and opening of new workplaces will be great. The analysis of the municipal authorities show that within 4-year period 940

workplaces will be opened in 20 companies that will operate within the park. During last year, Telekom Srbija invested over RSD 100 million in the network, infrastructure and digital telephone exchanges in the Municipality of Vršac.

Telekom Srbija intends to offer the most up-to-date solutions to the local self-government. In cooperation with the local authorities in Novi Pazar, joint project Siguran grad (safe town) was presented, the goal of which is to improve safety in traffic through the use of modern technologies. The project includes introduction of the system of video surveillance of traffic which will enable more efficient traffic control as to obeying the rules and more efficient sanctioning of the offences. Thus Novi

Pazar has become the first town in which such a system of traffic control will be applied.

Telekom Srbija is making efforts in the process of developing e-government on all levels. Hence, in cooperation with the Municipality of Indjija, for the first time in a local self-government in Serbia, it introduced a new way of management in the Municipality, The m-Government system. Having introduced this project, mt:s facilitated for all of its users to simply order their birth certificate through their mobile phones. Telekom Srbija has devised this system so that other municipalities and state institutions from the same town (courts, police, institutes) can connect to m-Government.



At the end, but not the least important, Telekom Srbija, in a consortium formed with Spinnaker New Technologies, took part in the project “Information system of the Government of the Republic of Serbia” in 2009. This project facilitated electronic sessions as well as for communication of the Government with the Ministries to be in the electronic form. Potential of partnership with this company is recognised in further increasing of the level of use of IT in the public administration: health sector, schooling, judicial sector, local self-government and other sectors. The administration benefits from development of the electronic services becoming more efficient and organized and the citizens, users of these services will also benefit.

Socially responsible services of Telekom Srbija

Teleassistance service

The Teleassistance service refers to care of persons who live alone or spend most of their time alone at their homes. The Teleassistance service involves 24-hour monitoring of the user, reacting in case of an emergency (health reasons, fire, severe weather conditions, etc.), conversation to relieve loneliness and provide comfort, reminding the user of his/her regular medical treatments, warning the user and similar services of non-medical and psycho-social care of an old person. By pressing a button that the user wears around his/her neck, a voice contact is in 30 seconds established with ASISTEL's expert teleoperators, who then take care of further helping the user.

Medical Passport service

The Medical Passport service is intended for users who, taking account of their employees' health, have the need to store all information about their employees' health in a specific data

base. This data base is located on the Partner's server that can easily and quickly be accessed by using different information and communication technologies, which improves the quality and efficiency of the employees' medical treatment, shortens the period of their treatment and reduces the costs of the treatment.

Observer service – record of children's kindergarten attendance

The service makes it possible to keep a daily record of the number of children who attend the kindergarten, record the children's arrival and plan the necessary amount of meals and a number of other possibilities. Each child in the kindergarten receives an ID card by which it registers on a GPRS device on arrival at the kindergarten. By using the software developed by the Partner, it is possible to have an insight into, keep a record of, and create reports on children's attendance.

Video Surveillance service

The Video Surveillance service with a high security level refers to the introduction of a video surveillance system in vehicles used for money transport in order to control adherence to regulations during money transport and make search for suspects more efficient in case of possible robbery. It increases the level of security of both the workers and the money. In case of securing police vehicles, the introduction of video surveillance serves to record the employees' behavior during interventions and control the important areas.

Reporting on corporate social responsibility – external

Telekom Srbija has many key target groups, therefore it is important to identify the relevant representatives for each of them and to formulate their needs. In any case, Telekom

strives to establish cooperation with:

- **expert organizations** in order to attract relevant actors and get credible partners for implementation of corporate social responsibility strategy,
- **national institutions** in order to continue to promote goals of sustainable development,
- **local management**, considering the national coverage, in order to resolve the current issues, spread good influence and maintain good relations,
- **non-governmental sector** in order to establish common goals on the national and local level,
- our **employees** who are a relevant public considering that they know the company from “within”.

We think that it is essentially important to establish partnerships with all the above-mentioned institutions because each of them have their own narrowly defined area of activity and that is the only way to realize the desired goal in the society. These partnerships will enable the expertise in the given area, an unbiased opinion and useful suggestions that will be carried out with the help of Telekom Srbija.

The young

A clear strategic direction of our Company is development of creative, talented and young people who will very soon be leaders in the local community and wider. During 2009, we conducted several corporate activities whose direct beneficiaries were the young – school and college students.

The e-dukacij@ project, carried out in cooperation with the Ministry of Education of

the Republic of Serbia, makes the framework of our relation towards the development of young generations. Networking of schools enables development of education through improved communication and cooperation between schools themselves, expert staff and students, and this sets the foundation for forming of the national educational network. By introducing broadband internet connection, we established the foundation for improvement of IT knowledge. However, that was just the starting point of the campaign. Second, equally important part was an open call for other companies to join the campaign, and this way we collected over 1000 computers, and 54 donors joined the campaign. The e-dukacij@ campaign is considering the very nature of the information that children have access to – access is controlled in order to protect the children from improper content.

Since the beginning of the campaign, we introduced internet in 3,330 schools in our country. Equipping of the elementary school in Lebane with chemistry laboratory and a cabinet for learning foreign languages came as an expression of efforts to provide adequate conditions in the educational process to one of the poorest municipalities in Serbia, and with this the last school on the territory of Niš and Leskovac also got the Internet connection.

Effects of the e-dukacij@ campaign are long-term and they have an increasing effect with every new generation that is leaving the school with IT education, ready to answer to all challenges, and to set new standards in science and functioning of the society in general.

When it comes to talented individuals, in 2009 we paid special attention to support the young talents – mathematicians, physicists, computer technology talents and astronomers who returned from international Olympic Games of knowledge with medals. As an award for their success, we gave them laptops so that they could continue to develop their skills, and experts from Telekom Srbija held a lecture about the biggest IT system in Serbia.

Aside from school children, we are also cooperating with students and student associations, knowing that they are our future colleagues. Since we are a regular participant of employment fairs, the students have voted us to be the best place to work in, and we plan to justify this trust by investing in our future connections. That is why we supported the “VISION - Communication for the future” project, which was organized by representatives of ESTIEM, a branch office of the European Student Organization established with the objective to strengthen connections between the students of industrial engineering and management, and their 25 colleagues from all over Europe. The students took part in the video conference of representatives of marketing and PR sectors of Telekom Srbija and our regional companies m:tel in Bosnia Herzegovina and Montenegro, and that way they had a direct insight in the possibilities and advantages in use of modern technologies in everyday business.

We also offered a partnership support to the local finals of Imagine Cup in 2009, which represents the biggest global competition for students in use of IT technologies. We are proud that the BrainWave programming team won second place in use of Microsoft Live technologies on the world competition in Egypt.

We also presented a special award at the local final competition, entitled “Telekom Srbija Mobile Award” to nTek team, which is made of students from the Faculty of Technical Sciences in Novi Sad, for quality application of GSM technologies and Windows Mobile platform presented in their project “One Click Taxi”. Support to the Imagine Cup is of extreme importance to us, because young people are pushing the limits of IT technologies every day. They are our most precious users and esteemed future colleagues.

Since there is a place for associations, we try to recognize and pay attention to students who stand out from their colleagues with their effort and work. This is how we supported Vesna Stojaković, whose photos entered the finals of 2009 International Google competition for the best topic for iGoogle – personalized browser page. Vesna was one of the 6 finalists, selected among 3,500 applications from 82 countries, which is a great success for this excellent amateur artist, and for the country which she is coming from. The second, no less important example of cooperation with extraordinary young and brave people is 24-year-old Ana Pavlović, who is today studying for her Masters Degree at the Royal Institute for European Studies in Saragossa, Spain. Ana is blind, which did not prevent her from becoming one of the experts in her field. As a company dedicated to human values, we make an effort to enable persons with disabilities to get involved in all areas of social life.

Health sector

CSR Strategy implements investing in infrastructure, especially in health institutions which due to their activity have a large number of users. Our goal is to support the health institutions, projects dedicated to preservation and improvement of health. We try to make the lives of many more pleasant by supporting organizations like the Association of Persons with disabilities, the blind, mentally insufficiently developed persons and many others. We are proud to be a part of big initiatives and investing in human solidarity.

During 2009, we gave funds to several health institutions. In cooperation with the “Always with children” association, we helped the Oncology Institute Children’s Ward of the Clinical Centre of Serbia to begin reconstruction. Daily chemotherapy hospital for children in Pasteur’s Street, where over 150 children stay annually, received funds for

a ward with 18 beds. We also cooperated with Belhospice, in the effort to help the terminally ill oncology patients. In the previous period we supported the adaptation of the facility intended for work of the Daily Hospital at the Clinical-Hospital Centre Zemun-Belgrade, and reconstruction of the Conservative Gynaecology Department with the Institute for Gynaecology and Obstetrics of the Clinical Centre of Serbia. We contributed to improvement of conditions at KBC Dragiša Mišović, by obtaining and installing air conditioning. We provided TV's for the Gynaecology and Obstetrics Clinic in Višegradska Street – all this in order to improve the hospital stay of people who know to appreciate the value of health.

In the past year, we shared holiday joy with the little ones from Pasteur's Street, with those at the Clinical Centre of Serbia and the Mother and Child Institute in Belgrade. Gifts were presented to the children, we also gave crayons, picture-books, pencils and toys to the University Children's Clinic in Tiršova Street.

The Community

Telekom Srbija is investing in regional development and working on equal development of the society and of the state, i.e. of all of its regions in total.

It is our desire to support the initiatives that represent the strategic decision of the country like the matters of lowering of the unemployment rate, reducing poverty, fight against violence and fight for gender equality. Success of our company is not big enough if it is not shared with the community in which we work and do business.

That is why we are trying to get to know it the best we can, to help it become sustainable.

As the regional leader in telecommunications sector, we think that it is our duty to offer young experts the opportunity for employment and to gain appropriate work experience in order to incite them to stay in their country where they will continue to work on their skills and acquire top quality knowledge in sectors of telecommunications. That is why we joined the "First Chance" youth employment program, which was initiated by the Ministry of Economy and Regional Development of the Serbian Government in cooperation with the National Employment Service. 60 interns became a part of our system on a part time basis, where 28 of them are engineers, 8 graduated economists, 12 graduated lawyers, 4 persons with other type of university degree, 2 engineers with higher education and 6 technicians with high-school education.

Trying to recover spirituality of our people, to develop immaterial values in the community and preserve tradition, in 2009 we made an effort to improve Religious Education in primary schools in Archdiocese of Belgrade-Karlovci by releasing "Svetosavsko zvonce" magazine. We kept on supporting the building of Saint Sava Cathedral as well as many other churches and monasteries all over Serbia. Serbian Orthodox Church expressed its gratitude to the Company and to the Director General Mr Branko Radujko, by presenting them with Gramata of the late Serbian Patriarch Pavle.

Several campaigns were realized during 2009 in order to help the under-privileged categories of citizens. Telekom Srbija in cooperation with the Municipality of Varvarin and Ministry of Social Affairs provided a substantial sum of money for purchase of a house to an eight-member Marković family from Varvarin, the four members of which suffer from muscular dystrophy. Call centre for informative, educational and counseling purposes intended

for old people was designed in cooperation with Belgrade Municipality of Stari Grad and National Foundation for Humane Ageing "Dr Laza Lazarević".

Thanks to joint campaign of Telekom Srbija, Serbian Association in Sweden, Ministry of Diaspora and Red Cross Serbia, in summer 2009, 434 children, 49 of them being children from Raška County and 385 children from enclaves in Kosovo and Metohija, visited "Krista Đorđević" Resort for Children in Baošići.

"Our Serbia" is a non-governmental organization established in 2000 the objective of which is to support and protect children whose parents were killed, kidnapped or disappeared in wars during the '90s. School of Friendship is one of the most important projects of this organization and it takes place every year. Along with the children supported by the organization, the children from diaspora also take part. In 2009, we were glad to support the activities of "Our Serbia" such as School of Friendship or Parks of Friendship. So, for example, by supporting the charity concert titled "mt:s Dance of Friendship", funds were collected for the completion of the Cultural Centre in Šilovo, the only cultural facility in Kosovo Pomoravlje Region.

Culture

Telekom Srbija contributes to the promotion of Serbian culture, tradition, tourism and economy in the country and abroad. In 2009, we took the role of a General Sponsor and became partners with the first University Games ever held in Serbia and also with the first Serbian ATP Tournament. In addition to already traditional and internationally recognized events such as Guča and Exit, we are also eager to support "new" projects. We are glad to be a part of many distinguished cultural events and we are especially proud to support small-scale projects in various areas regarding local communities that are constantly growing together with us. In

this way, we want to participate in cherishing true values and support the development of the society with clear vision of perspectives for the state and its citizens.

In 2009, we supported the exhibition of works from the Linkoln Centre, which is possibly the most influential art centre of today, 39 graphics of Donald Sutherland, Mark de Suver, Robert Mandol and many others were shown. In the Museum of Applied Art, we supported the exhibition titled "Treasury of Hilandar Monastery" at which thanks to our support, artifacts from Hilandar as well as those which once were a part of its treasury but nowadays are part of collections of various institutions were exhibited. When it comes to Serbian literature, possibly there isn't more relevant quality indicator than NIN Award, the most recognized award by critics in our country. On January 30, 2009, NIN Award was presented to Vladimir Pištalo for his novel – "Tesla, a portrait among the masks".

Awards and rating

The dearest among the awards we won in previous years is the one we were "granted" by our customers, the citizens of Serbia. According to the results of the research conducted by Medium Gallup and Blic, Telekom Srbija was voted the best company in 2009. The research was conducted in 6 relevant categories (general reputation, product and service quality, social responsibility, treatment of employees, employment opportunities and advertising), and the final score determined the ranking which illustrates the view of the citizens. We were also ranked first in the social responsibility category, which makes us particularly proud.

The Information Association of Serbia has presented Diskobolos award for 15 years already for positive experience in applying IT and communication technologies in almost

all fields of economy as well as outside it. This year we have been awarded the international ICT award Diskobolos 2009 for the campaign "edukacij@" (educ@tion), which has already achieved great success and remarkable results.

The Advertising Association of Serbia founded with the goal to promote and improve the marketing-advertising sector, which includes the most successful marketing agencies, companies and media houses, presented to us, on December 22, 2009 a special award for "Continuous investments and improvement of the market communication and development and strengthening of its brands, both in Serbia and in the region". We also got two more golden awards, for a TV clip MTS Alter Ego and for the radio message MTS 50% off. Users of our services have an important place in the community that we invest in, which is why we are particularly glad, when our efforts to make the communication with them as creative and efficient as possible are awarded.

Corporate Social Responsibility in daughter companies of Telekom Srbija

Telekom Srbija intends to convey its CSR strategy to its daughter companies in Montenegro and Bosnia–Herzegovina. Development of socially beneficial campaigns is only in its early stage as Telekom Srbija has been present on these markets since recently.

Socially responsible initiatives of m:tel in Bosnia and Herzegovina

In addition to the implementation of the modern information technologies, which are a precondition for development of every society, m:tel also influences the development of true values in the company and its environment. Confirming that friendship is not a marketing slogan only, the company gives a considerable

support to many humanitarian activities, sport, culture, art and education, while a special attention is paid to the youngest. Thanks to m:tel the living conditions for the children with special needs have been improved. The maternity hospitals are reconstructed and kindergartens built. In Bosnia–Herzegovina m:tel is therefore recognised as a keeper of tradition and carrier of social and economic development and initiator of many important aspects of life of its users.

Environment protection

In order to create good conditions for an optimal development of the latest mobile technologies, while installing the base stations, the company particularly pays attention to environment protection. The measures and procedures are defined providing compliance with and implementation of the provisions of the Law on Protection from non-ionising radiation. Therefore, with environment protection in mind, the best available equipment is procured. The authorised agencies are continuously engaged, as well as institutions and experts for making studies on impact of the electromagnetic field on environment, conducting expert studies on impact of the base stations on the environment. Knowing how important the ecological awareness is today, m:tel employs an expert assistant for environment protection and the texts on this topic are regularly distributed to the employees.

Relation with the employees

As the best business results require team work, m:tel pays special attention to relations with its employees. This is reflected in continuous informing and transparency of business through internal communication channels as well as through a number of educational and professional trainings. Also, activities are conducted for the purpose

of social and material protection of the employees, health care and family care.

Corporate philanthropy

m:tel company invests substantial funds in many sports, cultural, educational and humanitarian projects and, ever since the arrival on the Bosnia–Herzegovina market, special attention has been paid to the youngest. Beside the financial support through the sponsorship policy and donations, m:tel also provides required telecommunication infrastructure donating its own services or equipment as an additional support.

Launching the socially responsible campaign "Invest in yourself, help the others" m:tel became a proud partner of UNICEF in 2009. In the campaign "The best beginning for every child". The goal of the campaign was to motivate all target groups to get involved in building integrated centres for parents and children that will include both playgrounds and counselling for parents and thanks to which children from entire Bosnia–Herzegovina, particularly those from vulnerable categories, will have an opportunity for the best beginning. At the beginning of the campaign UNICEF had funds for only four such centres and after m:tel joined, the resources were collected for opening of additional four. This was the first example of private sector establishing cooperation with UNICEF in Bosnia–Herzegovina, which opened a new area for UNICEF to mobilise the resources from companies and individuals for the well-being of the society and children. Also, a humanitarian tennis match Đoković-Troicki was successfully organized thanks to which a playground will be built in Banja Luka and it will be adjusted for the special needs of the disabled children.

m:tel rewards excellence, encourages creativity and supports the activities of

the young such as making music or youth entrepreneurship.

Knowing how important the access to the world knowledge is for pupils, m:tel supported the youngest participants of the quiz „Kvizolog“ by equipping the IT classrooms in five best schools and donating ADSL fast internet to all participating schools.

In the year 2009. m:tel also launched PR project for support to the theatre art titled **m:teatar**. The goal of the project was connecting Bosnia–Herzegovina not only through good communication but also through art with the purpose to help the biggest theatres in Sarajevo, Zenica and Banja Luka, to keep organizing theatre festivals even in the time when their budgets were reduced, and to keep on performing theatrical plays and fulfilling their cultural mission.

Socially beneficial initiatives in m:tel in Montenegro

Within the framework of developing partnership between business and civil sector, the cooperation has been established with Tvrđava NGO in the project "Ljeto za zaradu" (Summer for earning), under the auspices of the Employment Agency of Montenegro. The goal of the project is animation of the high school graduates to get involved in seasonal jobs during summer months with the goal to cut the unemployment and contribute to development of tourism in Montenegro.

As a help for development of the young in September 2009, 5,000 school packs were distributed (school equipment and notebooks) to pupils of first grades of all elementary schools. Also we donated maps of Montenegro to all elementary schools, in cooperation with the Ministry of Education and Science of the Government of Montenegro.

Telekom Srbija a.d.

Takovska 2
11000 Belgrade
+ 381 11 3335 986
+ 381 11 3335 985

prsektor@telekom.rs
www.telekom.rs

