

# TELEKOM FROM EVERY ANGLE AND FROM EVERY SIDE



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 **Telekom Srbija Group**

ANNUAL BUSINESS REPORT FOR 2011



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# THE DIRECTOR GENERAL'S INTRODUCTORY SPEECH

Dear Sirs,

Despite the increasingly hard macro-economic conditions, the full liberalization of regulations and the market, and the strong, ever growing competition, in the course of 2011 we managed to reach, and in certain segments even to exceed, the results from the previous year and once again we achieved the best business results since the incorporation of the Company.

As far as the revenues are concerned, we saw a slight increase in the market of the Republic of Serbia i.e. the same level from the previous year on the Group level, and the same trend was also maintained in the sphere which is the most important indicator of successful operations for us – EBITDA (profit before interest, depreciation and amortisation). The generated net profit was much higher than planned, which is primarily the result of foreign exchange gains in operations in the Republic of Serbia.

At the same time, we managed to significantly reduce the debt ratio and substantially improve debt coverage, whereby as a company we ended the year with low indebtedness.

When it comes to human resources, we continued to encounter the problem of low competitiveness on the key personnel market, primarily due to poor flexibility in the salary policy. At the same time, we maintained a favourable trend in the optimization of the number and structure of employees, with an adequate balance between the voluntary lay-off programme and a very strict and restrictive employment policy.

The number of customers and traffic in fixed telephony are decreasing in accordance with the global trends, whereas in the mobile sphere, the number of customers is stagnating, traffic is on the increase and there is an evident pressure against revenues due to a very strong market competition. A stable and dynamic growth in accordance with the trends in our industry and in compliance with our strategic plan is seen in the Internet and multimedia segments, primarily ADSL and IPTV. In that segment, through the additional capitalization of the HD Win d.o.o. company, which is the owner of the Arena Sport channels, we earned a strong strategic position on the market of TV content distribution, substantially strengthened our competitiveness in the content offer to our customers and expanded our activity from the region of the Republic of Serbia, Bosnia-Herzegovina and the Republic of Montenegro to other former Yugoslav countries.. As far as traditional services are concerned, we still maintain the innovativeness in their creation and we offered customers an integrated package of fixed telephony services, mobile telephony services and the Internet in the form of a new brand - Box.

An extremely high unemployment rate, a sharp decline in purchasing power, the depreciation of the domestic currency in Serbia, the additional pressure by the regulator and numerous discrepant and inconsistent decisions against which we have been taking the measures for legal protection, but whose implementation is not postponed thereby, and the increasing pressure by the competition make the year of 2012 an exceptionally challenging and hardly predictable year, in which we will not achieve the same success as in the previous year. The growth in revenues generated from traditional services is not realistic. The dynamic growth is noticeable in the segment of new services, primarily Multimedia, but the share of this segment in the structure of the total revenues of the Group has not yet exceeded 10%. Besides, we should expect certain progress in the development of

the integrated ICT services, primarily in the domain of business customers. However, this is not enough to compensate for the stagnation that is notable in traditional services.

In accordance with the above, it will be necessary to exert additional pressure on the operating expenses in order to generate the desired profits from operation.

As regards the net profit, it is expected that it will be strongly affected by foreign exchange losses, as a result of the projected depreciation of RSD.

It should be noted that the parent company, Telekom Srbija a.d., is going to face significant changes in status terms and on the level of the shareholder structure in 2012.

In late 2011, the agreement on the purchase and acquisition of 20% of own shares from our shareholder Hellenic Telecommunication Organization (OTE) was signed, whereby the company ceased to be a party to a rather complicated shareholders' agreement which, with all its provisions, primarily in the domain of the right of veto on business decisions, was hardly applicable in the conditions of dynamic changes on the market and the need for a faster and more efficient adoption of decisions for the purpose of achieving the necessary market competitiveness. On the one hand, the company thus becomes significantly more competitive, which is rather necessary, and on the other hand, this acquisition considerably increases the company's debt, however it is still below average for the telecommunications sector.

Besides, we have some future obligations based on the Law on free distribution of shares, as well as the challenges of possible commencement of trade at the Belgrade Stock Exchange, which has been facing very low liquidity for quite a while, and that could adversely affect the balance sheets of the company and its market value.

Finally, there is a forthcoming important status transformation i.e. compliance to the new Law on Enterprises, which calls for significant changes in the corporate governance, organization and business processes.

Despite all the huge challenges, adverse macroeconomic and market conditions, I am convinced that the Telekom Srbija Group will continue its steady operations, promptly recognizing the risks and hazards, using the opportunities and advantages to their optimum, that it will continue to manage resources and strategies in the proper manner and continue being one of the leaders in the region, both in terms of business success and in terms of corporate social responsibility, for which we are known both in the Republic of Serbia and in the other markets where we operate.

I am using this opportunity to thank all the employees of the Telekom Srbija Group, our business partners, shareholders, and above all customers, without whose trust such success would be impossible.

Sincerely,

Branko Radujko

Director General of Telekom Srbija



# COMPANY PROFILE

## INCORPORATION AND ACTIVITY

The Telecommunications Company Telekom Srbija a.d. (hereinafter: Telekom Srbija or Parent Company) domiciled in Belgrade, Takovska no. 2, was founded by the Public Enterprise of PTT Communications Srbija (hereinafter: JP PTT) as a single-member joint-stock company in the process of restructuring the PTT system of Serbia at the end of May 1997. JP PTT transferred certain exclusive and non-exclusive operating rights to the Parent Company for the purpose of conducting the activity 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 Parent Company issued a certificate representing 1,080,000 fully-paid, registered ordinary voting shares with an individual par value of 10 thousand dinars and the Golden Share to the Government of the Republic of Serbia. The Golden Share bestows entitlements to their bearers, which include voting rights and presence to the Company's Shareholders' Assembly sessions, certain approval rights of the proposal for appointment of the Managing Board members and the proposal for the appointment of General Manager of the Parent company,

amendments to the Statute and other rights determined by the Statute of the Parent company. This share may solely be held by the Government of the Republic of Serbia represented by its appointed representative(s).

Within the privatization of a 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 JP PTT purchased part of the shares owned by Telekom Italia. In the mid of 2003 when the said agreement was performed until September 2010, the Parent Company was in the ownership of the two shareholders: JP PTT Communications Srbija 80% and OTE, Greece 20%.

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 entity 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.

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.

In the course of 2010, a change in the Parent Company's shareholders took place. In accordance with the Conclusion of the Government of the Republic of Serbia 05 no. 023-6816 dated 21 September 2010 and the Decision on the transfer of the shares in the Parent company to the Republic of Serbia, without compensation of the Board of Directors of JP PTT, on 24 September 2010 JP PTT and the Government of the Republic of Serbia concluded the Agreement on the transfer of the shares of Telekom Srbija a.d., Belgrade without compensation – Gift.

Pursuant to this Agreement, the Republic of Serbia became the major shareholder and the legal owner of 80% of the Parent company's shares, represented by 864,000 ordinary shares with the nominal value of RSD 10 thousand per share, i.e., with the total nominal value amounting to RSD 8,640,000 thousand.

As of 31 December 2011, total value of the Parent company's share capital has not been changed.

In 2010, the Government of the Republic of Serbia announced an international tender for the sale of the majority block of shares of the Parent company and the company "Telekom Austria" submitted the offer. Since the offer had not met the requested criteria, the Government

of the Republic of Serbia at its session held on 5 May 2011 decided to decline the submitted offer, by which the sale process was terminated.

Pursuant to the Conclusion 05 no. 023-9705/2010 dated 23 December 2010, the Government of the Republic of Serbia recommended to the Parent company to undertake all activities necessary in order to convert the Parent company into an open joint stock entity.

On 28 September 2010, the Republic of Serbia was inscribed in the register of the Serbian Business Registers Agency and the Central Securities Depository and Clearing House as the holder of 80% of the Parent company's shares. The structure of the capital structure in the Parent Company as at 31 December 2011 was the following:

- **The Republic of Serbia – the Government of the Republic of Serbia 80%**
- **OTE, Greece 20%**

On 25 January 2012, the Parent company paid EUR 380 million to the minority shareholder OTE for its 20% share in the Parent company's capital in the following way: EUR 320 million from the loan and EUR 60 million from its own funds. Subsequent to the above mentioned date, OTE ceased to be the shareholder of the Parent company, i.e. the Group.

The Parent company's principal business activity is the provision of telecommunications services, the most important of which are as follows:

- Fixed telecommunications services (including CDMA services);

- Internet services;
- Mobile telephony services;
- Multimedia services.

Besides the above services, the Parent 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 Parent company also supplies leases, construction, management and security services in the area of network infrastructure. Furthermore, the Parent company has the rights to provide directory services including "White" and "Yellow Pages", operator-assisted services and electronic directory services relating to fixed telephony services.

In the course of 1998, the Parent company introduced GSM mobile telecommunication services.

On 28 July 2006, the Parent company was granted the License for public mobile telecommunication network and services for public mobile telecommunication network in accordance with GSM/GSM1800 and UMTS/IMT-2000 standards by the Republic Telecommunications Agency ("RATEL").

On 13 April 2007, the Parent company renewed the License for construction, possessing and exploitation of public fixed telecommunication network and rendering public fixed telecommunication services granted by RATEL.

On 16 June 2009, the Parent company granted the License for fixed wireless access for the public

telecommunications network and services (CDMA). The License is valid through a 10-year period, while the provision of commercial services commences within the six-month period after the License issuing date.

As of 31 December 2011, Telekom Srbija Group includes the Parent company and the following subsidiaries:

#### Share %

▪ Telekom Srpske a.d., Banja Luka	65%
▪ Mtel d.o.o., Podgorica	51%
▪ Telus a.d., Belgrade	100%
▪ FiberNet d.o.o., Podgorica	100%
▪ TS:NET BV, Amsterdam	100%
▪ HD-WIN d.o.o., Belgrade	51%

## SUBSIDIARIES

### TELEKOM SRPSKE A.D., BANJA LUKA

Joint Stock Company "Telekomunikacije Republike Srpske"(hereinafter: Telekom Srpske) domiciled in Banja Luka, Kralja Petra I Karađorđevića 93, has been a legal successor of JODP for Telecommunications of RS since November 2002. Namely, during 2002, pursuant to the Law on Privatization of Republika Srpska and Decision passed by the Government of the Republic of Srpska, 20% of the state-owned capital of the subsidiary was privatized. 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". The subsidiary on February 1, 2010, signed the Agreement on the purchase of a 49% share in Mtel d.o.o. Podgorica and during February paid in total contractual amount.

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%
▪ The 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 principal business activity is the provision of telecommunication services of fixed and mobile telephony in the national and international traffic, the Internet and multimedia services. The subsidiary is also registered for the provision of other telecommunication services, including other fixed telephone services, data services, lease of lines, private circuits, services throughout the network area, mobile telephony add-on services and value

added services. The subsidiary also provides the services 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 ("RAK") issued a License to the subsidiary for the provision of GSM services in the territory of Bosnia and Herzegovina for the period of 15 years as of the date of issuance. Besides, on 26 March 2009, the subsidiary was also granted a License for Universal Mobile Telecommunications Systems (UMTS License) for the period of 15 years. The License for the provision of fixed telephony services was issued on 1 June 2002 for the period of 15 years, while the License for the provision of Internet services was issued on 1 July 2002 for a 10-year period. The License for the provision of multimedia services was issued on 16 March 2010 for the period of one year.

## **MTEL D.O.O., PODGORICA**

In a consortium with Ogalar BV, Amsterdam, the Parent company was issued in 2007 with a special License for construction, possession and exploitation of the public mobile telecommunications network and provision of public mobile telecommunication services, as well as the License for the provision of public telecommunication services through fixed wireless access (WiMax) in Montenegro. For that purpose, on April 4, 2007, a new legal

entity Mtel was founded in which the Parent Company is a majority founder with a 51% capital.

On December 22, 2009, the Managing Board of the Parent Company approved the increase of the Parent Company's founding contributions in the amount of EUR 20,4 million.

On February 1, 2010, the Agreement on the sale of minority shares in the subsidiary was signed between Ogalar B.V. and Telekom Srpske a.d., Banja Luka. On 16 February 2010, the Central Register of the Commercial Court in Podgorica issued a Founder Change Certificate, whereby the ownership transformation in the subsidiary "Mtel" was registered.

On March 15, 2010, the Parent Company and the subsidiary Telekom Srpske paid in the amount of EUR 20,4 and 19,6 million, respectively, for its subsidiary Mtel.

The ownership structure of the subsidiary, based on the increase in capital, is as follows:

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

The principal business activity of the subsidiary is the provision of telecommunication services of mobile and fixed wireless telephony, as well as Internet services.

## **TELUS A.D., BEOGRAD**

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, that the Managing Board of the Parent company passed on March 31, 2005. The subsidiary Telus was incorporated as a closed joint stock company and the Parent Company was the sole founder. The principal business activity of the subsidiary is the provision of services related to maintenance and security of facilities and property, together with other related auxiliary services.

After the incorporation, the subsidiary hired 840 employees of the Parent company and, later in 2006, another 767 employees of JP PTT.

The Contract on Business and Technical Cooperation with the Parent Company was concluded upon the foundation, with a 5-year validity term. The Contract stipulated the obligation of the Parent Company to use the services provided by the mentioned subsidiary in line with its registered activity. After the expiration of the mentioned contract, in the course of 2010 and 2011, new contracts, related to cleaning, regular maintenance of business premises and physical security, have been entered.

On December 31, 2010, the subsidiary also concluded two new contracts, pertaining to its registered activity, with JP PTT with 6-month and 3-year validity term, respectively.

## **FIBERNET D.O.O., PODGORICA**

On July 8, 2008, the Parent Company concluded a Joint Venture Agreement with the Railways of Montenegro for placement, utilization and maintenance of the optical and power cable along the railway Bar-Vrbnica. Accordingly, on 3 December 2008, the Company's Managing Board passed the Decision on founding the subsidiary "FiberNet" d.o.o., Podgorica.

FiberNet was founded as a limited liability company and the Parent Company is the sole founder and owner. Pursuant to the Agreement, 50% of ownership over the newly built optical voltage facilities will be transferred to the Railways of Montenegro, with an obligation of a two-year exclusive utilization period, without the right to commercialize them, whereas the Parent company owns 50% with an obligation of regular maintenance of the total investment.

The principal business activity of the subsidiary is the construction, possession, exploitation and maintenance of the transport and telecommunication network, as well as, provision of telecommunication services.

## **TS:NET BV, AMSTERDAM**

The subsidiary TS:NET BV domiciled in Amsterdam, the Netherlands, was founded on 5 February 2010. The

founding capital was EUR 1.2 million and consisted of the contribution in cash in the amount of EUR 61 thousand and the contribution in kind in the amount of EUR 1.2 million, where the Parent Company is the sole shareholder. The mentioned subsidiary has been founded as a closed joint stock company with limited liability for commitments up to the amount of the founding capital and limits for transfer of shares contracted by the Statute.

Principal business activities of the subsidiary are lease of telecommunication equipment and other operating activities in order to create conditions for construction and exploitation of international transport network of the Parent company.

## **HD-WIN D.O.O., BELGRADE**

On 13 July 2011, the Company's Managing Board brought the Decision on acquisition of the Telecommunications Company "HD-WIN" d.o.o., Belgrade. "HD-WIN" deals with cable telecommunications via "Arena Sport" TV channel and entitled for sport broadcasting rights on the territory of the Republic of Serbia, Bosnia and Herzegovina, Montenegro and Croatia.

On 2 August 2011 the Parent company paid in the contribution in the amount of EUR 7.7 million and acquired ownership of 51% of the subsidiary's capital, as well as managing rights.

# CORPORATE GOVERNANCE

Management of the company is organized as bicameral. Bodies of the company are:

- Assembly
- Supervisory Board
- Executive Board

Assembly consists of all shareholders of the company.

Supervisory Board consists of 7 (seven) members, of which at least 1 (one) is independent member in accordance with the Law.

Executive Board consists of 7 (seven) members. Members of Executive Board are Executive Directors.

Good corporate management for the companies, members of our group, does not only imply work in the interest of the shareholders, but also an adequate exercise and protection of other interests of our stakeholders: employees, partners, customers and society as a whole. This pertains to an equitable treatment of all our stakeholders, and clear and available information which we provide to them and a broader public, and an ethical attitude and transparency in our effort to accomplish business objectives. The corporate management framework ensures the respect for free competition on the market and condemns illegal forms of conduct and unfair market practices. Bookkeeping is performed in

accordance with legal regulations. Financial reports are published annually and the company voluntarily places at the disposal of its stakeholders its other business data as well. The principles of social responsibility are included in the company's strategic documents, whereby we confirm our long-term commitment to this concept. With this approach to corporate management we are endeavouring to demonstrate that we are committed to the integrity and good business practices.

# ORGANIZATIONAL STRUCTURE

The Company is a single operational system structured according to the functional and territorial and market principle, which achieves its business objectives through the following business functions, such as:

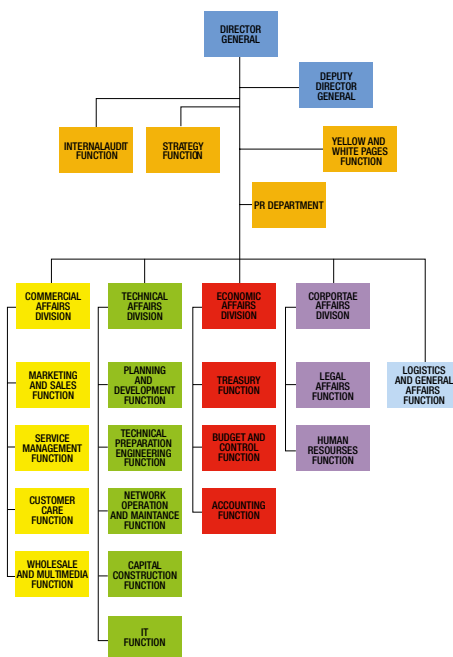
1. Core functions – commercial and technical affairs functions that model and achieve the vision and mission of the company and represent the core activity by which the Company affirms itself on the services market in the environment of competitors and customers, and that are organized under the following names:

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

2. Economic function – that provides the sources of financing and composing the financial structure of the company, manages the financial means, budget and control and the accounting activities;

3. Corporate and logistics functions – human resources, legal affairs and logistics functions, which provide the efficiency of the incoming and the outgoing components of the Company system, and the internal components of system functioning;

4. Support functions – functions of strategy, internal audit, PR and the Yellow and White Pages, which create the mission and vision of the Company and contribute to the achievement of the same by an optimum planning of development and operations, and create guidelines for adjusting the internal values of the Company to challenges of the market and the environment.



## HUMAN RESOURCES

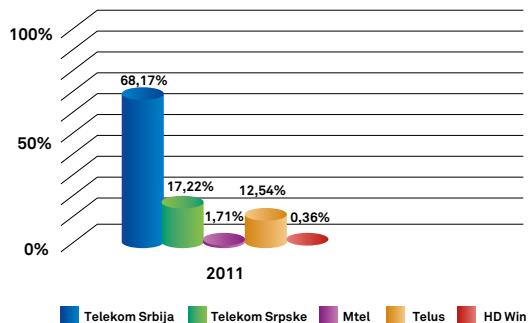
### TELEKOM SRBIJA GROUP

In 2011, the total number of employees on the Group level was 13,241. Of the total number of employees, 68.17% refer to the Parent Company (9,026 employees), 17.22% to the subsidiary Telekom Srpske

(2,280 employees), 12.54% to the subsidiary Telus (1,660 employees), 1.7% to the subsidiary M:tel (226 employees) and 0.36% to the subsidiary HD-WIN (48 employees), while the Fibernet subsidiary has only one employee.

TELEKOM SRBIJA GROUP	2011	
	TOTAL	SHARE
TELEKOM SRBIJA	9,026	68.17%
TELEKOM SRPSKE	2,280	17.22%
MTEL	226	1.71%
TELUS	1,660	12.54%
FIBERNET	1	0.01%
HD-WIN	48	0.36%
<b>TOTAL</b>	<b>13,241</b>	<b>100.00%</b>

The shares of members of the Group in the total number of employees in 2011 are shown in the graph below:



Apart from the employees with an employment contract,

for an indefinite and definite period of time, the member companies of the Group engage workers on contracts on temporary engagement, service contracts, through youth employment agencies, mediators and representatives.

If we consider the educational structure of employees, on the level of the Group, we can perceive the largest share of employees with high school education (36.36%). Second are employees with university education (24.11%), the total number of which includes specialists, master degrees and PhDs. These are followed by qualified, semi-qualified and non-qualified workers (17.1%), highly qualified workers (13.0%), while workers with college education account for 9.43% of the total number of employees.

The qualification structure of employees of Telekom Srbija Group in 2011 is shown in the table below:

QUALIFICATION DEGREE	2011	
	TOTAL	SHARE
PHD, MASTER, BACHELOR	3,193	24.11%
COLLEGE EDUCATION	1,248	9.43%
HIGHLY QUALIFIED WORKERS	1,721	13.00%
HIGH SCHOOL EDUCATION	4,814	36.36%
QUALIFIED WORKERS	1,361	10.28%
SEMI-QUALIFIED WORKERS	60	0.45%
NON-QUALIFIED WORKERS	844	6.37%
<b>TOTAL</b>	<b>13,241</b>	<b>100.00%</b>

Qualification structure of employees regarding the age

structure of employees within the Group, it can be noted that employees between 40 and 49 years of age account for the largest share (39.70%), followed by employees between 30 and 39 years of age (29.85%), between 50 and 59 (23.50%), up to 29 (5.12%), while employees over 60 account for 1.83%.

The age structure of employees of Telekom Srbija Group in 2011 are shown in the table below:

YEARS OF AGE	2011	
	TOTAL	SHARE
UP TO 29	678	5.12%
30 - 39	3,952	29.85%
40- 49	5,257	39.70%
50 - 59	3,112	23.50%
OVER 60	242	1.83%
<b>TOTAL</b>	<b>13,241</b>	<b>100.00%</b>

## TELEKOM SRBIJA

The management and development of human resources is among the top corporate tasks and objectives of Telekom Srbija. Care about employees includes care about the overall satisfaction of the employees, the encouragement of their motivation and the feeling of belonging to the company. In every possible way, Telekom Srbija is trying to provide a better future for its employees, the best possible conditions of work, including the respect of human rights, the equal treatment of employees, protection at work, health care protection, and adequate education for all its workers.

In 2011, 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 attended various training programs in the country in 2011 was 347, while the number of those who attended training abroad equaled 159. Other events (conferences, forums, seminars, fairs) were attended by 864 participants, of which 402 in the country, and 462 abroad.

The Company also finances the education of the employees. In 2011, there was a total of 57 employees who used this possibility, and in particular: 2 for high school education, 15 for vocational studies, 7 for special vocational studies, 11 for university education, 9 for a master's degree, 10 for MBA studies and 3 for a PhD.

The number of employees as at December 31, 2011 was 10,002, of which 9,026 employees were employed on employment contract (this number should be added 22 employees to idle employment), and 954 out of employment contract. The forms of engaging human resources outside employment contract in the Company are: temporary engagement, mediation, representation and service contracts.

If we consider the qualification structure of the employees on employment contract in 2011, the largest share belongs to employees with high school education, 33.65%, while the share of employees with university education is 26.26%. Employees with college education account for 11.5%. The qualification structure of employees did not change significantly in 2011 compared with 2010.

The qualification structure of employees on employment contract in the Company in 2011 is shown in the table below:

QUALIFICATION DEGREE	2011	
	TOTAL	SHARE
PHD, MASTER, BACHELOR	2,370	26.26%
COLLEGE EDUCATION	1,038	11.50%
HIGHLY QUALIFIED WORKERS	1,438	15.93%
HIGH SCHOOL EDUCATION	3,037	33.65%
QUAL, SEMI, NON-QUAL	1,143	12.66%
<b>TOTAL</b>	<b>9,026</b>	<b>100.00%</b>

The age structure of employees on employment contract shows that the largest share belongs to employees between 40 and 49 years of age (41.66%). The employees up to 39 years of age account for (33.38%), while employees over 50 account for (24.97%) of the total number of employees. The age structure of employees on employment contract in the Company in 2011 is shown in the table below:

YEARS OF AGE	2011	
	TOTAL	SHARE
UP TO 29	430	4.76%
30 - 39	2,583	28.62%
40 - 49	3,760	41.66%
50 - 59	2,118	23.47%
OVER 60	135	1.50%
<b>TOTAL</b>	<b>9,026</b>	<b>100.00%</b>

In 2011, the number of newly employed workers in the Company is 363. The qualification structure, and the age structure of newly employed workers shows that the largest number of newly employed workers have university education (36.4 %) and belong to the age group of up to 30 years of age (57.3%).

In 2011, 693 left the Company. The grounds on which the employees left the Company are different (a churn of 597 employees was registered on the grounds of the Voluntary Layoff Fund).

## TELEKOM SRPSKE

The total number of employees (Telekom Srpske and TT Engineering) as at December 31, 2011, was 2,280, which is 60 employees less compared with previous year. This reduction, when it comes to the human resources of Telekom Srpske, largely refers to the employees who left the subsidiary as technological redundancy (65 workers), and on the grounds of regular retirement (15 workers).

Viewed per qualification structure, the largest decline is in employees with high school education.

In 2011, the number of newly employed workers is 30. Viewed per qualification structure, the largest number refers to employees with university education (76.7%).

The number of employed workers, per qualification structure, in 2011, is shown in the table below:



QUALIFICATION DEGREE	2011	
	TOTAL	SHARE
PHD, MASTER, BACHELOR	693	30.39%
COLLEGE EDUCATION	188	8.25%
HIGHLY QUALIFIED WORKERS	277	12.15%
HIGH SCHOOL EDUCATION	851	37.32%
QUALIFIED WORKERS	217	9.52%
SEMI-QUALIFIED WORKERS	0	0.00%
NON-QUALIFIED WORKERS	54	2.37%
<b>TOTAL</b>	<b>2,280</b>	<b>100.00%</b>

As can be seen from the information shown in the table, as at December 31, 2011, the largest share belongs to employees with high school education (37.32%), while employees with university education account for 30.39%.

Of the total number of employees, women account for 865 workers, i.e. 37.94%, while male labor accounts for 1,415, i.e. 62.06% (without TT Engineering).

The age structure of employees of the subsidiary in 2011 is shown in the table below:

YEARS OF AGE	2011	
	TOTAL	SHARE
UP TO 29	106	4.65%
30 - 39	775	33.99%
40 - 49	787	34.52%
50 - 59	548	24.04%
OVER 60	64	2.81%
<b>TOTAL</b>	<b>2,280</b>	<b>100.00%</b>

As can be seen from the information in the table, the largest share belongs to employees between 31 and 40 (33.99%), and between 40 and 49 years of age (34.52%).

## MTEL

As at December 31, 2011, in the M:tel subsidiary, there were 226 employees (along with the management seconded from Telekom Srbija who are employed in M:tel), whose average age is 34 and of which 42.48% are university educated.

QUALIFICATION DEGREE	2011	
	TOTAL	SHARE
PHD, MASTER, BACHELOR	96	42.48%
COLLEGE EDUCATION	10	4.42%
HIGH SCHOOL EDUCATION	116	51.33%
QUALIFIED WORKERS	4	1.77%
<b>TOTAL</b>	<b>226</b>	<b>100.00%</b>

\* With the management seconded from Telekom Srbija

The age structure of employees in the subsidiary in 2011 is shown in the table below:

YEARS OF AGE	2011	
	TOTAL	SHARE
UP TO 29	73	32.30%
30 - 39	115	50.88%
40 - 49	28	12.39%
50 - 59	10	4.42%
OVER 60	0	0.00%
<b>TOTAL</b>	<b>226</b>	<b>100.00%</b>

At the end of 2011, of the total number of employees, 114 (50,5%) were men, while 112 (49,6%) were women.

## TELUS

As at December 31, 2011, the Telus subsidiary had 1,660 employees, of which 87% were engaged for an indefinite period. Apart from this, 929 workers were engaged on contracts for temporary engagement.

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

QUALIFICATION DEGREE	2011	
	TOTAL	SHARE
PHD, MASTER, BACHELOR	16	0.96%
COLLEGE EDUCATION	7	0.42%
HIGHLY QUALIFIED WORKERS	6	0.36%
HIGH SCHOOL EDUCATION	785	47.29%
QUALIFIED WORKERS	50	3.01%
SEMI-QUALIFIED WORKERS	23	1.39%
NON-QUALIFIED WORKERS	773	46.57%
<b>TOTAL</b>	<b>1,660</b>	<b>100.00%</b>

YEARS OF AGE	2011	
	TOTAL	SHARE
UP TO 29	48	2.89%
30 - 39	461	27.77%
40 - 49	673	40.54%
50 - 59	435	26.20%
OVER 60	43	2.59%
<b>TOTAL</b>	<b>1,660</b>	<b>100.00%</b>

The age structure of employees in the subsidiary in 2011 is shown in the table below:

As can be seen from the information in the table, the largest share in 2011 belongs to employees between 40 and 49 years of age, who account for 40.54%.

## HD-WIN

As at December 31, 2011, the HD-WIN subsidiary had 48 employees (together with the management seconded from Telekom Srbija who are employed in HD-WIN). All the employees are engaged for an indefinite period of time, and apart from them, there are persons engaged outside employment contract (81 workers).

Viewed per qualification structure, the largest share belongs to employees with high school education (52.08%), while employees with a university degree constitute 35.42% of the total number of employees.

QUALIFICATION DEGREE	2011	
	TOTAL	SHARE
PHD, MASTER, BACHELOR	17	35.42%
COLLEGE EDUCATION	5	10.42%
HIGHLY QUALIFIED WORKERS	25	52.08%
HIGH SCHOOL EDUCATION	1	2.08%
<b>TOTAL</b>	<b>48</b>	<b>100.0%</b>

\* With the management seconded from Telekom Srbija

The age structure of employees in the subsidiary in 2011 is shown in the table below:

Age structure of employees

YEARS OF AGE	2011	
	TOTAL	SHARE
UP TO 29	21	43.75%
30 - 39	17	35.42%
40 - 49	9	18.75%
50 - 59	1	2.08%
OVER 60	0	0.00%
<b>TOTAL</b>	<b>48</b>	<b>100.00%</b>

As can be seen from the information shown in the table, the largest share in 2011 belongs to employees of up to 29 years of age, who account for 43.75%.

At the end of 2011, of the total number of employees, 32 (66.7%) were men, and 16 (33.3%) were women.

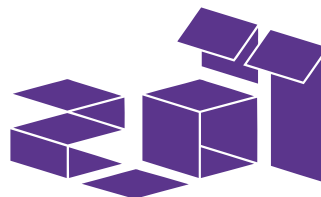
# ALWAYS ON THE USERS SIDE



- BUSINESS
- BUSINESS ENVIRONMENT

 **Telekom Srbija Group**

ANNUAL BUSINESS REPORT FOR 2011



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THE  
BOX

# BUSINESS

## STRATEGY

### Business context

Telekom Srbija A.D. enjoys a desirable and unique position in the Serbian communications and entertainment market. Telekom Srbija A.D. is the leader in this market and well positioned to capture the future sources of growth.

### Strategic objectives

Telekom Srbija's strategic objectives are communicated through its vision and mission conveying regional leadership ambitions in the converged Telecommunications, Media and IT market for businesses and consumers.

### Vision

"We strive to enhance and delight people's lives by enabling them to be globally connected and entertained as the regional leader in the future information society"

### Mission

"We are on a continuous Information, Communications, Technology and Multimedia innovation path for the benefits of our customers, with our staff as a driving force, and for the satisfaction of our shareholders"

In parallel Telekom Srbija A.D. has implemented a new operating philosophy in line with the "new digital world" environment trying to achieve ambitious yet realistic operating goals with quantitative business targets.

### Business strategy

Telekom Srbija A.D. keeps focus on maximising value extraction from industry transformation and on operating effectively and efficiently through an integrated operating model.

To maximise value extraction, Telekom Srbija A.D. follows concept of extensive use of commercial bundles to defend and extend the core voice and access business and enter the new digital services and content business:

- Telekom Srbija A.D. will intensify infrastructure development introducing 4G and NGA networks together with content delivery network.
- In the fixed voice and data market, Telekom Srbija A.D. will defend and expand its revenues with "customer fit" product innovation, tactical bundles and large volume packages.
- In the mobile voice and service market Telekom Srbija A.D. will grow its revenues predominantly by strengthening the customer base by migrating prepaid to postpaid, by improving customer service to a high standard and by improving VAS and multimedia product portfolio.
- In the fixed and mobile broadband market place Telekom Srbija A.D. will continue activities on broadband growth, still important driver of new revenue sources, by focusing on maximal coverage, new service introduction and availability through combined fixed-mobile offers.

- In the multimedia and PayTV market place, Telekom Srbija A.D. will position its PayTV offer above the value proposition of cable operators by providing better quality experience, by implementing concept content at any device and multiscreen content delivery, and value for money.

- In the on-line entertainment and advertising market place, Telekom Srbija A.D. is expanding in existing multimedia portal business following concept of integrated a single leading communications and entertainment portal to boost customer experience and usage, advertising and e-commerce revenues.

- In the Social networks arena Telekom Srbija A.D. will expand product innovation and introduction integrating existing networks and solutions with new global social and market space.

- In the business ICT market place Telekom Srbija A.D. will expand its business service offerings in the line with newest solution and technologies on the market and through Cloud Computing and OTT solutions implementation. Tailor fit approach will be scaled through different business customer segments.

- Telekom Srbija A.D. will keep initiatives on building an integrated and customer-centric operating model to better satisfy customer needs and maximise operational synergies.

- At the commercial level, Telekom Srbija A.D. has integrated its marketing, sales and support functions adapted to the specific needs of the consumer, business and wholesale segments.

- The Group shall aim to position itself providing quality and good value services at reasonable prices.

Growth will be based on innovations and operational efficiency as integrated provider of solutions for all needs at home, in the office and on the road, reliable during the work as well as entertaining during the leisure time.

- Telekom Srbija A.D. shall gradually integrate its operations, systems and networks towards full convergence in order to provide a fully converged product portfolio.

In order to maintain the financial strength in the future Telekom Srbija A.D. shall:

- Decrease its Personnel costs and motivate the staff to higher performance

- Optimize the Inventories level and foster negotiations with suppliers

- Measure all new investments on internal profitability evaluation criteria

## Strategy implementation

Successful implementation of the strategic business plan has been supported by the adoption of several organisational measures, by using the strategy implementation tools and by following the defined implementation Action plans and initiatives.

# SERVICES

## TELEKOM SRBIJA

The core activity of the Company is the provision of services in the sphere of telecommunications. Since its foundation, the Company has provided fixed and data services. As the Company strengthened and

telecommunications services evolved, mobile, Internet and multimedia services and a wide range of add-on services, developed too.

The following fixed services are provided to residential and business customers:

- Voice services in national and international traffic
- Standard telephone connections (POTS) with add-on services
- ISDN (BRI, PRI) connections with add-on services
- Services based on new generation technologies (NGN):
- Broadband telephone connections (BBTF)
- BizFon
- Business trunking
- Services based on wireless technologies (WLL, CDMA)
- InoCall and InoCall plus services
- Economy services
- Public payphones
- White and yellow pages
- IN platform-based services: Premium Rate, Free Phone, Televoiting, Universal Access Number
- Data services in national and international traffic (digital line lease, Frame Relay, L2VPN E-line, L3VPN, VLAN:CONNECT, International L3VPN)
- Managed services (apart from e.g. managed L3VPN services, also offered are the following add-on services: Managed LAN, Managed Security, structural cabling...) and other ICT services
- ICT services (Virtual Servers, Dedicated Servers, Managed IT, ...)
- Telehousing
- VIZA services
- Cloud Computing services, Video Surveillance and

Tele-assistance – services implemented in cooperation with partners

In the sphere of fixed telephony and data transmission to business customers, the following new services were introduced in the course of 2011:

- SLA packages for data services (L2VPN E-line, L3VPN), symmetric Internet access and Business Trunking services (several levels, for instance, for the L3VPN service, standard, standard plus, silver and gold packages were introduced);
- Mobile access in L3VPN (provides to business customers data transmission between mobile terminals and fixed user sites, which are networked on the basis of L3VPN service, and in special cases, provides for the connection of user sites to L3VPN using Telekom Srbija mobile network resources);
- L2VPN E-line plus (provides to customers the use of the L2VPN E-line on Disaster Recovery site under the same terms as on the central site);
- Add-on IPsec VPN service (provides for the connection of LAN segments on sites where users use Internet access services, in VPN via the Internet network and IPsec protocol and data transmission between central and remote sites; belongs to the managed service group, Telekom provides a CPE router).

In the segment of **mobile telephony** prepaid, postpaid, residential and business customers, according to GSM/GSM1800 and UMTS/IMT-2000 standard, the Company provides the following services:

- Voice services, messaging services based on SMS and MMS



- Biznet - service designed for business customers
- Roaming
- Mobile Internet via GPRS and 3G technologies
- Data Services - Corporate approach based on GPRS and 3G technologies
- M2M services
- BlackBerry services
- Express credit
- USSD menu and USSD promotions
- SMS Directory
- Favorite Number for postpaid customers
- Postpaid extra (tariff add-ons)
- Favorite Number and Three Favorite Numbers for prepaid customers
- Biznet prepaid top-ups and e-POS terminals
- Mobile Internet with Cost Control
- Mail2SMS
- International VPN
- Cost Control in Surf Packages
- Call Me
- Directory Guard
- F&F for postpaid
- SMS Assistant
- Postpaid listing Moj halo tone
- Cobrand Card - Mts Banka Intesa Card
- Location based services
- Value-added services and mCommerce services implemented with partners
- mTicketing
- VoIP time add-on from mobile accounts
- mParking
- Safe SMS

- Various services where customers receive information and multimedia content to their mobile phones over the mobile network
- Vehicle Monitoring, Observer - services implemented with partners.

In the part of public mobile telecommunications network, implementation of modern technologies enables provision of an increasing number of new services, while the quality of the existing services is improved and a growing percentage of the territory and population in Serbia is covered.

New services were introduced in mobile telephony in 2011, as follows:

- Partizan and Red Star prepaid and postpaid tariff profiles
- First Droid tariff profiles
- Prepaid data tariff add-ons
- Prepaid tariff options
- SMS2FaceBook
- SMS2Twitter
- facebook zero
- MMS2Twitter
- mt:s center, Appcenter and Mondo android applications
- Switch from postpaid to prepaid
- Number portability between mobile networks
- Value-added services and mCommerce are implemented with partners
- mKatalog
- New services for business customers in the field of mobile network services:

- VPN roaming
- VPN roaming - call control (prohibited off net traffic, prohibited international calls, traffic prohibited within the group)
- VPN Business portal (VPN Self Care Administration Portal)
- Share Allowance (for data traffic in the mobile network)
- Hunting groups
- m:ts Tracker & Bus Tracker

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

- Direct Internet Access
- High Speed Internet Access (HSIA)
- Biz WLAN
- ADSL
- Internet access through FTTB and GPON TELCO infrastructure
- Dial-up
- Antivirus protection (AV licences)
- Web hosting, Mail hosting
- Registration of Internet domains and other Internet-related services
- Implementation of the procedure with RIPE for the allocation of AS number and blocks of IP addresses to business customers

By using the existing telecommunications infrastructure, the Company entered the multimedia services market with the current offer of a value-added IPTV service Video on Demand and content recording, TV and radio signal transmission on local and international

markets and TelePresence – a contemporary technological solution enabling business meetings to be successfully held.

In 2011, IPTV service was offered to all categories of business customers (service provision to "open" type business customers was enabled, and in late 2011 service bundle was prepared, consisting of IPTV, Internet and Wireless LAN, designed for hotels).

In 2011, new multimedia services were launched:

- WEB TV Home (for Serbia) for ADSL customers of Telekom Srbija
- WEB TV "Sve na klik" (globally) primarily designed for the expat market ([www.svenaklik.com](http://www.svenaklik.com))
- IPTV for persons with disabilities

Web TV is a service comprising the access to various video content (TV channels, Video clips, etc.) from the Internet. Customers are thus provided with the streaming content, and Video on Demand. WEB TV "Sve na klik" also offers specially created TV channels designed for the expats, with local content, such as "Srbija na dlanu 1" and "Srbija na dlanu 2", that can be viewed only within this service.

In 2011, Telekom Srbija offered, for the first time, fully converged service bundles - Box packages. There are two types of these packages – as a combination of fixed, mobile and the Internet or as a combination of fixed, mobile, the Internet and IPTV. The users of these packages receive a single bill for the selected service bundle.

e-payment services:

- mt:s prepaid top-ups debited from the fixed telephony account
- Sale of prepaid top-ups from Mondo wap and web portals
- Electronic prepaid top-ups from POS terminals, bank booths, ATMs and web banking
- SMS payment of invoices for the services charged through the fixed telephony bill
- SMS payment of postpaid accounts
- SMS top-up of prepaid account
- Card to Card money transfer between two DinaCard payment cards

Services rolled out in 2011:

- Prepaid customer registration
- SMS payment of bills for Box package
- Web payment of Telekom bills from DinaCard, Visa and MasterCard cards
- Telekom web shop - online shopping of postpaid packages by payment cards
- Mobile payment of bills for the Integrated Collection Niš
- Prepaid listing on the web portal

As an addition to services, the Company also offers commercial wap (wap.mts064.telekom.rs) and web portals (www.mondo.rs), whereby it provides its customers with the access to various information and entertainment, but also markets the latest products and promotions from its offer.

In addition to the aforementioned services, the Company's operations involves maintenance and repair of telecommunications plants and networks, as well as spatial and town planning, designing and construction of telecommunications facilities, etc.

## TELEKOM SRPSKE

One of the most significant projects in 2011 in the domain of fixed telephony, in accordance with the dynamics determined by the Regulatory Agency for Communications in B-H, was the introduction of the number portability service. The services make it possible for the customers to retain their current fixed number when shifting from different fixed networks within Bosnia-Herzegovina.

With the entry into force of the new prices of voice services in fixed telephony on 1 January 2011, also introduced were new tariff models No limit fixed and No limit world, whereby all users of fixed telephony were offered a possibility to generate unlimited traffic towards certain destinations.

The OPEN package offer in 2011 was expanded by introducing two new packages integrating fixed and Internet services. Within these service packages, the customers were provided free telephone traffic within the fixed network of „m:tel-a“, as well as Internet access at 768/128 kbs and 2560/256 kbs bitrates. In 2011, the intensive promotion of the OPEN package including IPTV services (IPTV+fixed telephony and IPTV+fixed telephony +Internet) continued both by expanding the content (new

TV channels), increasing Internet speeds in OPEN trio packages and promotional drives which offered advantages to new customers.

In the broadband Internet access segment, the ADSL offer for residential and business customers was separated for the first time. Besides increasing the speeds of both segments, three new NetBiz packages were created within the business customer offer, integrating ADSL services and web/mail hosting.

In the mobile telephony segment within prepaid, introduced was a new tariff model, HIT, with a single lowest price of a call towards all networks in Bosnia-Herzegovina of 0.17 KM/minute and the accounting unit of 60/1 seconds, whereby Telekom Srpske successfully responded to the competitor offer taking the lead on the market.

The commissioning of the USSD menu entitled My Menu represents an additional benefit for mobile customers in 2011 as it makes it possible for the customers to access, calling a single USSD code \*100# services on offer, and choose a tariff option, check the account balance and the like.

Within the postpaid segment, the year 2011 was marked by the creation of Smart Tariff Models, SmartM, SmartL, SmartXL and SmartXXL, where the customers are offered a significant amount of mobile Internet bonuses ranging from 250Mb on the SmartM to 2GB on the SmartXXL tariff model, with attractive packages of Smart mobile handsets and special emphasis on the Android operating system.

An increase in postpaid customers in 2011 may be attributed to the „Kombinuj“ tariff model whose unique prepaid-postpaid combination on the B-H market was welcomed by the customers. Through continued promotional activities which included the insertion of vouchers in daily newspapers and social networks (facebook), which made it possible for the customers to purchase „Kombinuj“ connections combined with attractive handset models at favourable prices, Telekom Srpske recorded 12,548 users of the „Kombinuj“ tariff model at the end of the year.

Taking into consideration the global increase in the mobile broadband market, Telekom Srpske adjusted its m:net and m:web tariff models for both postpaid and prepaid customers to market trends and customer needs and completed it with 3G devices in packages with computers, tablets and USB modems.

## **MTEL**

M:tel offers to its customers the services of mobile telephony, fixed telephony and the Internet via Wimax technology.

In order to accommodate the needs of all customers – primarily with the aim of retaining the existing and acquiring new customers, and keeping in mind certain target groups, new services were carefully planned. The most important services include:

The postpaid offer of m:tel in February 2011 was expanded to include single my m:tel packages: my m:tel 5,

my m:tel 10, my m:tel 20, my m:tel 30 and my m:tel 40. All profiles are characterized by a very favourable price for calls in national traffic towards all networks in Montenegro, and depending on the amount of the monthly fee, the user each month receives the most minutes, SMS messages, mobile Internet and free minutes for incoming calls when in Serbia and Republika Srpska. Unused minutes, SMS messages and MB may be carried into the following month.

In February 2011, the „Krug porodice“ service was also introduced and is intended for all postpaid and prepaid customers. The activation of the service provides unlimited mutual communication between members of the group, that is, „Krug porodice“ (unlimited voice and SMS communication) in the course of a calendar month, at the activation price of 1.50 euros per member in the form of a monthly subscription fee.

In March 2011, the “m:tel meni” service for prepaid customers was expanded. Apart from the basic items on the menu (insight into the current balance, Pozovi me, Aktivacija prijatelja, Dodaj) using this menu, the customers may purchase various options ranging from daily benefits in the network to monthly, both for voice and sms and gprs.

At the end of March 2011, the “m:tel star” – loyalty project for prepaid was also introduced. All prepaid customers become members of m:tel star that will grant them stars (points) as a reward for loyalty. The customers collect stars depending on the amount of their credit top-ups that month, on how long they have been on the m:tel network and what is the frequency of their top-ups. Stars

may be exchanged for minutes, SMS, mobile Internet, the „Prijatelji” service and many other benefits.

In June 2011, the new Hello in package was introduced. The new m:tel prepaid package - Hello in, offers to all customers, particularly tourists, the most favourable communications. The price of the package is 3 euros with 3 euros of credit.

Since July 2011, in accordance with the Company's Internet orientation, four basic m:tel surf tariff profiles have been offered: m:tel surf 1, m:tel surf 3, m:tel surf 5 and m:tel surf 10. The new postpaid packages „m:tel surf 1”, „m:tel surf 3”, „m:tel surf 5” and „m:tel surf 10” have an unlimited Internet bitrate and, depending on the subscription fee, a certain amount of data at the highest possible data bitrate provided by the network, with the possibility of additional purchase of bitrate after the data amount covered by the subscription fee has been exhausted. After using 1/3/5/10 GB unlimited Internet access is possible at a reduced bitrate of 128 Kbps. In November 2011, the Odaberi packages were introduced. In order for the users of the 068 network to communicate as it suits them best, the m:tel company offered unique postpaid packages „Odaberi 12” and „Odaberi 18”. The Odaberi packages grant the customers full liberty to create by themselves an original combination of services – at the signing of a contract, they choose the quantity of calls, SMS and Internet they will use within the subscription fee (12 euros and 18 euros).

In December 2011, M:tel offers to its customers a new tariff package - Paket 8, which includes a combination of benefits of postpaid and prepaid tariff models of m:tel, at

the fixed monthly subscription fee of 8 euros and 8 euros on the account. The user may also top up his account in the same manner as he tops up his prepaid number.

Business Customers – The offer in this segment includes add-on services which are particularly intended for business customers such as: Autotrack, Observer, Internet access, GPRS packages, „Moj pogled“, etc.

## **BUSINESS ENVIRONMENT**

### **REPUBLIC OF SERBIA**

#### **Macro-economic environment** <sup>[1]</sup>

The total economic activities in Serbia in 2011, measured by the gross domestic product (GDP) and expressed in the prices of previous year, show an actual growth of 1.9% compared with previous year. The actual growth of GDP is primarily based on the growth of imports helped by the actual depreciation of the dinar. The largest positive contribution was made by industrial products and information and communications, while the largest negative contribution was made by the retail sector.

Viewed per activity, the largest growth in the gross added value was recorded in the sectors of electrical energy,

[1] Report on inflation of the National Bank of Serbia and the announcement of the Republic Statistics Bureau.

gas and steam supply, construction and mining, while the largest decline in the GDP was registered in the sector of trade and the sector of administrative and ancillary service activities.

The sector of traffic and accommodation recorded a growth in the physical volume of 8.1%, along with the telecommunications activity – 15.6%.

The total number of employees in Serbia in 2011 is 2.8% lower than previous year, while the number of employed men dropped by 4.6%, and the number of employed women declined by 0.5%. In 2011, the unemployment rate was 23.7%.

The salaries nominally grew in 2011, so that they were 11.3% and actually 0.3% higher compared with 2010. In 2011, a larger volume of foreign trade, both exports and imports, was achieved compared with previous year. The exports cover 58.5% percent of the imports, and it is identical with coverage in the same period in 2010. The foreign trade deficit in 2011 equaled EUR 6 billion, which is 15% higher compared with 2010.

According to the report on inflation of the National Bank of Serbia, the inflation in 2011 was 7 percent. The planned inflation in Serbian in 2011 was 4.5%, with possible deviations of plus or minus 1.5%. The upper limit of the allowed deviation was exceeded due to an increase in the consumer prices, an increase in the regulated prices, the prices of the producers of industrial products for the domestic market and the prices of the producers of agricultural products. According to the standard

methodology of the Republic Statistics Bureau the average annual growth of consumer prices is 11%.

2011 was marked by a slow and uneven recovery from the economic crisis, the number of non-liquid companies grew, while the banking system mostly managed to maintain liquidity during the year. The structure of the inflow of foreign capital is unfavorable because the most frequent are portfolio investments, while direct foreign investments are on the same level as last year.

## Telecommunications market and regulatory framework

On 8 July 2010, the Law on Electronic Communications came into force, when the previous Law on Telecommunications ceased to be valid.

On the effective date of the Law on Electronic Communications, the Republic Telecommunications Agency (RATEL) continued its work as the Republic Agency for Electronic Communications in compliance with the provisions of the new Law (the "Agency").

In accordance with the Law, the Agency shall perform the following activities:

- pass by-laws;
- decide on the rights and obligations of operators and customers;
- cooperate with authorities and organizations responsible for the areas of broadcasting, protection of competition, consumer protection, protection of personal

data, as well as with other authorities and organizations, when it comes to issues of importance for the field of electronic communications;

- cooperate with relevant regulatory and professional bodies of the European Union members and other countries in order to reconcile practices related to application of regulations in the field of electronic communications and to encourage the development of cross-border electronic communications networks and services;
- participate in the work of international organizations and institutions in the field of electronic communications, as a national regulatory authority in the electronic communications field;
- perform other duties in line with the Law.

Within one year from the date of entering the new Law into force, subject to the provisions thereof the Agency shall conduct market analysis, and within six months from the publishing date of the report on completed analysis it shall review the decisions on determining the operator with significant market power, which were passed on the basis of the previously applicable regulations, as well as decide on determining the operator with significant market power in accordance with the provisions of this Law.

Markets that are subject to pre-regulation are as follows:

- Retail market of access to the public telephone network on the fixed location;
- Wholesale market of call origination in the public telephone network on the fixed location;

- Wholesale market of call termination in the public telephony network;
- Wholesale market of (physical) access to the network elements with the attributable resources (including the full and shared unbundled access to the local loop);
- Wholesale market of broadband access;
- Wholesale market for leased lines;
- Wholesale market of call termination in the mobile telephony network;
- Retail market for distribution of media contents; and
- Retail market for publicly available telephone service from fixed location.

On 29 November 2011, the Agency submitted the decisions according to which the Parent company was declared as an operator with significant market power in all the above markets, except for the retail market of media contents distribution.

Different obligations have been imposed on the operator depending on the market in which it was declared as an operator with significant market power.

On 15 July 2011, the Rule Book on the application of the cost-accounting principle, separate accounts and reporting of a telecommunications operator with a significant market power in electronic communications and the starting base for the current cost accounting in the system of calculation and dividing profit and loss account for regulatory reporting by an operator with a significant market power was passed.

In the mobile telephony market there are three

operators: MT:S (Telekom Srbija), Telenor (Telenor Norway) and Vip Mobile (Telekom Austria).

Since 1 July 2011, the number portability in the public mobile telecommunications in the Republic of Serbia has been enabled in accordance with the Rule Book on Number Portability in the Public Mobile Telecommunications dated 25 December 2009. This possibility is provided to users of all three mobile operators which have an appropriate License granted by RATEL.

The population coverage by GSM and UMTS network is 87,4% and 76,4% respectively, while territorial coverage is 82,6% and 64,0% respectively.

As of 1 January 2011, the tax on the use of mobile phones has been cancelled.

In accordance with the provisions of the previously applicable Law on Telecommunications the Company as the operator with significant market power until 2010 was the only fixed telephony operator in Serbia.

In February 2010, Telenor d.o.o., Belgrade, was granted the License for public fixed telecommunications networks and services for the territory of the Republic of Serbia, for a 10-year period (with possibility of extension for the same period). The License fee amounts to EUR 1.05 million. In January 2011, Telenor d.o.o., Belgrade, fulfilled the formal condition of the License on the commencement of fixed telephony services provision.

In 2010, by merging Media Works (CDMA License)



and internet service providers Neobee.net and SezamPro established the Telecommunications Company Orion telekom d.o.o., Belgrade, with aim of providing fixed telephony and internet services.

In the Internet services market, 232 Internet providers have a License for provision of services. In addition to the Parent Company, the largest ADSL providers in Serbia are EUnet, SezamPro, Beotel, PTT, Neobee and other.

The Agency issued to telecommunications operators 75 licenses for public telecommunications network and 42 licenses for VoIP (service of voice transmission over internet).

There are 82 operators in Serbia providing the service of radio and TV programs broadcasting via cable distribution network, where the biggest ones are: SBB, Radijus Vektor, Ikom, Kopernikus Technology, PTT-KDS. According to Agency' Decision in 2011, SBB was declared an operator with significant market power in retail market for distribution of media contents.

#### Market share in 2011 per number of customers

	Fixed telephony	Mobile telephony	ADSL
Telekom Srbija	99,8%	53,5%	79,6%
Telenor	-	30,5%	-
VIP Mobile	-	16,0%	-
Orion telekom	0,2%	-	-
Others	-	-	20,4%
Total	100,0%	100,0%	100,0%

## BOSNA I HERCEGOVINA AND REPUBLIKA SRPSKA

### Macro-economic environment

According to the estimates of the Bosnia and Herzegovina Statistics Agency, the total number of inhabitants on the territory of Bosnia and Herzegovina in 2011 equaled 3,842,566 inhabitants.

According to the estimates for 2011, the inflation rate equaled 3.7% in Bosnia and Herzegovina and 3.9% in Republika Srpska.

The gross domestic product <sup>[2]</sup> per inhabitant on the level of Bosnia and Herzegovina equaled around KM 7.8 thousand in 2011.

In 2011, the average net salary equaled KM 816 in Bosnia and Herzegovina, and KM 809 in Republika Srpska.

It is estimated that the unemployment rat <sup>[3]</sup> in Bosnia and Herzegovina equaled 27.6% in 2011. According to the statistics of the Employment Agency, the unemployment rate in Republika Srpska equaled around 24.5%.

### Telecommunications market and regulatory framework

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 television) and related services and resources.

Likewise, the Communications Law regulates the operation of the Communications Regulatory Agency of Bosnia and Herzegovina ("CRA"), founded in 2001, which responsibilities are: creating and promoting rules in the broadcasting and telecommunications sectors, licensing of operators, planning, managing and allocating the frequency spectrum, establishing and maintaining of License fees, implementing technical and other standards related to quality.

In the **fixed telephony** services market, the largest market share belongs to three operators: BH Telecom d.d., Sarajevo, Telekom Srpske a.d., Banja Luka, and Hrvatske telekomunikacije d.d., Mostar (HT) that are operators with significant market power in fixed telephony. These operators provide services only in the local market, although the licenses are valid throughout the entire territory of BiH. Besides them, there are 11 alternative operators that provide public fixed services on the territory Bosnia and Herzegovina.

Number portability in the fixed telephony network in the BiH is available to customers starting from September 1, 2011.

Because of the need to harmonize the Rules on interconnection with the existing Law on Communications, in 2010 the Agency adopted the new Rules under which the operators with significant market power are obliged to harmonize the existing reference interconnection offers for the mobile network. Reference interconnection offers for the mobile network was effective in the first quarter of 2011, by which the conditions were created for virtual network operators (MVNO)'s for entering the market.

In the **mobile telephony** services market, the largest

[2] Source of information: Projections of the Council of Ministers, the Directorate for Economic Planning  
 [3] Source of information: Bosnia and Herzegovina Statistics Agency, "Labor Poll"

market share belongs to three operators: BH Telecom, Telekom Srpske and Hrvatske telekomunikacije and they mainly provide services in the local markets. The above operators have owned a UMTS License as of March 2009, and in January 2010 they were declared the operators with significant market power in the mobile telephony services market. Population coverage of GSM and UMTS network is 99,0% i.e. 63,0% respectively, while coverage of the territory is 86,5% and 8,7% respectively.

In the **Internet services** market, 81 providers have a License for provision of Internet services in the territory of BiH. Internet access is possible in almost all the cities in BiH Federation. The Internet service providers do not provide the same Internet access, but they offer at least one of the broadband Internet access forms, along with dial-up.

There are more and more users of so-called **Pay TV services**. In this segment, 50 operators have License for TV programs distribution and it can be concluded that the competition is intensive in this segment. Among Telekom Srpske as a operator with significant market power, in 2010, BH Telecom offers this service.

There are 73 cable operators in BiH, whose licenses are valid in the national, regional or local market.

In 2011, the market share of Telekom Srpske in internet services accounted for 21,9%.

#### Market share in 2011 per number of customers

	Fixed telephony	Mobile telephony
BH Telecom	53%	40%
Telekom Srpske	36%	40%
HT Mostar	10%	19%
Others	1%	1%
Total	100%	100%

# MONTENEGRO

## Macro-economic environment <sup>[4]</sup>

The conditions of a global economic and financial crisis significantly determined the general economic environment of Montenegro in 2011. The slowing down of economic activity inevitably led to a decline of development performances in the national economy.

The trends in the GDP over the first six months in 2011 shows a tendency of preventing the abrupt decline of economy, which started at the end of 2008, when the average annual growth of GDP was around 8%, so that after the first six months in 2011, a 2.5% growth in economy was recorded. Over the first nine months in 2011, economic growth was above expectations and a rough estimate was that the growth rate of GDP was some 3.5%. The key drivers of economic growth were: tourism, construction and trade.

The annual inflation rate in September 2011 was 3.4%, and compared with the end of 2010 it was 3%. The growth in the prices of excise products (alcoholic drinks and tobacco), services (health care, transport, catering) and food products, were key in determining the level of the annual inflation rate.

The number of registered unemployed persons in the first nine months of 2011 was 2.4% lower compared with the same period last year. In September 2011, the Employment Agency had some 29,404 unemployed persons in its records, which is 5.2% lower than in September last year, and even 8.4% lower than in December 2010. The unemployment rate in Montenegro in 2011 equaled 19.7%.

## Telecommunications market and regulatory framework

For regulation of electronic communications in Montenegro is in charge of the Agency for Electronic Communications and Postal Services (ECPS), established in 2001.

ECPS performs the following activities:

- preparing expert basis for drafting regulatory acts, adopting procedures and standards for enforcement of the law and other bylaws;
- issuing and revoking licenses and frequencies;
- regulating prices;
- preventing monopoly i.e. anticompetitive 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;
- constant monitoring of the radio-frequency spectrum;
- promoting the rational use of electronic communications infrastructure;
- organizing the electronic database in the electronic communications sector and keeping registries;
- monitoring fulfillment of the obligations mandatory for operators of electronic communications networks i.e. electronic communications services, in extraordinary circumstances;
- performing other activities in accordance with legal regulations.

The basic regulatory framework for the

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[4] Source: [www.cb-mn.org](http://www.cb-mn.org), information at the end of 2011 have not yet been processed.

telecommunications market in Montenegro represents the Electronic Communications Law, adopted in 2008.

Crnogorski Telekom is the largest fixed telephony operator in Montenegro that implemented a significant upgrade and expansion by investing into infrastructure, which resulted in 100% digitalization. In April 2007, within a public tender procedure, ECPS granted 3 licenses for the provision of public telecommunications services through fixed wireless access (WiMAX), to the companies Mtel, Broadband Montenegro and T-Mobile Crna Gora, followed by another License issued in October 2007 to the operator Promonte. Mtel put its FWA network into operation in late 2007. Promonte put the network into commercial use in 2008. At the end of 2009, the License for fixed wireless access was also granted to Verat d.o.o., but the company did not put the network into commercial use in 2010. The population coverage by WiMAX network is 40.0% while the territorial coverage is 10.0%.

Likewise, ECPS granted 8 licenses for the provision of public service of voice transfer over networks based on Internet Protocol (VoIP), of which PTT inženjering and VOIP Telekom are the largest ones.

In April 2011, ECPS announced the public consultation on the separate accounts and cost accounting. Crnogorski Telekom as operator with the significant market power is obliged to implement cost accounting.

Relevant markets which are subject of ex ante regulation are as follows:

The retail market of publicly available local and long distance calls for legal entities and individuals, which are provided on fixed location;

The retail market of publicly available international calls for legal entities and individuals, which are provided on fixed location;  
Wholesale market of leased lines (trunk segments);  
Wholesale market of access and call origination from the public mobile networks and  
Wholesale market of diffuse radio signal distribution and emission.

In the telecommunications market of the Republic of Montenegro, there are three mobile telephony operators: Mtel, T-Mobile (Crnogorski Telekom) and Telenor Crna Gora, which were also granted UMTS licenses in May 2007.

Telenor Crna Gora was granted the License for giving an authorization for providing electronic communication services in compliance with GSM/DCS1800 and IMT-2000/UMTS standards (License for 4th mobile operator) in the public tender that ECPS announced in November 2011. Number portability service operators provide starting from the beginning of December, 2011.

The population coverage of GSM and UMTS network is 96,3% and 60,0%, respectively. The territorial coverage of GSM and UMTS networks is 83,9% and 47,9%, respectively.

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

**Market share in 2011 per number of customers<sup>[5]</sup>**

	Fixed telephony	Mobile telephony
Crnogorski Telekom	98,0%	34,7%
Telenor	-	40,6%
Mtel	2,0%	24,7%
Total	100,0%	100,0%

[5] Source: ECPS

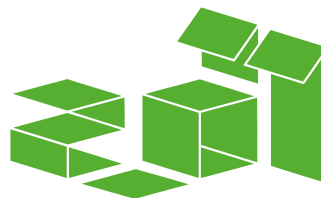
# STRATEGY THAT BRINGS BENEFITS FOR ALL SIDES



## ■ FINANCIAL AND OPERATING RESULTS

 **Telekom Srbija Group**

ANNUAL BUSINESS REPORT FOR 2011





# FINANCIAL AND OPERATING RESULTS

## TELEKOM SRBIJA GROUP

### FINANCIAL OVERVIEW

#### Consolidated income statement

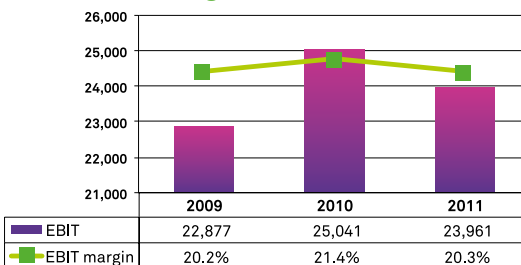
IN RSD MILLION	2011	2010	2009
OPERATING REVENUES	118,082 0.8%	117,141 3.6%	113,037
OPERATING EXPENSES	(94,121) 2.2%	(92,100) 2.2%	(90,160)
OPERATING PROFIT (EBIT)	23,961 -4.3%	25,041 9.5%	22,877
EBIT MARGIN	20.3%	21.4%	20.2%
DEPRECIATION AND AMORTIZATION	25,512 3.7%	24,601 6.7%	23,063
EBITDA	49,473 -0.3%	49,642 8.1%	45,940
EBITDA MARGIN	41.9%	42.4%	40.6%
FINANCE INCOME/ (EXPENSE), NET	613 /	(7,109) -17.2%	(8,581)
INCOME TAX EXPENSE	(1,346)	(947)	(983)
NET PROFIT	23,229 36.8%	16,985 27.6%	13,314
NET PROFIT MARGIN	19.7%	14.5%	11.8%

Total operating revenues in 2011 were generated in the amount of RSD 118.1 billion, which accounts for a slight growth of 0.8% compared to 2010. The operating expenses in the observed period amount to RSD 94.1 billion and increased by 2.2%.

During the observed period, net finance income amounted to RSD 613 million, while net finance expense amounted to RSD 7.1 billion in the previous year. An increase in net profit in 2011 is mostly the result of lower interest expense, net (45.9%) and foreign exchange gains, net.

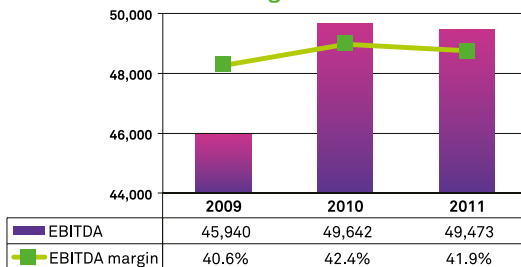
The operating profit (EBIT) trend and the EBIT margin over the three observed years is presented in the following chart:

#### EBIT and EBIT margin



The trends in EBITDA and EBITDA margin in the observed years is presented in the following chart:

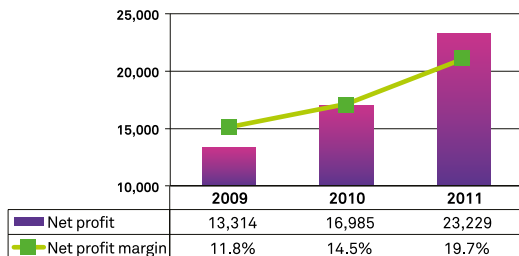
#### EBITDA and EBITDA margin



In 2011, the Group's EBITDA recorded a slight decrease of 0.3% compared to the previous year and amounts to RSD 49.5 billion.

In 2011, the Group's profit after taxation amounts to RSD 23.2 billion which accounts for 36.8% growth versus the previous year.

### Net profit and net profit margin



### Operating revenues

Total operating revenues increased by 0.8% versus 2010 and amount to RSD 118.1 billion.

The operating revenues from **fixed telephony and other services** amount to RSD 54.2 billion and decreased by RSD 79.4 million (0.1%). Traffic revenues declined by RSD 2.4 billion (8.9%), mostly due to decreased mentioned revenues in the Parent Company. On the other hand, subscription revenues increased by RSD 2.4 billion (16.2%), due to increased fixed telephony subscription fee in Serbia as of August 1 and in the Republic of Srpska as of 1 January 2011.

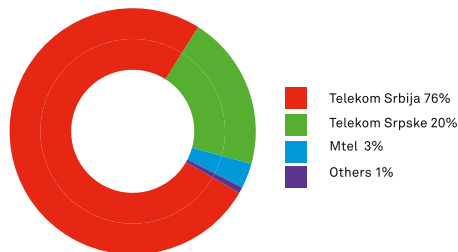
**Internet retail** operating revenues amount to RSD 8.6 billion and increased by RSD 2.4 billion (38.8%), as a result of increased number of ADSL customers. The Parent Company's revenues had the largest impact (RSD 2.1 billion growth) as well as its subsidiary Telekom Srpske (RSD 304 million growth).

**Multimedia** operating revenues in the amount of RSD 1.2 billion increased by RSD 809.2 million (184.6%), as a result of increased number of IPTV and WEB TV customers (67.8%).

**Mobile telephony** operating revenues amount to RSD 54.1 billion and decreased by RSD 2.2 billion (3.9%). The decreased number of prepaid customers (mostly in the Parent Company) has an impact on a decline in prepaid revenues by RSD 1.5 billion, i.e. 6.2%. Roaming revenues fell by RSD 963 million, i.e. 38.4%.

The share of individual members of the Group in the total operating revenues of the Group in 2011 is shown in the following chart:

### Shares of individual Group members in the total operating revenues of the Group





## Operating expenses

**The costs of employees** incurred in the viewed period record an increase in the amount of RSD 2.4 billion (12.1%) reaching RSD 21.9 billion. Voluntary resignation of employees from the Parent Company (597 employees) have a significant impact on the increase, for which purpose the amount of RSD 1.6 billion was spent. Besides, in January 2011, net salaries in the Parent Company increased (10%).

**Costs of material and maintenance** rose by RSD 1.0 billion (7.9%) and amount to RSD 14.3 billion. Due to increased sale of mobile handsets (postpaid packages) as a consequence of increased number of customers, these expenses grew by RSD 1.1 billion. Besides, maintenance costs increased by RSD 307 million (6.6%), as a consequence of the expiry of the warranty period of the equipment of the Parent Company and subsidiary Telekom Srpske.

**Network operator costs** decreased by RSD 449 million (3.3%) and amount to RSD 13.1 billion. This trend is influenced by decreased roaming expenses in the amount of RSD 511 million (mostly in the Parent Company amounting to RSD 328 million and in the subsidiary Telekom Srpske amounting to RSD 181 million). Also, the costs of international settlement decreased by RSD 358 million, mostly in the Parent Company (RSD 288 million). On the other hand, the costs of interconnection record an increase of RSD 420 million.

**Marketing costs** declined by RSD 400 million (13.9%) and amount to RSD 2.5 billion and were mainly influenced by a decrease in sales promotion costs.

## Consolidated balance sheet

In RSD million	2011	2010	2009
Inventories	7,254	7,469	7,155
Receivables	15,023	15,226	15,524
Cash and cash equivalents	17,942	9,785	14,385
Other	7,129	5,348	4,771
<b>CURRENT ASSETS</b>	<b>47,348</b>	<b>37,828</b>	<b>41,835</b>
Intangible assets	62,159	63,646	60,989
Property, plant and equipment	145,243	155,655	154,367
Other	3,868	3,193	2,993
<b>NON-CURRENT ASSETS</b>	<b>211,270</b>	<b>222,494</b>	<b>218,349</b>
<b>TOTAL ASSETS</b>	<b>258,618</b>	<b>260,322</b>	<b>260,184</b>
Current portion of long-term borrowings	33,098	25,042	31,747
Accounts payable	8,100	7,196	11,209
Other current liabilities	25,593	15,892	13,616
<b>CURRENT LIABILITIES</b>	<b>66,791</b>	<b>48,130</b>	<b>56,572</b>
Deferred income	3,011	3,745	4,209
Provisions	2,229	2,614	2,711
Deferred tax liabilities	1,996	2,176	2,134
Long-term borrowings	23,368	49,447	55,405
<b>NON-CURRENT LIABILITIES</b>	<b>30,604</b>	<b>57,982</b>	<b>64,459</b>
<b>EQUITY</b>	<b>161,223</b>	<b>154,210</b>	<b>139,153</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>258,618</b>	<b>260,322</b>	<b>260,184</b>

## Ratio analysys

In RSD million	2011	2010	2009
Debt	56,466	74,489	87,152
Accounts payable	8,100	7,196	11,209
Other liabilities	32,829	24,427	22,670
<b>Total liabilities</b>	<b>97,395</b>	<b>106,112</b>	<b>121,031</b>
Borrowings	56,466	74,489	87,152
Cash and cash equivalents	17,942	9,785	14,385
<b>Net debt</b>	<b>38,524</b>	<b>64,704</b>	<b>72,767</b>
Equity	161,223	154,210	139,153
<b>Total capital (Net debt+Equity)</b>	<b>199,747</b>	<b>218,914</b>	<b>211,920</b>
Gearing ratio (Net debt/Total capital)	19.3%	29.6%	34.3%
Debt coverage (Net debt/EBITDA)	0.78x	1.30x	1.58x
Total liabilities/EBITDA	1.97x	2.14x	2.63x
Acid test	0.68	0.78	0.70

The decrease in the gearing ratio as at 31 December 2011 is mostly due to the settlement of liabilities under long-term borrowings and the increase in cash as well as the increase in capital owing to the generated net profit of the Group for 2011.

In 2011, 1.97 EBITDA were needed for the repayment of liabilities, while in 2010, 2.14.

## Cash flows

In RSD million	2011	2010	2009
Profit before tax	24,575	17,932	14,297
Depreciation and amortization	25,511	24,601	23,063
Adjustment in profit and change in working capital	(3,724)	(6,415)	(2,298)
<b>Net cash flows from operating activities</b>	<b>46,362</b>	<b>36,118</b>	<b>35,062</b>
Net capital expenditure	(14,617)	(20,048)	(21,374)
<b>Free cash flow</b>	<b>31,745</b>	<b>16,070</b>	<b>13,688</b>
Net cash flows from other investing activities	959	881	883
Net cash flows used in financing activities	(24,547)	(21,551)	(13,388)
<b>Net cash inflow/(outflow)</b>	<b>8,157</b>	<b>(4,600)</b>	<b>1,183</b>
<b>Cash as of the end of year</b>	<b>17,942</b>	<b>9,785</b>	<b>14,385</b>

The increase in the free cash flow is mostly the result of increased cash inflow from operating activities and decreased cash outflow from investing activities.

## INVESTMENTS

The total capital investments in 2011 on the level of Telekom Srbija Group amount to 14.1 billion dinars. A comparative overview of capital investments generated by the individual companies of the Group in 2011 and 2010 is featured in the following table:

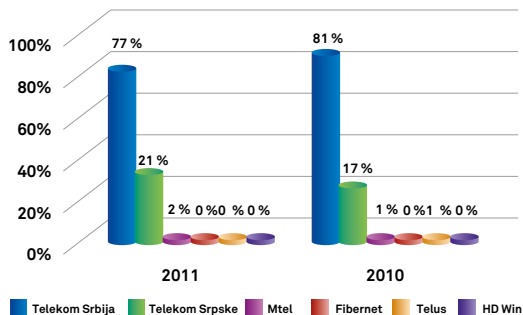
In RSD million	2011	Growth rate	2010
Telekom Srbija	10,805	-32.3%	15,950
Telekom Srpske	2,992	-13.1%	3,442
Mtel	265	143.3%	109
Telus	1	-93.8%	23
Fibernet	41	-82.7%	240
HD Win	9	/	/
<b>TOTAL</b>	<b>14,113</b>	<b>-28.6%</b>	<b>19,764</b>

\*Investments of companies from which mutual business transactions have been excluded

\*Investments of the HD-WIN subsidiary pertain to the August-December 2011 period.

As analysed per Group member, the largest investments in 2011 were made in the Parent Company (10.8 billion dinars), and the lowest in the Telus subsidiary (1 million dinars).

The participation of certain Group members in the total capital investments in 2011 and 2010 is presented in the following graph (in million RSD):



As regards investments in certain spheres in 2011, investments in fixed telephony amount to 5.1 billion dinars and have a share of 36% in the total investments of the Group, mostly due to the investments of the Parent Company.

The investments of Telekom Srbija Group into mobile telephony make up 27% of the total investments and amount to 3.8 billion dinars, where Telekom Srbija parent company made the largest investments in this sphere.

The total investments into the Internet and multimedia amount to 1.4 billion dinars and are mostly made by the Parent Company (61%) and the Telekom Srpske subsidiary (39%).

The remainder of the investments pertain to the investments into the computer centre and logistic support.

The previously described structure of capital investments is featured in the following table:

### Total investments

In RSD million	2011	Growth rate	2010
Fixed telephony	5,072	-23.9%	6,664
Mobile telephony	3,813	-27.0%	5,225
Internet and multimedia	1,411	-53.5%	3,032
Investments in IT	1,886	6.8%	1,767
Investments in logistic support	1,931	-37.2%	3,076
<b>TOTAL</b>	<b>14,113</b>	<b>-28.6%</b>	<b>19,764</b>

Of the total investments of Telekom Srbija Group made in 2011, 72% was set aside for the technical advancement of the Group members and 28% for the infrastructure.

### Total investments

In RSD million	2011	Growth rate	2010
Technical investments	10,226	-31,2%	14,864
Infrastructure investments	3,887	-20,7%	4,900
<b>TOTAL</b>	<b>14,113</b>	<b>-28,6%</b>	<b>19,764</b>

As for the technical investments on the level of Telekom Srbija Group, most of the investments were made into the access network and wireless network, followed by investments in the switching system, transport optical network and the Internet and multimedia.

### Technical investments

In RSD million	2011	Growth rate	2010
Switching management system	2,027	-42.4%	3,520
Access network	2,388	-33.0%	3,567
Wireless network	2,369	-16.8%	2,848
Transport optical network	1,879	4.9%	1,792
Internet and multimedia	1,411	-53.4%	3,029
Other technical investments	152	40.3%	108
<b>TOTAL</b>	<b>10,226</b>	<b>-31.2%</b>	<b>14,864</b>

On the level of Telekom Srbija Group, the total infrastructure investments in the amount of 3.9 billion dinars were made in 2011.

### Infrastructure investments

In RSD million	2011	Growth rate	2010
Investments in IT	1,886	6,9%	1,765
Investments in logistic support	2,001	-36,2%	3,135
<b>TOTAL</b>	<b>3,887</b>	<b>-20,7%</b>	<b>4,900</b>

Of the total infrastructure investment on the Group level, 49% pertains to the investments in information technologies and 51% to investments into logistic support.

Within the investments in information technologies which amount to 1.9 billion dinars, 72% pertains to the investment of the Parent Company, 19% represents the investments of the Telekom Srpske subsidiary, whereas 9% represents the investments of the m:tel subsidiary.

Analysing the investments into logistic support, the Parent Company mostly invested in real estate and land and the construction of RBS poles. The Telekom Srpske subsidiary mostly invested in the construction of RBS poles and the car fleet, whereas the HD Win and Telus subsidiaries invested in equipment.

## USERS

In 2011, Telekom Srbija Group saw an increase in mobile users, Internet users and users of multimedia services and a fall in the total number of fixed users.

### Fixed users

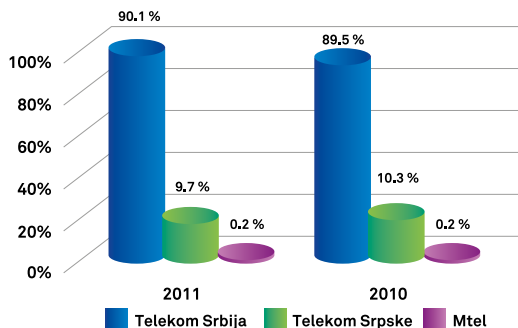
The fixed services of the Group are used by 3.3 million users.

The share of the Group members in the total number of the Group's fixed users is presented in the table below:

### The total number of fixed users

In thousands	2011	Growth rate	2010
Telekom Srbija	2,960	-1.4%	3,001
Telekom Srpske	320	-7.0%	344
Mtel	6	-6.1%	7
<b>TOTAL</b>	<b>3,286</b>	<b>-2.0%</b>	<b>3,352</b>

The share of the Group members in percentages in the total number of fixed users of the Group is featured in the following graph:



In 2011, the Group has 3 million POTS users. The remainder pertains to IP Centrex users (5 thousand), CLL users (36 thousand), ISDN BRI users (90 thousand), ISDN PRI users (3 thousand) and WiMax users (6 thousand).

Wimax users include the users of Mtel CG and fixed users, users of the Internet via Wimax technology and the users that use both services in a package (fixed+Internet).

### The total number of fixed users

In thousands	2011	Growth rate	2010
POTS users	3,146	-1.7%	3,200
IP Centrex	5	190.8%	2
CLL users	36	-21.3%	45
ISDN BRI users	90	-4.9%	95
ISDN PRI users	3	6.4%	3
WiMax users	6	-6.1%	7
<b>TOTAL</b>	<b>3,286</b>	<b>-2.0%</b>	<b>3,352</b>

In the structure of POTS users, 90% pertains to residential and 10% to business users, whereas in the structure of ISDN BRI users 60% pertains to residential and 40% to business users.

### Mobile users

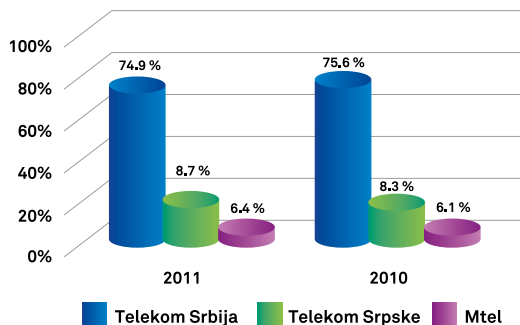
The total number of mobile users on the Group level in 2011 is 7.3 million.

The share of the Group members in the total number of mobile users of the Group is presented in the table below:

## The total number of mobile users

In thousands	2011.	Growth rate	2010.
Telekom Srbija	5,509	-0.7%	5,549
Telekom Srpske	1,378	2.5%	1,344
Mtel	467	5.0%	445
<b>TOTAL</b>	<b>7,354</b>	<b>0.2%</b>	<b>7,338</b>

## Participation of the Group members in the total number of mobile users of the Group



As is evident from the information presented in the previous graph, the share of the Parent Company in the total number of mobile users is 74.9%, that of the Telekom Srpske subsidiary 18.7%, whereas the Mtel subsidiary participates with 6.4%.

In 2011, there are 5.6 million prepaid users, which makes up 77% of the total number of users, and there are 1.7 million postpaid users, which represents 23% of the total number of users.

## Total number of mobile users

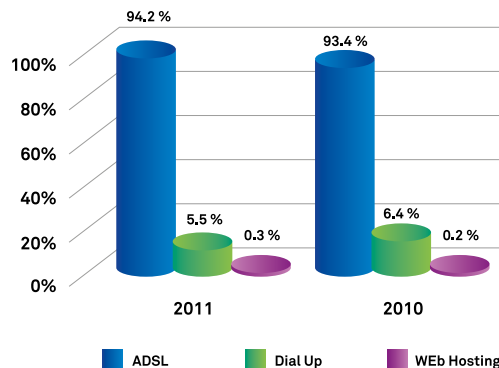
In thousands	2011	Growth rate	2010
Prepaid	5,635	-0.6%	5,671
Postpaid	1,719	3.2%	1,667
<b>TOTAL</b>	<b>7,354</b>	<b>0.2%</b>	<b>7,338</b>

In 2011, the number of postpaid users increased as compared to the previous year, where the increase of the users mostly pertains to the Parent Company.

On the telecommunications market over the past period, the most significant changes may be observed in part of the Internet services, particularly in the sphere of broadband Internet access.

As for ADSL access which is the most dominant way of access to the broadband Internet on the level of the Group in 2011, there was an increase of 99 thousand users thus bringing the total number of users to 723 thousand. Of that number, 82% is in retail sale and 18% in wholesale.

The structure of Internet users in 2011 and 2010 is presented in the graph below:



The Telekom Srpske subsidiary has only retail sale which makes up 17% of the retail sale of the Group, whereas the Mtel subsidiary does not provide ADSL services.

The total of 42 thousand customers use Dial-up services in 2011, whereof the largest part pertains to the users of the Telekom Srpske subsidiary.

### Internet users

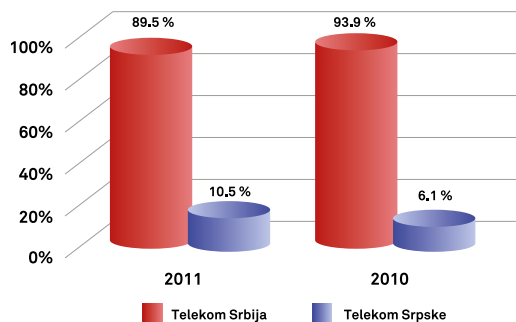
In thousands	2011	Growth rate	2010
ADSL	723	16.0%	623
Dial up	42	-0.1%	42
Web hosting	2	31.4%	2
<b>TOTAL</b>	<b>767</b>	<b>15.0%</b>	<b>667</b>

There are 132 thousand IPTV users at the end of 2011. Within the Group, in 2009, this service was rendered only by the Parent Company, whereas the provision of the service in Republika Srpska commenced in June 2010.

### IPTV users

In thousands	2011	Growth rate	2010.
Telekom Srbija	118	45.3%	82
Telekom Srpske	14	162.1%	5
<b>TOTAL</b>	<b>132</b>	<b>52.4%</b>	<b>87</b>

In 2011, 89,5% of the total number of IPTV users pertains to the users of Telekom Srbija and 10,5% pertains to the users of the Telekom Srpske subsidiary.



# TELEKOM SRBIJA

## FINANCIAL OVERVIEW

### Income statement

IN RSD MILLION	2011	2010	2009
OPERATING REVENUES	90,806 2.6%	88,546 0.3%	88,292
OPERATING EXPENCES	(71,913) 2.4%	(70,200) 1.3%	(69,286)
OPERATING PROFIT (EBIT)	18,893 3.0%	18,346 -3.5%	19,006
EBIT MARGIN	20.8%	20.7%	21.5%
DEPRECIATION AND AMORTIZATION	17,384 2.6%	16,937 2.2%	16,574
EBITDA	36,277 2.8%	35,283 -0.8%	35,580
EBITDA MARGIN	40.0%	39.8%	40.3%
FINANCE INCOME/(EXPENSES), NET	4,255 /	(2,182) -28.5%	(3,052)
INCOME TAX EXPENSE	(874)	(375)	(405)
NET PROFIT	22,274 41.1%	15,789 1.5%	15,549
NET PROFIT MARGIN	24.5%	17.8%	17.6%

The Parent Company's profit after tax amounts to RSD 22.3 billion, representing a growth of 41.1% over the previous year. The balanced growth of operating revenues and expenses influenced a slight growth of EBIT.

In 2011, the total generated operating revenues amount to RSD 90.8 billion, which represents an increase of 2.6%

compared to 2010. In the reporting period, operating expenses amount to RSD 71.9 billion (2.4% growth).

During the reporting period, finance income, net, amount to RSD 4.3 billion, while in the previous year, finance expense, net, amounted to RSD 2.2 billion. There was a significant improvement of financial sub-balance in 2011 due to RSD value strengthening toward EUR, as well as lower interest expenses owing to the repayment of borrowings. The revenues from dividends from the subsidiary Telekom Srpske amount to RSD 3.5 billion (2010: RSD 4.7 billion).

### Operating revenues

Operating revenues increased by RSD 2.3 billion compared to 2010 and amount to RSD 90.8 billion. Higher revenues were mostly the result of revenues from broadband services (internet retail and multimedia).

Operating revenues from **fixed telephony, CDMA and other services** amounted to RSD 46.9 billion, representing a slight decrease of 0.4% compared to the previous year. The most significant influence on this trend was a decline in revenues from national traffic from RSD 17.5 to 15.3 billion (i.e. 12.3%) due to decreased traffic volume (13.5%) and a slightly smaller number of customers (1.4%). On the other hand, due to increased subscription fee starting from August 1, 2011 (from 388 to 430 RSD) which includes 300 free pulses (instead of the previous 150), revenues from subscription increased by RSD 2.0 billion. Revenues from interconnection in fixed telephony grew by RSD 468.9 million (54.4%) and



amount to RSD 1.3 billion, mostly due to higher revenues from international traffic terminating via other national operators in the fixed network of the Parent company.

According to the Decision of the Agency, the rates for termination in the fixed network for traffic coming from other mobile network were reduced in 2011, while rates for termination of traffic coming from other fixed networks were increased and brought to cost basis.

**The mobile telephony** revenues slightly fall compared to the previous year (0.3%) and these revenues amount to RSD 35.9 billion. The main reason is a decrease in prepaid revenues by 7.1% (mostly due to the decreased number of prepaid customers by 1.5% and promotional activities), which amount to RSD 13.0 billion. Postpaid revenues record an increase of RSD 457.5 million (3.4%) and amount to RSD 13.9 billion. Postpaid monthly fees increased (11.6%) due to increased number of postpaid customers with a decline in revenues from traffic realized (total traffic volume has increased, as well as the promotional activities). Interconnection revenues increased by 12.5% and reached RSD 5.8 billion.

Operating revenues from **Internet services retail** recorded a growth of 41.8% and amounted to RSD 7.1 billion. The growth of these revenues was mainly caused by increased number of ADSL retail customers (19.1%).

Growth in revenues from **multimedia services** is primarily influenced by increase in the number of IPTV customers (45.3%). The revenues from multimedia services amount to RSD 846 million. The share of these

revenues in the total operating revenues is 0.9% and increased more than twice compared to 2010.

## Operating expenses

In the structure of the total operating expenses, the largest share belongs to depreciation costs, personnel costs and operator costs, which account for more than 60% of operating expenses recorded in 2011.

**Personnel costs** grew by 17.3% and amount to RSD 15.8 billion. During 2011, 597 employees left the Parent Company (cost of RSD 1.6 billion). Besides, in January 2011, net salaries increased by 10%.

**Operator costs** recorded growth of 0.8% and amounted to RSD 12.3 billion. Their growth was mostly influenced by the costs of interconnection (growth of 10.0%), mostly due to the increased scope of the Parent company's mobile traffic terminating into other national mobile networks. On the other hand, there was a decrease in international settlement (4.9%) as well as roaming expenses (23.9%).

**The costs of materials and maintenance** increased by 8.2% and reached RSD 10.8 billion, mainly due to a rise in the sale of mobile phones (post-paid packages). Also, maintenance costs grew by 5.5% due to the expiry of the warranty period of the equipment.

**Rental costs** increased by 0.1% and amount to RSD 4.3 billion and mostly relate to leases of certain business premises, warehouses and RBS premises.

**Marketing costs** declined by 15.4% and amounted to RSD 1.7 billion. The main reason for the decline of such costs were reduced activities in sales promotion.

### Balance sheet

In RSD million	2011	2010	2009
Inventories	6,021	5,920	5,439
Receivables	12,428	12,575	13,486
Cash and cash equivalents	14,018	7,949	9,462
Other	3,457	3,322	2,917
<b>CURRENT ASSETS</b>	<b>35,924</b>	<b>29,766</b>	<b>31,304</b>
Intangible assets	6,178	7,105	8,224
Property, plant and equipment	104,143	110,416	110,952
Investments in subsidiaries	60,894	60,211	58,046
Other	3,093	2,469	2,168
<b>NON-CURRENT ASSETS</b>	<b>174,308</b>	<b>180,201</b>	<b>179,390</b>
<b>TOTAL ASSETS</b>	<b>210,232</b>	<b>209,967</b>	<b>210,694</b>
Current portion of long-term borrowings	28,339	21,370	23,547
Accounts payable	6,634	5,652	6,876
Other current liabilities	22,505	13,643	11,924
<b>CURRENT LIABILITIES</b>	<b>57,478</b>	<b>40,665</b>	<b>42,347</b>
Deffered income	2,820	3,439	3,787
Provisions	1,614	1,849	2,067
Long-term borrowings	17,317	41,720	49,324
<b>Long-term liabilities</b>	<b>21,751</b>	<b>47,008</b>	<b>55,178</b>
<b>EQUITY</b>	<b>131,003</b>	<b>122,294</b>	<b>113,169</b>

TOTAL EQUITY AND LIABILITIES	210,232	209,967	210,694
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### Ratio analysis

In RSD million	2011	2010	2009
Debt	45,656	63,089	72,871
Accounts payable	6,634	5,652	6,876
Other liabilities	26,939	18,932	17,778
<b>Total liabilities</b>	<b>79,229</b>	<b>87,673</b>	<b>97,525</b>
Borrowings	45,656	63,089	72,871
Cash and cash equivalents	14,018	7,949	9,462
<b>Net debt</b>	<b>31,638</b>	<b>55,140</b>	<b>63,409</b>
Equity	131,003	122,294	113,169
<b>Total capital (Net debt+Equity)</b>	<b>162,641</b>	<b>177,434</b>	<b>176,578</b>
Gearing ratio (Net debt/Total capital)	19.5%	31.1%	35.9%
Debt coverage (Net debt/EBITDA)	0.87x	1.56x	1.77x
Total liabilities/EBITDA	2.18x	2.48x	2.73x
Acid test	0.59	0.73	0.72

The decline in the gearing ratio of the Parent Company during 2011 is mostly the result of the repayment of liabilities against long-term borrowings, an increase in cash and equity owing to the generated net profit.

Specific loan agreements have defined the obligations of the Parent Company to comply with the relevant financial indicators, such as Debt coverage and Interest coverage. The Company adjusted its financial indicators to the established parameters as at 31 December 2011.

In 2011, 2.18 EBITDA were needed for the repayment of liabilities, whereas in 2010, 2.48 were needed for the same purposes.

### Cash flows

In RSD million	2011	2010	2009
Profit before tax	23,149	16,165	15,954
Depreciation and amortization	17,384	16,937	16,574
Adjustment in profit and change in working capital	(5,143)	(5,724)	(7,263)
<b>Net cash flows from operating activities</b>	<b>35,390</b>	<b>27,378</b>	<b>25,266</b>
Net capital expenditure	(10,773)	(15,641)	(14,109)
<b>Free cash flow</b>	<b>24,617</b>	<b>11,737</b>	<b>11,156</b>
Net cash flows from other investing activities	3,435	3,296	4,963
Net cash outflows used in financing activities	(21,983)	(16,546)	(11,519)
<b>Net cash inflow/(outflow)</b>	<b>6,069</b>	<b>(1,512)</b>	<b>4,600</b>
<b>Cash as of the end of year</b>	<b>14,018</b>	<b>7,949</b>	<b>9,462</b>

In 2011, the positive free cash flow was achieved mostly due to higher cash inflow from operating activities, on the one hand, and lower capital investments, on the other hand.

Dividends in the amount of RSD 4.7 billion were paid to the shareholders in 2011 (2010: RSD 6.7 billion).

### INVESTMENTS

The telecommunications market in Serbia represents a free and open market on which a number of both foreign and local companies operate trying to improve the offer and quality of services in compliance the RATEL regulations in order to strengthen their positions on the market. The trends show that only adequate capital investments make it possible to make progress on such a market and make certain anticipations of the trends in the dynamic sector such as telecommunications sector.

The total capital investments in 2011 amount to 10.8 billion dinars. The investments were directed towards improvement of technical capacities of the network, introduction of new capacities enabling the provision of telecommunications services in the geographic areas where it was previously impossible.

The Company allocated 72% of the funds for the investment in the technical development of network, while 28% of the total funds were earmarked for investments in the IT and logistic support. Intensively investing in the technical development, the Company intends to create a flexible and reliable network that will be the basis for a proper operation of the service platforms and achievement of a high customer satisfaction rate.

## Investments

In RSD million	2011	Growth rate	2010
Technical investments	7,744	-34.7%	11,857
Infrastructure investments	3,072	-24.9%	4,093
<b>TOTAL</b>	<b>10,816</b>	<b>-32.2%</b>	<b>15,950</b>

One of the most important investments in 2011 was the share in the capital of subsidiary HD WIN whereby the Company acquired a 51% ownership stake and controlling rights.

In 2011, the development of technical investments was directed to the following activities:

**In fixed telephony**, the investments were primarily intended for the expansion and modernization of the capacities of the access network that will become the basis for the provision of new broadband services and increase in digitalization rate and separation of two party lines in the access network. The rate of digitalization in 2011 was 98.83% (2010: 98.22%) and 17,619 two-party lines were separated. Also, in this period the expansion of the access network capacities was implemented.

**In mobile telephony**, investments were directed to the development of capacities and quality of the network in order to maintain the high quality of services. In the period viewed, 392 base stations were put into operation, of which 275 UMTS base stations and 117 GSM base stations. This resulted in the expansion of the capacities for the provision of broadband services and coverage of territory and population in Serbia. The current GSM territorial coverage is 81.4%, and population coverage is 87.4%. At the end of 2011, the project of modernization and expansion of the Single RAN technology in the mobile network commenced.

In the sphere of **Internet**, investments were made in the development of the IP/MPLS network and increase in the capacity of the broadband Internet network. In 2011, a total of 131,090 new ADSL ports were implemented, which represents a 25% increase in the capacity.

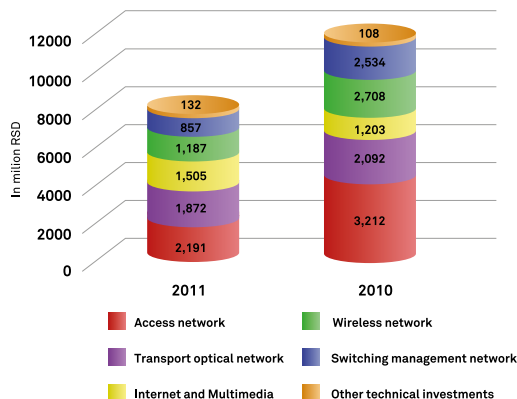
As for **multimedia services**, investments referred to the expansion of the Headend platform, enhancement of the primary distribution service, expansion of the set of equipment for direct TV broadcasts and introduction of MCDS (Multimedia Content Delivery Solution) platform which enables distribution of multimedia content to the mobile and fixed Internet customers.

In the **CDMA segment** in 2011, investments were made in the expansion of the wireless network and 30 CDMA base stations and 8,370 CDMA terminals were installed, which enabled connection of new customers.

As regards the investments in the technical capacities of the telecommunications network, the Company made the major investment in 2011 in the access network (28%), wireless network (24%), transport optical network (20%), the switching and management network (15%) and Internet and multimedia (11%).

## Technical investments

In RSD million	2011	Growth rate	2010
Access network	2,191	-31.8%	3,212
Wireless network	1,872	-10.5%	2,092
Transport optical network	1,505	25.1%	1,203
Switching management network	1,187	-56.1%	2,708
Internet and Multimedia	857	-66.2%	2,534
Other technical investments	132	22.2%	108
<b>TOTAL</b>	<b>7,744</b>	<b>-34.7%</b>	<b>11,857</b>



In 2011, the infrastructure investments in the amount of 3.1 billion dinars were made. The investments in infrastructure mostly refer to the investments in the logistic support (56%), and investments in IT (44%). The above structure of capital investments in

infrastructure in 2011 and 2010 is shown below:

## Investments in infrastructure

In RSD million	2011	Growth rate	2010
Investment in IT	1,357	-7.6%	1,469
Investment in logistic support	1,714	-34.7%	2,624
<b>TOTAL</b>	<b>3,072</b>	<b>-24.9%</b>	<b>4,093</b>

The most important projects in this period were: Unique Single Trouble ticketing system, Data warehouse system, Migration of data center and its certification under ISO 27001, the implementation of the internal private cloud where 40% of the infrastructure were transferred to, the CRM services convergence offered to end users and implementation of the SLA support in the offer of services to end users.

As for the investments in the logistic support, some adaptations were made of the specific part of the TKC Beograd, refurbishment of premises for DATA CENTAR, reconstruction of the power station 10/04 kB at TKC Beograd, adaptations and installations of radio base stations, then, some containers for MSAN were purchased and three measurement sets of PDH/SDH analyzer and measurement sets for the Triple Play Service were procured. The master designs and the technical controls of the master designs for the office building in New Belgrade, ATC Senjak and a certain number of sales outlets Completed were completed. Likewise, in this period a number of facilities were adapted and equipped due to a change of their purpose or due to new operating demands of the Company.

## CUSTOMERS

Despite the challenges of the economic environment and the growing competition, Telekom Srbija has a significant number of customers in the fixed and mobile telephony and the increasing number of internet users. In addition to the strong competition in mobile telephony, multimedia and the Internet, the competition is also present on the fixed telecommunications market.

### Fixed customers

In thousands	2011	Growth rate	2010
POTS	2,878	-1.3%	2,916
ISDN	82	-3.5%	85
<b>TOTAL</b>	<b>2,960</b>	<b>-1.4%</b>	<b>3,001</b>

At the end of 2011, Telekom Srbija's fixed services were used by nearly 3 million customers. In 2011, the Company recorded a decrease in the number of customers by 1.4% as compared to 2010, due to, among other things, alternative forms of communication such as mobile telephony and Internet. The fixed telephony structure comprises of POTS connections with a 97% share, and the remainder is ISDN connections. Within the POTS structure, the largest increase in new customers in 2011 was recorded in CDMA connections.

The development of fixed telephony depends on the implementation of modern technologies providing for new types of services. The CDMA network enables installation of a telephone line in inaccessible and rural areas, where telecommunications infrastructure is not constructed or is underdeveloped. The development of

the IP technology makes it possible for the customers to use telephone services via the IP network such as IP phone and IP Centrex.

### Mobile customers

In thousands	2011	Growth rate	2010
Prepaid	4,054	-1.5%	4,115
Postpaid	834	2.6%	813
Biznet	621	0%	621
<b>TOTAL</b>	<b>5,509</b>	<b>-0.7%</b>	<b>5,549</b>

In 2011, the decrease in the total number of mobile customers as compared to 2010 is subject to the lower number of prepaid customers.

### Mobile Internet Users

In thousands	2011	Growth rate	2010
Prepaid	46	84.0%	25
Postpaid	60	9.1%	55
<b>TOTAL</b>	<b>106</b>	<b>32.5%</b>	<b>80</b>

The mobile internet users shown within the prepaid and postpaid mobile customers generated the increase of 32.5% as compared to 2010. At the end of 2011, the Company had 106 thousand users of the mobile internet.

The total number of users on the Serbian mobile telephony market exceeds the number of citizens so that the penetration rate at the end of 2011 was around 141%. The Company is a market leader with the market share of some 54%. The market penetration follows the

trend of the countries of the region

## Internet and multimedia

In thousands	2011	Growth rate	2010
ADSL retail sale	496	19.2%	416
ADSL wholesale	128	1.6%	126
IPTV	118	43.9%	82
WEB TV	13	/	/
<b>TOTAL</b>	<b>755</b>	<b>21%</b>	<b>624</b>

\*Used RATEL data

The Internet market in Serbia shows significant changes, primarily in the number of customers and then in the structure of the Internet connections themselves. In the period from 2007 to 2010, there was a growth of one million\* users of the Internet services (including the users of the 3G network). Also, in the period concerned, we recorded a decline in the number of users of the dial-up services and the increasing customer demands for broadband Internet, which points to the customers' interest in the service which enables a more quality and easily available content.

At the end of 2011, the Company had 496 thousand of ADSL users in retail, which accounts for 79% of the ADSL Internet market. As compared to the previous year, the Company recorded a growth in the ADSL users in retail by 19%.

In 2011, there was a significant increase in the number of the users of mobile Internet, which appeared in Serbia in 2008 as a new broadband Internet service. At the end of 2011, the Company had 106 thousand users.

As of October in 2008, the Company offers the service of distribution of the RTV program via the IP protocol (IPTV). During 2011, the increase in the number of customers by 37 thousand which generated a 8% increase in market share.

In 2011, the Company offered some new services to its customers:

- Open home Web TV is a new service of Telekom Srbija that has been offered to the customers in Serbia since September 2011. The new service enables the customers in Serbia to watch TV via their Internet connection.
- Portal [www.svenaklik.com](http://www.svenaklik.com) was put into commercial operation on 27 December 2011. This portal was used for introducing the Web TV Service for the Diaspora, which is created for our nationals living abroad, but it can be used even by the Serbian customers. The customers are able to watch TV program broadcast in this region via Internet. Video on demand and WEB SMS are add-on services.

At the end 2011, the Company had a total of 13 thousand users of the Web TV Service.

# TELEKOM SRPSKE

## FINANCIAL OVERVIEW

### Income statement

In RSD million	2011	2010	2009
OPERATING REVENUES	25,124 -0.1%	25,136 7.0%	23,500
OPERATING EXPENSES	(18,859) 0.5%	(18,763) 4.7%	(17,916)
OPERATING PROFIT (EBIT)	6,265 -1.7%	6,373 14.1%	5,584
EBIT MARGIN	24.9%	25.4%	23.8%
DEPRECIATION AND AMORTIZATION	5,747 3.5%	5,555 16.6%	4,766
EBITDA	12,012 0.7%	11,928 15.2%	10,350
EBITDA MARGIN	47.8%	47.5%	44.0%
FINANCE EXPENSE, NET	(33) 50%	(22) -76.8%	(95)
NET PROFIT	5,605 -2.0%	5,720 16.0%	4,930
NET PROFIT MARGIN	22.3%	22.8%	21.0%

Presented results were influenced by strengthening RSD value toward KM (1.4%) in 2011.

In 2011, operating revenues were generated in the amount of RSD 25.1 billion, representing a slight decline compared to 2010 (0.1%). In the observed period, the operating expenses amounted to RSD 18.9 billion (0.5% increase).

Stagnation in operating revenues and increase in operating expenses led to EBIT decrease (in real values also).

In 2011, EBITDA amounts to RSD 12.0 billion and slightly increased compared to 2010 (0.7%). EBITDA margin amounts to 47.8% (2010: 47.5%). EBITDA and EBITDA margin in the functional currency of the subsidiary Telekom Srpske (BAM) also increased (2.1%).

Net profit amounts to RSD 5.6 billion and decreased compared to 2010 (2.0%). Net profit margin also decreased. Net profit also decreased in real values (0.6%).

### Operating revenues

The increase in revenues was mostly due to the positive trends in revenues from broadband services (internet and multimedia).

The operating revenues from **mobile telephony** decreased by 3.9% i.e. by RSD 597 million mostly due to decrease in roaming revenues (discounts approved to other operators). In spite of growth in the number of customers, prepaid revenues declined by RSD 186 million (decrease in volume traffic). On the other hand, postpaid revenues increased by RSD 167 million (increased number of customers and traffic realized). The share of these revenues in the total operating revenues is 58.7%.

The operating revenues from **fixed telephony** amount to RSD 8.6 billion (a slight decrease by RSD 61 million or 0.7%) primarily due to the decline in the number of customers (7.0%) who no longer need these service or are unable to settle their liabilities, and some of them chose the services of alternative operators. Also there is a decrease in



traffic volume (9.7%) compared to 2010. The share of these revenues in the total operating revenues is 34.3%.

Although, in 2011 the share in the total operating revenues is very low (6.9%) the revenues from **broadband services (internet retail and multimedia)** increased by RSD 304 million (internet retail) and 342 million (multimedia), primarily due to the increase in the number of customers. In 2011, the number of ADSL retail customers increased by 22.5% and amounts to 99 thousand, while the number of multimedia customers is 2.6 times higher and amounts to 14 thousand.

## Operating expenses

Depreciation costs, costs of employees and costs of material and maintenance have the largest share in the structure of total operating expenses, which account for around 70% of the operating expenses in the course of 2011. Operating expenses amounted to RSD 18.9 billion and slightly grew by 0.5%.

**Costs of material and maintenance** amounted to RSD 3.0 billion increased by 7.8% mainly due to the increase in maintenance costs (15.6%) as a result of the expiry of the equipment warranty period. Costs of ADSL modems increased by 133.5% and amount to RSD 54 million. The growth of these expenses is mostly the result of the increase in the number of broadband customers.

**Costs of network operators** decreased by 9.5% and amount to RSD 2.5 billion. The decrease in these expenses is mainly the result of the decline in roaming costs (30.7%)

and interconnection costs (6.0%).

In 2011, **marketing costs** decreased by 5.3% and amounted to RSD 636 million.

## Balans sheet

In RSD million	2011	2010	2009
Inventories	766	886	1,023
Receivables	2,211	2,332	2,169
Cash and cash equivalents	3,679	1,567	4,507
Other	2,106	2,116	1,712
<b>CURRENT ASSETS</b>	<b>8,762</b>	<b>6,901</b>	<b>9,411</b>
Intangible assets	5,901	6,287	6,198
Property, plant and equipment	29,472	32,281	31,048
Other	3,686	3,558	616
<b>NON-CURRENT ASSETS</b>	<b>39,059</b>	<b>42,126</b>	<b>37,862</b>
<b>TOTAL ASSETS</b>	<b>47,821</b>	<b>49,027</b>	<b>47,273</b>
Current portion of long-term borrowings	2,330	1,954	2,033
Accounts payable	1,766	1,784	2,265
Other current liabilities	2,576	1,884	1,337
<b>CURRENT LIABILITIES</b>	<b>6,672</b>	<b>5,622</b>	<b>5,635</b>
Deferred income	157	265	381
Provisions	422	578	558
Long-term borrowings	3,367	5,223	5,470
<b>LONG-TERM LIABILITIES</b>	<b>3,946</b>	<b>6,066</b>	<b>6,409</b>
<b>EQUITY</b>	<b>37,203</b>	<b>37,339</b>	<b>35,229</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>47,821</b>	<b>49,027</b>	<b>47,273</b>

## Cash flows

In RSD million	2011	2010	2009
Profit before tax	6,233	6,351	5,489
Depreciation and amortization	5,747	5,555	4,766
Adjustment in profit and change in working capital	(597)	(789)	(1,039)
<b>Net cash flows from operating activities</b>	<b>11,383</b>	<b>11,117</b>	<b>9,216</b>
Net capital expenditure	(2,155)	(2,475)	(3,571)
<b>Free cash flow</b>	<b>9,228</b>	<b>8,642</b>	<b>5,645</b>
Net cash flows/outflows from other investing activities	296	(2,805)	448
Net cash outflows used in financing activities	(7,411)	(8,778)	(9,846)
<b>Net cash inflow/(outflow)</b>	<b>2,112</b>	<b>(2,940)</b>	<b>(3,753)</b>
<b>Cash as of the end of year</b>	<b>3,679</b>	<b>1,567</b>	<b>4,507</b>

Due to higher cash inflows from operating activities, on the one hand, and lower capital investments, on the other hand, free cash flow increased in relation to 2010.

Dividends were paid to the shareholders in the amount of RSD 5.1 billion (KM 98.4 million) and RSD 6.5 billion (KM 122.5 million) in 2011 and 2010, respectively.

## Ratio analysis

In RSD million	2011	2010	2009
Debt	5,697	7,177	7,503
Accounts payable	1,766	1,784	2,265
Other liabilities	3,155	2,727	2,276
<b>TOTAL LIABILITIES</b>	<b>10,618</b>	<b>11,688</b>	<b>12,044</b>
Borrowings	5,697	7,177	7,503
Cash and cash equivalents	3,679	1,567	4,507
<b>NET DEBT</b>	<b>2,018</b>	<b>5,610</b>	<b>2,996</b>
Equity	37,203	37,339	35,229
<b>TOTAL CAPITAL (NET DEBT+EQUITY)</b>	<b>39,221</b>	<b>42,949</b>	<b>38,225</b>
Gearing ratio (Net debt/Total capital)	5.1%	13.1%	7.8%
Debt coverage (Net debt/EBITDA)	0.17x	0.47x	0.29x
Total liabilities/EBITDA	0.88x	0.98x	1.16x
Acid test	1.34	1.15	1.60

## INVESTMENTS

The total investments of subsidiary Telekom Srpske in 2011 amount to 3 billion dinars (57.4 million KM).

## Total investments

In RSD million	2011	Growth rate	2010
Technical investments	2,330	-13.9%	2,707
Infrastructure investment	662	-10.0%	735
<b>TOTAL</b>	<b>2,992</b>	<b>-13.1%</b>	<b>3,442</b>

As it can be seen in the information presented in the table, the technical investments amount to 2.3 billion dinars (44.7 million KM) and have a 78% share, while the infrastructure investments amount to 662 million dinars (12.7 million KM) with a 22% share

## Total investments

In RSD million	2011	Growth rate	2010
Fixed telephony	884	-21.7%	1,128
Mobile telephony	965	-18.4%	1,183
Internet and Multimedia	551	21.0%	456
Investments in IT	355	33.7%	265
Investments in logistic support	237	-42.1%	410
<b>TOTAL</b>	<b>2,992</b>	<b>-13.1%</b>	<b>3,442</b>

## Fixed telephony

The capital investments in the fixed telephony in 2011 amounted to 884 million dinars (16.9 million KM). In the structure of the capital investments, the largest investments were made in the transport network with 36%, switching systems with 31%, access network with 23%.

The implementation of the Number Portability Service for fixed network in 2011 was one of the major projects. M:tel is the network which, as compared to other two incumbents in Bosnia and Herzegovina, technically implemented this services in the fastest way. In fixed telephony, investments were made for the purpose of continuing fixed network digitalization, in keeping with the adopted Investment Plan, taking account of the rate of return on investments. The capital investments were used for completing the construction of the infrastructure telecommunications facilities such as:

- access networks,
- cable ducts,
- junctions roads, optical drop cables leading to base stations and junction roads via optical cables to business customers,
- junction roads for connecting a larger number of MSAN and DSLAM location in the network, whereby pre-conditions were created for the increase in the internet traffic owing to the ADSL service, and the increase in the demand for internet traffic by internet service providers and business customers, and growth in the number of the users of services, such as IPTV, which was the main purpose of constructing the access networks in 2011.

During 2011, a significant expansion of capacities on the radio access network was implemented as well as

the introduction of UMTS 900 in line with RAK's licence from December 2011.

Owing to the planned construction of the new and reconstruction of a part of the existing cable access networks, and upon the completed installation of the access equipment, the demands for broadband services have been satisfied and more quality services are provided for the customers.

### **Mobile telephony**

The capital investments in mobile telephony in 2011 amounted to 965 million dinars (18.5 million KM). In the structure of capital investments, the largest share is attributed to the investments to radio equipment - 52% and investments in the switching equipment - 46%.

Likewise, one of the largest projects in 2011 in mobile telephony is the implementation of the Number Portability Service. In parallel with this project, the installation of the new HLR was made in the mobile telephony whereby conditions were created for further development and introduction of new services.

In 2011, the activities on the expansion of the package segment of the network was continued (PS Core), which enabled the customers to better use the mobile internet, and created the preconditions for a considerable increase in traffic by introducing new features. The important investments were made in the installation of the new prepaid system, which enables the prepaid customers access to new service with a special focus on data traffic.

During 2011, the USSD platform was put into operation which facilitated the use of some of the services for prepaid, and there is the same plan for postpaid and VPN customers. Also, 53 2G base stations were put into operation, of which none repeaters and pico repeaters, while the number of commissioned 3G base stations is 73.

### **Internet and multimedia**

In 2011, the capital investments in Internet and multimedia amounted to 551 million dinars (10.6 million KM). In the structure of capital investments, the largest investments were in xDSL Ethernet access equipment with 35%, investments in xDSL access equipment (concentrators) and investments in IP/MPLS network facilities with 19%, each.

In 2011, one of the important activities is the installation of the Middleware server for IPTV, which enabled a maximum capacity of IPTV for 28,000 customers. Likewise, the expansion of the IPTV Headend platform was continued as well as the expansion of the capacities of the IP/MPLS and internet network that were implemented by expanding the existing DWDM network. By the projected for covering network elements by a single network supervision center, the majority of the systems were integrated in the central management with the aim of monitoring, from a single place, all the processes on the elements in the m.tel network.

### **Information technologies**

The capital investments in this field in 2011 amounted to 355 million dinars (6.8 million KM). In the structure of capital investments, the largest

investments were made in the servers and storages with 22%, investments in user SW and licences with 19% and investments in computer network hardware and software with 10%.

One of the important projects in 2011 is the implementation of the ESB (Enterprise Service Bus) system, which created preconditions for all IT solutions to be organized in a modern Service-Oriented Architecture (SOA). The Document Management System was implemented and upgrades in many application solutions were made, either for providing necessary applications for the activities of the Marketing and Sales Division or for supporting the changes caused by the implementation of new systems in the service segment of the network of Telekom Srpske. One of the major changes in the service architecture that was supported by an application is number portability function in the fixed and mobile network.

Modernization of the Data Center and copying of the data for the needs of TIS were carried out. Also, they commenced the process of procurement of the Trouble Ticketing and Inventory systems that play a significant role in the OSS (Operation System Support) architecture of Telekom Srpske.

The NAC system (Network Access Control) was implemented and it will enable that the network resources of Telekom Srpske can be used only the predefined PCs. The successful implementation was done in the Private Cloud Service for internal needs (VDI-Virtual Desktop Infrastructure) and migration of server platforms was made to the new hardware and virtual infrastructure.

The construction of the SAS analytical CRM continued

with the aim of analyzing the customer behaviour and their segmentation, which offers a possibility of adjusting the services offer to the customer needs.

### Logistic support

The capital investments in logistic support in 2011 amounted to 237 million dinars (4.5 million KM). In the structure of capital investments, the largest funds were allocated for the construction of the radio base poles participating with 35%, investments in motor fleet - 22%, investments in refurbishment with 15%, technological plants - 8%.

## CUSTOMERS

Constantly tracking the world's trends and latest technological achievements in the field of telecommunications, the employees in the Telekom Srpske subsidiary carefully follow the wishes and needs of the customers.

The general trend in m:tel in 2011 was expansion of the market in the mobile telephony segment to the market of the B&H Federation, development of broadband services, provision of quality, innovative and reliable services and achievement of the highest possible customer satisfaction.

### Fixed telephony

The total number of fixed customers of subsidiary Telekom Srpske, as at 31 December 2011 amounts to 320 thousand.

## Total number of fixed customers

In thousands	2011	Growth rate	2010
Residential customers	231	-14.0%	269
Business customers	32	-3.3%	33
CLL users	27	-25.2%	36
Open users	23	337.4%	5
Prepaid subscribers	7	483.8%	1
<b>TOTAL</b>	<b>320</b>	<b>-7.0%</b>	<b>344</b>

Out of the total number of fixed customers, 90% refer to the residential subscribers, including POTS, ISDN BRI, CLL, prepaid and customers within the OPEN package, while 10% refer to the fixed business customers, such as POTS, ISDN BRI, ISDN PRI, CLL and IP CENTREX.

In 2011, they recorded a 7% decrease in the number of customers relative to 2010, which is in line with the characteristic of the fixed telephony market which, from the aspect of life cycle, entered a declining phase caused predominantly by a substitutive relation between fixed and mobile telephony.

One of the key strategic goals in fixed network is the increase in the number of users of integrated services. The offer of integrated packages of fixed telephony services, broadband access to the Internet and new service IPTV (Open) represents an instrument for maintaining the base of the users of fixed telephony, increase in the number of ADSL users and promotion of the new IPTV Service.

## Mobile telephony

As at 31 December 2011, the mobile telephony had 1.4 million customers, of which 85% refer to prepaid customers, 7% postpaid customers, 5% VPN users and 3% M2M users. The number of M. net users of cash registers amounts to 4 thousand and has a negligible share in the total number of users.

## Total number of mobile customers

In thousands	2011	Growth rate	2010
Prepaid	1,173	1.2%	1,159
Postpaid	96	17.5%	82
M2M	42	-9.2%	47
M.net	4	19.5%	3
VPN	63	17.3%	53
<b>TOTAL</b>	<b>1,378</b>	<b>2.5%</b>	<b>1,344</b>

The total number of M2M (Machine-To-Machine) users refers to the GPRS data users and users of cash registers. The current role of m:tel in the domain of M2M services is passive, based on securing connectivity (SIM cards, data transmission).

M.net users include m:net , Homenet, Officenet, Homeline and Officeline users.

The total number of mobile customers at the end of 2011 is 2.5% higher than the number at the end of 2010.

## Internet

The total number of ADSL users (independently and within Open package) as at 31 December 2011 was 99 thousand, which is 22.5% more than in the previous year. The growth in the number of ADSL users justifies the strategic goal envisaging that the services based on broadband access will increasingly contribute to the growth in revenues and market position of m:tel in the fixed network services in the forthcoming period.

The total number of registered Dial up users as at 31 December 2011 amounts to 42 thousand.

### Total number of Internet users

In thousands	2011	Growth rate	2010
ADSL retail	99	22.5%	81
Dial up users	42	0.2%	42
Web hosting users	1	2.8%	1
<b>TOTAL</b>	<b>142</b>	<b>14.8%</b>	<b>124</b>

## Open

The Open Service represents an integrated offer of fixed telephony services, access to the Internet and IPTV, which are organized in the relevant set of services, i.e. packages.

Service Package open duo is designed as a package which contains an integrated offer of fixed telephony services and IPTV service, or integrated offer of fixed telephony and broadband Internet access.

Service Package open trio is designed as a package

which contains an integrated offer of fixed telephony, broadband access to internet and IPTV.

Telekom Srpske put Open Services into commercial operation on June 15, 2010.

The total number of users within the Open Package as at 31 December 2011 was 23 thousand and total number of IPTV users within the Open Package is 14 thousand.

### Total number of Open users

In thousands	2011	Growth rate	2010
Open/duo users	12	1096%	1
Open/trio users	11	161%	4
Open users	23	337%	5
IPTV within Open Package	14	162%	5

# MTEL

## FINANCIAL OVERVIEW

### Income statement

IN RSD MILLION	2011	2010	2009
OPERATING REVENUES	4,518 -26.0%	6,102 25.7%	4,854
OPERATING EXPENSES	(4,443) -9.2%	(4,895) -8.1%	(5,324)
EBIT/(OPERATING LOSS)	75	1,207	(470)
EBIT MARGIN	1.7%	19.8%	
DEPRECIATION AND AMORTIZATION	1,120 -5.6%	1,187 11.0%	1,069
EBITDA	1,195 -50.1%	2,394 300.0%	599
EBITDA MARGIN	26.5%	39.2%	12.3%
FINANCE EXPENSES, NET	(147) -31.3%	(214) -40.1%	(357)
NET (LOSS)/PROFIT	(59)	891	(969)

Presented results were influenced by strengthening RSD value toward EUR (1.4%) in 2011.

The total operating revenues generated in 2011 amounted to RSD 4.5 billion, which represents a 26.0% decline compared to 2010. On the other hand, liabilities were written off in 2010 and the revenues on this basis amounted to EUR 9.2 million. Without this effect, operating revenues would have declined by 12.3%, and EBITDA 17.1%. In the reporting period, the operating expenses amounted to RSD 4.4 billion, with a fall of 9.2% compared to the previous period.

Finance expenses, net, fell due to the revenues generated from vouchers granted by suppliers.

### Operating revenues

The **mobile telephony revenues** amount to RSD 4.3 billion and account for 95.3% in the total operating revenues. In 2011, these revenues decreased by 25.7% (without the effect of liability write-offs, the decline would have been 12.3%). Prepaid revenues decreased by RSD 324 million mostly due to free traffic, although the number of customers and realized traffic increased. Postpaid revenues decreased by RSD 57 million.

WiMAX services revenues amount to RSD 210 million and decreased by RSD 95 million due to decrease in traffic revenues and monthly fees (the decreased number of customers).

### Operating expenses

In the structure of total operating expenses, the largest share belonged to the costs of operators, depreciation costs and costs of material and maintenance, which account for almost 70% of the total operating expenses in 2011.

In 2011, **the costs of network operators** decreased by 10.7% and amount to RSD 1.5 billion. The main reason is a decrease in the interconnection expenses (10.5%) due to decline in interconnection tariffs as from April 2011.

**Rental costs** decreased by 5.4% and amount to RSD 286 million.

**Marketing costs** decreased by 23.7% compared to 2010 and amount to RSD 129 million. The decline of the mentioned costs is mainly due to lower sponsorship



expenses (62.3%).

**Impairment of receivables** decreased by 37.4% and amount to RSD 168 million mostly as a result of the improvement of the quality of customer base.

### Balance sheet

In RSD million	2011	2010	2009
Inventories	438	356	48
Receivables	568	504	484
Cash and cash equivalents	59	25	11
Other	444	78	73
<b>CURRENT ASSETS</b>	<b>1,509</b>	<b>963</b>	<b>616</b>
Intangible assets	1,985	2,160	2,204
Property, plant and equipment	3,830	4,677	5,287
Other	96	117	214
<b>NON-CURRENT ASSETS</b>	<b>5,911</b>	<b>6,954</b>	<b>7,705</b>
<b>TOTAL ASSETS</b>	<b>7,420</b>	<b>7,917</b>	<b>8,321</b>
CURRENT PORTION OF LONG-TERM BORROWINGS	1,769	1,854	3,211
Accounts payable	376	343	2,841
Other current liabilities	332	403	455
<b>CURRENT LIABILITIES</b>	<b>2,477</b>	<b>2,600</b>	<b>6,507</b>
Long-term borrowings	2,249	2,505	3,929
Deferred tax liabilities	144	176	155
Other long-term liabilities	62	66	56
<b>LONG-TERM LIABILITIES</b>	<b>2,455</b>	<b>2,747</b>	<b>4,140</b>
<b>EQUITY</b>	<b>2,488</b>	<b>2,570</b>	<b>(2,326)</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>7,420</b>	<b>7,917</b>	<b>8,321</b>

### Ratio analysis

In RSD million	2011	2010	2009
Debt	4,018	4,359	7,140
Accounts payable	376	343	2,841
Other liabilities	538	645	666
<b>TOTAL LIABILITIES</b>	<b>4,932</b>	<b>5,347</b>	<b>10,647</b>
Borrowings	4,018	4,359	7,140
Cash and cash equivalents	59	25	11
<b>NET DEBT</b>	<b>3,959</b>	<b>4,334</b>	<b>7,129</b>
Equity	2,488	2,570	(2,326)
<b>Total capital (Net debt+Equity)</b>	<b>6,447</b>	<b>6,904</b>	<b>4,803</b>
Gearing ratio (Net debt/Total capital)	61.4%	62.8%	n/a
Debt coverage (Net debt/EBITDA)	3.31x	1.81x	11.91x
Total liabilities/EBITDA	4.13x	2.23x	17.79x
Acid test	0.44	0.31	0.08

## Cash flows

In RSD million	2011	2010	2009
(Loss)/profit before tax	(71)	994	(827)
Depreciation and amortization	1,120	1,187	1,069
Adjustment in profit and change in working capital	(333)	(5,510)	126
<b>NET CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES</b>	<b>716</b>	<b>(3,329)</b>	<b>367</b>
Net capital expenditure	(133)	(61)	(535)
<b>Free cash flow</b>	<b>583</b>	<b>(3,390)</b>	<b>(167)</b>
Net cash flows from other investing activities	904	5	-
Net cash flows (used in)/from financing activities	(550)	3,399	162
<b>Net cash inflow/(outflow)</b>	<b>34</b>	<b>14</b>	<b>(5)</b>
<b>Cash as of the end of year</b>	<b>59</b>	<b>25</b>	<b>11</b>

Free cash flow in 2011 is positive due to cash inflows from operating activities.

## INVESTMENTS

The total investments made by subsidiary M:tel in 2011 amounted to 265 million dinars (2.6 million EUR). The investments were made in the development of new network functionalities in order to provide a high quality of service.

## Total investments

In RSD million	2011	Growth rate	2010
	<b>265</b>	<b>142.9%</b>	<b>109</b>

The investments in the **mobile telephony network** mostly comprise the implementation of the Mobile Number Portability functionality enabling portability of numbers among the operators. The core network was upgraded by the implementation of new software on MSC, MGW, HLR and RAN and WRAN segments of the network.

In the period viewed, a total of 9 base stations were put into operation with the aim of increasing the capacity and coverage. The current GSM signal coverage rate for an inhabited area is over 90%. A total of 10 pico repeaters were installed for business customers.

The investments in the switching equipment in the **Wimax network** refer to the implementation of the Number Portability functionality and upgrade of the IMT platform.

The investments in **construction works** refer to the refurbishment of the locations for base stations in keeping with the network construction plan for the purpose of increasing the signal coverage rate for a territory. Refurbishment works were carried out on locations Radio D, Zora, Urljača, Padež, Njegovuđa and Krstac.

With the aim of decreasing the costs of electric power supply and air conditioning, five containers on

remote locations were adapted.

The investments in **computer equipment** refer to the procurement of the desktop and lap-top computers, printers, servers and active network equipment. The servers and active network equipment are intended for the implementation of the services for end users (number portability in fixed and mobile telephony; WiMax mail server; new VAS services) and corporate services (advanced reports for the Marketing, Sales and Customer Care Department ;) expansion of the capacities of the corporate network; NTP server).

## CUSTOMERS

The market share at the end of December 2011 was 25%, with 187% penetration on the mobile telephony market of Montenegro (according to the definition of the Telecommunications Agency).

The number of mobile subscribers at the end of 2011 is 5% higher than in 2010. Such increase is the result of the increase in the number of all three user categories – prepaid, postpaid and biznet customers. In percentages, the largest growth is recorded in postpaid customers owing to the sale of packages with numerous advantages for postpaid customers (the largest number of minutes, SMSs and GPRS-s included in the subscription fee, free calls in roaming in Serbia and Republika Srpska, the possibility of paying in installments when purchasing new hand sets and the like).

The number of M:tel's customers at the end of 2011 was 467 thousand. The largest share is attributed to prepaid customers with 87%, postpaid customers with 6%, while 7% refer to biznet users.

## Total number of mobile customers

In thousands	2011	Growth rate	2010
Prepaid	408	2.7%	397
Postpaid	28	32.3%	21
Biznet	31	15.7%	27
<b>TOTAL</b>	<b>467</b>	<b>4.9%</b>	<b>445</b>

The users of biznet services are of special importance, first of all, because at issue are big companies, foreign representative offices and prosperous companies, which are simultaneously a recommendation for a good business cooperation. Within this segment, there is a fierce competition, since the subsidiary is the third operator and that the market competition has already won the largest number of key customers.

The growth in the number of biznet users in 2011 was generated owing to a whole range of add-on services on offer (autotrack, observer, internet access, surf packages, "Moj Pogled", etc.), which help attract key customers to migrate to the M:tel network.

At the end of 2011, the total number of WiMax users was 6.3 thousand, which is 6% less as compared to the past year. The limiting factor for winning new customers is the lack of equipment and capacities.

The Wimax users comprise 3 categories of customers: the customers using only the fixed services via Wimax technology, customers using only Internet services via Wimax technology and combined customers– using both the fixed and internet services via Wimax technology.

# TELUS

## FINANCIAL OVERVIEW

### Income statement

IN RSD MILLION	2011	2010	2009
OPERATING REVENUES	1,601 -3.0%	1,651 3.8%	1,590
OPERATING EXPENSES	(1,465) -0.9%	(1,478) -2.0%	(1,508)
OPERATING PROFIT (EBIT)	136 -21.4%	173 111.0	82
EBIT MARGIN	8.5%	10.5%	5.2%
DEPRECIATION AND AMORTIZATION	13 -35.0%	20 -13.1%	23
EBITDA	149 -22.8%	193 83.8%	105
STOPA MARGAIN	9.3%	11.7%	6.6%
FINANCE INCOME, NET	40 135.3%	17 30.8%	13
NET PROFIT	157 -7.6%	170 88.9%	90
NET PROFIT MARGIN	9.8%	10.3%	5.6%

Operating revenues amount to RSD 1,6 billion (decrease of 3,0%).

In 2011, the revenues from physical-technical security account to RSD 746 million and decreased by 9,0%. These revenues account for 46% of the total operating revenues (2010: 50%). The revenues from maintenance amount to RSD 796 million and account for 50% of the total operating revenues. The mentioned revenues recorded an increase of 2,2% compared to 2010.

In 2011, the subsidiary's business activities were still focused on the two main customers: the share of the Parent Company in the sales revenues is 62% and JP PTT's share is 25%. Others make 13% of the total sales revenues. In 2010, the share of the Parent Company was 60%, JP PTT 23% while others accounted for 17%.

EBIT, EBITDA and net profit, as well as their margins decreased as compared to 2010.

In 2011, operating expenses amounted to RSD 1,5 billion and slightly decreased. The most important share relates to personnel costs (86%) which amount to RSD 1,3 billion in 2011.

### Balance sheet

In RSD million	2011	2010	2009
Receivables	378	259	145
Cash and cash equivalents	58	29	34
Other	363	337	224
<b>CURRENT ASSETS</b>	<b>799</b>	<b>625</b>	<b>403</b>
<b>NON-CURRENT ASSETS</b>	<b>35</b>	<b>47</b>	<b>43</b>
<b>TOTAL ASSETS</b>	<b>834</b>	<b>672</b>	<b>446</b>
Accounts payable	51	56	30
Other current liabilities	111	105	90
<b>CURRENT LIABILITIES</b>	<b>162</b>	<b>161</b>	<b>120</b>
<b>PROVISIONS</b>	<b>90</b>	<b>86</b>	<b>71</b>
<b>EQUITY</b>	<b>582</b>	<b>425</b>	<b>255</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>834</b>	<b>672</b>	<b>446</b>

## Cash flows

In RSD million	2011	2010	2009
Profit before tax	176	190	95
Depreciation and amortization	13	20	23
Adjustment in profit and change in working capital	(177)	(105)	(5)
<b>Net cash flows from operating activities</b>	<b>12</b>	<b>105</b>	<b>113</b>
Net capital expenditure	(3)	(22)	(1)
<b>Free cash flow</b>	<b>9</b>	<b>83</b>	<b>112</b>
Net cash flows from/(used in) other investing activities	20	(87)	(117)
<b>Net cash flows from/(used in) financing activities</b>	<b>29</b>	<b>(4)</b>	<b>(5)</b>
<b>Net cash inflow</b>	<b>58</b>	<b>29</b>	<b>34</b>

## Ratio analysis

In RSD million	2011	2010	2009
Accounts payable	51	56	30
Other liabilities	201	191	161
<b>Total liabilities</b>	<b>252</b>	<b>247</b>	<b>191</b>
Total liabilities/EBITDA	1.69x	1.28x	1.82x
Acid test	4.86	3.89	3.38

# FIBERNET

## FINANCIAL OVERVIEW

### Income statement

IN RSD MILLION	2011	2010	2009
<b>OPERATING REVENUES</b>	<b>13</b>	<b>/</b>	<b>/</b>
<b>OPERATING EXPENSES</b>	<b>(33)</b>	<b>(7)</b>	<b>(5)</b>
<b>OPERATING LOSS</b>	<b>(20)</b>	<b>(7)</b>	<b>(5)</b>
<b>EBITDA</b>	<b>(6)</b>	<b>(7)</b>	<b>(5)</b>
<b>FINANCE INCOME</b>	<b>12</b>	<b>8</b>	<b>4</b>
<b>NET (LOSS)/PROFIT</b>	<b>(8)</b>	<b>1</b>	<b>(1)</b>

Most of the operating revenues (97%) generated in 2011 refer to operations with the subsidiary Mtel. The increase in operating expenses was primarily influenced by growth in depreciation and maintenance expenses. Financial income is a result of term deposits.

## Balance sheet

In RSD million	2011	2010	2009
Cash and cash equivalents	12	204	371
Time deposits	225	99	-
Other	45	320	42
<b>CURRENT ASSETS</b>	<b>282</b>	<b>623</b>	<b>413</b>
<b>NON-CURRENT ASSETS</b>	<b>788</b>	<b>485</b>	<b>508</b>
<b>TOTAL ASSETS</b>	<b>1,070</b>	<b>1,108</b>	<b>921</b>
<b>CURRENT LIABILITIES</b>	<b>2</b>	<b>23</b>	<b>4</b>
<b>PROVISIONS</b>	<b>75</b>	<b>75</b>	<b>-</b>
<b>EQUITY</b>	<b>993</b>	<b>1,010</b>	<b>917</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>1,070</b>	<b>1,108</b>	<b>921</b>

## INVESTMENTS

The works on the construction of the optical power supply cable on the Vrbnica – Bar route, were completed at the end of March 2011. The occupancy permit was obtained on 4 April 2011 from the competent ministry of the Serbian Government.

In 2011, the total value of the capital investments amounts to 41.6 million dinars (408 thousand EUR). Almost the entire amount of investments refers to technical investments (99.6%).

The investments made by subsidiary Fibernet in 2011 refer to the procurement of material for laying the power supply cable along the Vrbnica-Bar railway road and material for the transmission system, works on laying the optical and power supply cable on the transmission system. The investments

also include intangible assets such as the services of technical control, investments needed for obtaining the occupancy permit, investments in insurance for the engineers engaged to provide technical supervision on the project for the laying of the optical and power supply cable.

## TS:NET

## FINANCIAL OVERVIEW

### Income statement

In RSD million	2011	2010
OPERATING REVENUES	56 166.7%	21
OPERATING EXPENSES	(30) 50.0%t	(20)
OPERATING PROFIT (EBIT)	26	1
EBIT MARGIN	46.4%	4.8%
DEPRECIATION AND AMORTIZATION	25 66.7%	15
EBITDA	51 218.8%	16
EBITDA MARGIN	91.1%	76.2%
NET PROFIT	21	1
NET PROFIT MARGIN	37.5%	4.8%

The operating revenues refer in full to the revenues from the lease of equipment (PoP) by the Parent Company. The costs of depreciation constitute the major portion of operating expenses (totaling 83%) and largely influenced the growth in operating expenses in 2011.

The costs of depreciation constitute the major portion of operating expenses (totaling 83%) and largely influenced the growth in operating expenses in 2011.

### Balance sheet

In RSD million	2011	2010
Cash and cash equivalents	62	10
Other	12	13
<b>CURRENT ASSETS</b>	<b>74</b>	<b>23</b>
<b>NON-CURRENT ASSETS</b>	<b>235</b>	<b>202</b>
<b>TOTAL ASSETS</b>	<b>309</b>	<b>225</b>
<b>EQUITY</b>	<b>304</b>	<b>225</b>
<b>CURRENT LIABILITIES</b>	<b>5</b>	<b>-</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>309</b>	<b>225</b>

## HD-WIN

### FINANCIAL OVERVIEW

#### Income statement

In RSD million	2011	2010
OPERATING REVENUE	815 147.7%	329
OPERATING EXPENSES	(1,425) 20.7%	(1,181)
OPERATING LOSS	(610) -28.3%	(852)
EBITDA	(225) -74.2%	(872)
FINANCE INCOME/(EXPENSE), NET	24	(216)
NET LOSS	(585)	(1,064)

The operating revenues mainly refer to the revenues generated from the sale of rights to broadcast TV content (92%).

On the other hand, the majority of operating expenses is attributable to the fees for TV content broadcast (65%).





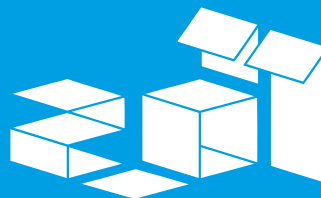
# THE HUMAN SIDE OF THE STORY



■ SOCIAL RESPONSIBILITY

 **Telekom Srbija Group**

ANNUAL BUSINESS REPORT FOR 2011





# SOCIAL RESPONSIBILITY

## APPROACH TO SOCIAL RESPONSIBILITY

For Telekom Srbija Group, corporate social responsibility (CSR) represents an integration of the social responsibility principles into daily business, with the aim of capitalizing on all potentials of telecommunications, the IT environment and new technologies, to contribute to an even and sustainable development of society accompanied by the growth and success of the company. It is our corporate obligation to promote, as a large national group, based on our own example, positive and socially responsible practices and to contribute to their advancement, in order to strengthen the business, social and natural ambiance, an integral part of which we are.

Apart from the fact that they successfully operated in the region, in the course of 2011 too, our companies actively supported numerous socially responsible projects and initiatives, strengthening a relationship of trust with our shareholders, partners, clients, employees and society as a whole. A stable presence on regional markets in the sphere of telecommunications made it possible that the benefit of our socially responsible activities be felt in a broader community, an advantage which our success is based on.

### Our vision and values

In accordance with our company's vision to contribute to the sustainable development of society using communications

tools and new technologies, through the improvement of the quality of life of our fellow nationals, we are endeavouring to create values for:

**Capital owners** – Providing clear and available information, the protection of interests and an equitable treatment for all capital owners, with the aim of maximising the company's profits and values for its shareholders.

**Employees** – Safety and health at work, professional advancement, the harmonization of internal relations, the creation of a system of incentives, health care and social welfare, family care, and timely and accurate provision of information.

**Customers** – Telekom Srbija is a company focused on the needs and satisfaction of its customers; the relations with its customers are regulated by the company's Code of Ethics which envisages the following set principles: provision of information, a selection of the type of tailor-made service, advisory and expert assistance, and quality protection and guarantee.

**Community** – For Telekom Srbija, investments in the community represent investments in a technologically advanced, inclusive company, based on expertise. The spheres supported by the company include young people and education, vulnerable groups and regions, culture and art, health and the environment. The company has a

strategic approach towards investments in the community.

### **Telekom Serbia**

In order to maintain its leading position on the Serbian market and to ensure the sustainability of its operations, Telekom Srbija endeavours to keep abreast of world trends, both in the sphere of telecommunications and the field of social responsibility, analysing the needs of its customers, capital owners and society as a whole.

The company continues to invest in the development of socially responsible practices, by including a higher number of employees in the CSR activities and promoting, in cooperation with CSR experts, the strategic framework and specific programmes of its corporate social responsibility. Within the campaign, the funds are set aside for socially responsible activities in the community and a 5-strong team of employees headed by the CSR manager, who are in charge of daily implementation of these activities. The social responsibility of Telekom Srbija is reflected in the positive working environment, strategic investments and protection of the environment. At the same time, the principles of responsible conduct also pertain to our business operations and the manner in which we treat our partners and competitors on the market.

Telekom Srbija transparently and regularly publishes its financial results within annual financial reports, which are verified by an external auditor. In compliance with its legal obligations, Telekom Srbija also publishes periodical reports, which include different types of data pertaining to its customers and services provided to the customers and

other reports required by state institutions, such as the competent ministry, the government of the Republic of Serbia and RATEL. Internal sites are a means of providing information to our employees about the principles of operations, business processes and decisions, as well as ethical norms and standards we foster within the company. Financial reports and other relevant strategic documents are available on the corporate website.

### **Code of ethics**

All business and other activities of Telekom Srbija are conducted in accordance with the company's Code of Ethics which is available on the corporate website. This document represents the point of departure of our social responsibility and an integral part of our corporate philosophy. It defines the standards, ethical norms and the norms of conduct expected in our relations with the shareholders, customers, the community, etc. The Code of Ethics applies to all employees within Telekom Srbija with no exception.

### **The strategy of corporate social responsibility**

The year 2011 was marked by cooperation with expert organizations with the aim of developing a new general CSR strategy, which provides a strategic framework for further development of our company through four key spheres: the relations with employees, business environment, community and environment.

## The strategy of investing in the community

The strategic approach of investing into the community has ensured that we choose, with precision and on a long-term basis, our partners and projects to support, and clearly define the goals and initiatives which would cover as many people as possible, in order to maximize the positive effects of our activities.

## Our mission and values

In accordance with our company's mission to direct new services that we introduce, technologies that we apply, all our changes and constant adjustments towards our customers, their needs for communication and entertainment, with our employees as a driving force, to the satisfaction of our shareholders, we also defined the basic values, deeply integrated into the corporate culture of our company:

**Participation** – In order to adequately identify and resolve complex social problems, Telekom Srbija points to the importance of establishing partnerships with other organizations from the private, public and civil sectors. With its strategic partnerships, Telekom integrates its employees, customers and partners into its programmes and interconnects its programmes.

**Purposefulness** – Telekom Srbija fosters and develops a strategic approach to social responsibility and philanthropic activities are incorporated into the strategic plans of the company and our investments in the

community are strategically defined – we are focusing on projects of wider social importance, from the above defined spheres which our company recognized as key (employees, business environment, community, environment).

**Education** – In accordance with the vision of a technologically advanced society based on expertise, the main focus of Telekom Srbija's support is laid on the future champions of this vision – young people and their development and education.

**Perseverance** – The main characteristics of Telekom Srbija, as the regional telecommunications leader, include perseverance and commitment to both social responsibility projects and the market.

We consider the responsible conduct to be an integral part of modern business, which is to become one of the key conditions for a company to be labelled successful. The topics and projects supported in the course of 2011 were selected as those which are consistent with the basic strategic directions of our company's corporate social responsibility and which pertain to our employees, partners and customers, the natural environment and communities we operate in. In 2011, we supported a total of 38 organizations and 44 projects. In the past year, we laid emphasis on the support activities towards sustainable development based on technological innovations, the development of entrepreneurship and improvement of a social and economic ambience in which young people could realize their potentials.

## The membership of organizations committed to social responsibility

Telekom Srbija is committed to continually promoting its socially responsible activities, establishing partnerships of interests for the community and disseminating the concept of corporate social responsibility among its employees and business entities it is cooperating with.

Since August 2010, Telekom Srbija has been a member of the Global Compact, a network of socially responsible companies on the global level, which has operated in Serbia since 2005. The local network in Serbia includes over 60 companies and associations that operate in accordance with 10 principles based on the Millennium Goals of the United Nations which pertain to human rights, work, the environment and the fight against corruption. In 2011, our company actively participated in the working groups of the Global Compact for Anti-Corruption, assistance to Kraljevo and child rights.

In the second half of 2011, Telekom Srbija became a member of the Business Leaders Forum – the first network of socially responsible companies in Serbia, set up with a mission to encourage the development of corporate social responsibility and establish a practice of social responsibility in the domestic business sector.

### **m:tel BiH**

The strategic commitment of m:tel is to establish lasting and quality relations with the society and

environment it is operating in, with a wish to become recognizable as a company whose business philosophy is clearly based on ethical principles in business operations as the foundation of its business identity.

At the beginning and end of any business success lie people as part of business processes and as part of the society they belong to. Good business operations are measured precisely by the relationship towards the society in which the company operates, and towards employees as the unique wealth of the company. This is why the company is firmly committed to participating in the life of the social community and individuals which stand out as unique. This aspiration is not only towards becoming a leading telecommunications company in B-H, but, at the same time, towards being an example of a quality attitude towards the society it is operating in.

The business success achieved most certainly represents a reason for satisfaction and encourages the strife for higher and better goals. On the other hand, the projects implemented in the sphere of corporate social responsibility are also something to boast of on both the business and personal planes.

In the past year, a number of major projects were implemented: partnership with Unicef, "Android League", "The Art of Connecting", "m:scholarships"...Particularly rewarded were talent, expertise and excellence, so that the company supported a number of humanitarian drives, cultural and sporting events, projects in the sphere of

education, health care, junior entrepreneurship...

Of particular significance is the employer of the year award for persons with disabilities in the Republic of Srpska for 2011, which m:tel received for its special contribution to social inclusion and the application of principles of integration into business of persons with disabilities. m:tel is currently employing 102 persons with disabilities from the second to the tenth category and it is committed to continuing to care about its customers - persons with disabilities in the future as well.

### **m:tel Montenegro**

m:tel Montenegro is actively participating in the everyday development of the community and in the course of 2011, it rendered special support to social, cultural, educational, health care and sports programmes and initiatives. The success and position on the market would not be complete without the affirmation of m:tel as a socially aware, responsible and solidarity company. In pursuing the foregoing goals, m:tel will always find a way to be constructive and to set a good example of a quality company which has integrity and is concerned with the society it operates in.

## **CONNECTED WITH EMPLOYEES**

One of the basic characteristic of approach to social responsibility is protection that we offer to our employees; care of their health and security, personal and professional

development and generally of raising satisfaction in the work place to a higher level that guarantees a higher motivation of the employees, and thus higher productivity and better operating results. Internal by-laws within the company define the work standards and labor rights of our employees, and the basic guidelines and values of socially responsible behavior in our relationship with the employees.

### **Telekom Srbija**

To all those who wish to become and those who already are a part of our team, we guarantee equal conditions and fair and transparent procedures when it comes to employment and choice of profession, evaluating each individual based on the achieved results and talents. In accordance with the Ethical Code, we continually invest in improving the qualification structure of the employees with an aim to provide everyone with equal chances for education and advancement, monitoring and guiding each individual on their development path within our company. This is also shown by the fact that in 2011, Telekom Srbija, in accordance with the Policy of professional development and continuous education of employees, invested 126,743,333.90 dinars in the internal and external educational programs for employees, with an aim to encourage their creativity and talent and allow them to develop within the company in the best possible way.

Implementation of the policy of professional development and continuous education of employees:

Knowledge innovation program – attending seminars,

workshops, conferences and expert lectures was provided in the country and abroad for 1,387 of our employees, so that 603 employees were sent to training programs, seminars, conferences and other educational events abroad, while 784 employees were sent to the said events in the country.

Program of supporting the acquisition of higher education degrees – In 2011, the company financially supported the education of 68 employees.

As a company, we try to provide our employees with a stable and safe environment and a feeling of security in the work place, where they can fully develop their potentials. Our relationship is based on timely and clear communication and mutual dialog, which allow us to correctly understand the needs of our employees and respond to them in an adequate way. Within the Telekom Srbija company, there are 9 free-acting and independent trade unions, of which 2 are representative. With the same aim, a Policy of Social and Material Protection was adopted on the level of the company, which regulates the area of safety and health at work, and other solidarity programs. Telekom Srbija's investments in the improvement of health and safety at work equaled 41,346,650 dinars in 2011. Our aim is to make our employees feel they belong to the company, and apart from developing their expertise, we also dedicate great attention to increasing satisfaction in the work place.

Implementation of the policy of social and material protection:

Collective insurance program:

This program is applied in cases of injury at work and

outside of work (24 hours) and it covers all our employees. In accordance with the above said, we concluded the following contracts – insurance policies: Insurance from permanent consequences of an accident with DDOR NOVI SAD a.d.o., and we also note that we have contracted special insurance terms for employees who perform tasks with an increased risk; Insurance from serious illnesses and surgical interventions with "DELTA GENERALI" a.d.o.

Voluntary pension insurance program – employees are provided with monthly payments against pension contribution. In accordance with the aforesaid, contracts have been concluded with insurance companies Delta Generali and Dunav, where the amount of monthly payments for all the employees is established on the level of an untaxable amount. In 2011, the amount of pension contribution equaled 3,894 dinars per employee. Program of providing scholarships for children of deceased employees – In 2011, we provided scholarships for regular high school, college and university education for seventy nine children of deceased employees in the Company.

Implementation of the solidarity aid program:

In 2011, the Company had 506 users of this program intended for employees and members of their close family.

Implementation of the policy of harmonizing relationships with the employees – the employees have available expert teams of lawyers, psychologists and social workers in the form of a labor-legal and psychological advisory centres. The employees most often ask questions



from the area of labor law by telephone. In 2011, we responded on the average to one and a half question by telephone per day. A total of 24 texts were published on the internal website in 2011 – short expert topics and current issues from the domain of labor law, and the most frequent questions asked by the employees, along with an answer. Within the psychological advisory centre, 77 employees' requests were fulfilled during 2011. A total of 24 texts were published on the internal portal within the column Psychological Advisory Centre.

Implementation of the policy of providing internal information to employees represents a program of continuous, accurate and timely information of employees via Intranet and a company newsletter, which is considered very important by Telekom Srbija.

Intranet includes the preparation, processing and publishing of information on the internal website "My Portal". The published information belong to the following categories: ad hoc information that refer to important notifications from the area of human resources (employees' rights), and information about the current events in the company published on a daily basis, and information published structurally twice a month (Current Cultural and Sport Events, Cultural Events, Telecommunications Events in the Country and Abroad, Visit Serbia, World, Famous Serbs, Great People's Thoughts, From the Editor's Angle, Psychological Advisory Centre, Labor and Legal Advisory Centre, Funny Press Clipping, Texts in German and English, Poll and New Technologies).

Thanks to this approach, in 2011, a greater interest and more frequent visits to the company's internal website

were recorded along with a record number of 98,811 individual visitors, while the number of visits is 2,220,476, i.e. 22 entries into the website per visitor a month.

Twice a month we forward a company Newsletter (a total of 24 issues), which contains the latest news from our subsidiaries, the presentation of our latest services, and the current cultural and telecommunications events.

Within the competencies of the Internal Information Service is also issuing of an Official Gazette of Telekom Srbija, which represents a library of all the important Company by-laws. In 2011, we published 9 (nine) official gazettes.

### **Employees' participation in voluntary campaigns**

In 2011, which was officially declared Year of Volunteers, Telekom Srbija actively worked on the development of guidelines for the engagement of employees in voluntary campaigns, with an aim to promote this form of socially responsible behavior within the company and raise it to a higher, strategic level. Apart from this, our employees traditionally participate in big national volunteer activities, such as the Let's Clean Serbia campaign, in which over 1,000 of our employees participated in the cleaning of some 50 locations. We are aware of the fact that the support of business companies is invaluable, especially at the time of crisis, and not only financial support, but all other kinds of support that involves the donation of time, expertise and dedication of each individual within the company. This is a way to allow our employees, apart from professional

improvement, to develop and mature as individuals within our company.

### **Voluntary activities**

The humanitarian association of Telekom Srbija's employees, "From the Heart" organized a traditional voluntary blood donation campaign for employees in the company, in October 2011. Over sixty employees responded to the invitation, while 49 of them donated blood and contributed to this humane campaign.

This year's campaign entitled "We Have Each Other" is dedicated to World Organ Donor Day and represented the beginning of the campaign entitled "Join, Connect and Sign FROM THE HEART".

Aims in 2012 – Further investment in the professional development of employees

### **m:tel BiH**

Satisfied employees are a basic condition for quality operations of the company and a starting point from which we should begin. This is why the m:tel company last year paid special attention to internal relationships and the satisfaction of employees.

In 2011, the process of evaluating work performance was improved by expanding competences and establishing the difficulty and importance of competences for work posts. We continued the activities from the Program of

inducting the newly employed into business, as a positive practice that justifies its aims – the creation of a welcoming atmosphere and the planned training of new colleagues for the work duties they assume.

Thanks to our determination to raise the employees' satisfaction to the highest level, and invest in their knowledge and professional development, last year we implemented the most comprehensive educational program so far – 1,800 participants attended only the In-house training programs. The total number of employees who attended different forms of education in 2011, in accordance with the envisaged contracts, participation in seminars, congresses, consultations, presentations and internal training programs or courses, was 818. Apart from these educational programs, 600 employees had a chance to be a part of the Team Building program, whose aim was building quality relationships among the employees. This year like the last, we organized foreign language courses and continued ECDL training programs with a new generation of participants. Our internal library has been enriched with new titles.

We especially take care of health and safety of the employees, allocating funds and enabling systematic health check-ups for certain categories of employees. A Central Committee for Protection and Health at Work was founded within the company, and the Psychological and Labor and Legal Advisory Centres have been launched as an additional form of support and aid to employees in the working environment.

Within the internal research on the employees'

motivation entitled „What Motivates You“, we conducted a poll of the employees' opinion, by which we gained an insight not only into the basic motivators and demotivators, but also in the overall level of the employees' satisfaction. The results of the poll will serve to plan the activities necessary for improving the existing processes, and create the new ones, necessary for raising the employees' satisfaction level.

Also, last year, the director general granted awards to 40 best employees, who showed top results, knowledge, skills and a team spirit.

## CONNECTED WITH THE BUSINESS ENVIRONMENT

### Telekom Srbija

The leading position that we have on the Serbian market brings with it a greater responsibility for all the undertaken business moves and decisions, and the influence that they can have on the business and social environment. The ethical responsibility of our company is based on the operations that are in accordance with social morals and ethical norms, and the generally accepted standards that refer to the respect of human rights, of both our clients and employees, and our partners and suppliers and all those we come into business contact with.

In the same way, and in accordance with the Public Procurement Law, Telekom Srbija conducts the process of public procurements. What makes our company unique is fostering partner relations with small and medium-sized

companies in the country and abroad, and for this purpose, a special service has been formed within our company that deals with the development of services in cooperation with partners, where special attention is paid exactly to small and medium-sized enterprises.

Thanks to the business objectives that have been set in such a way, Telekom Srbija achieved positive financial results in 2011, and also found itself on the list of 500 most successful companies in Central and Eastern Europe, according to the evaluation of the audit and consulting company Deloitte. The quality of our approach to business was also confirmed by the Businessman of the Year award, which was granted to Telekom Srbija Director General Branko Radujko for exceptional business results. In this way, Telekom Srbija's contribution to the preservation of jobs and the Serbian economy was recognized and rewarded.

The year 2011 was also marked by another significant recognition, this time by the Association of Serbian Economic Propagandists (UEPS), who awarded the Telekom Srbija company in even three categories, among which we would like to single out the Golden Recognition for Continued and Appropriate Use of Market Communications for the Mts Brand (in cooperation with the McCann Erickson company).

### Aim for 2012

Strengthening the ties with our partners and service users

## First choice of our customers

The most significant confirmation of our business approach comes in the form of satisfied customers whose needs and requirements we take into account in creating and improving the services and adopting the strategic decisions. Our policy is to offer our customers highest quality services in the region, establish a fair and clear communication with them and build long-term relationships with an aim to keep as many of the customers as possible within our network. In 2011, according to the assessment of the Serbian customers, mt:s won the My Choice competition, in the category „telecommunications and the Internet“. This award, which is granted solely according to customer votes, was established in the organization of the Serbian Chamber of Commerce and the Association of Citizens “My Serbia”. The aim of the recognition is to identify the most popular domestic products and brands, among which Telekom Srbija stands out due to the quality of its services.

## CONNECTED WITH THE COMMUNITY

### Telekom Srbija

As a responsible company, Telekom Srbija is aware of the influence that its business activities may have on the natural and social environment in which it operates. Our goal is not only to reduce negative impacts, but also to achieve more than that - our socially responsible activities are directed to the development of the local communities and our society as a whole. In the previous year, Telekom

Srbija also actively supported a number of educational, cultural and social programs and initiatives in keeping with its strategic priorities, as far as the investment in the community is concerned. Besides, Telekom Srbija voluntarily contributed to the projects with a significant potential for the development of youth entrepreneurship and increase in the employment rate in Serbia.

### Business Incubator

A part of the corporate investment in the Telekom Srbija community includes improvement of the operation of the local self-government, where we allocated our technical capacities for the purpose of creating a better environment for an even development of all business entities, particularly small and medium-size enterprises.

By providing the telecommunications support, Telekom Srbija has become one of the friends of the Business Centre, which is designed to encourage development of micro, small and medium-size enterprises. The Business Centre which was officially put into operation in late June by the Savski Venac Municipality, has won its first customers – new companies in the field of telecommunications, high technologies, humanitarian work and film. Besides Telekom Srbija, the project's friend is also the USAID Serbia.

### Support to young entrepreneurs

Telekom Srbija was involved in the program “Serbian Youth Business”, which has been implemented through the partnership between the Smart Collectives, Erste Bank,

the National Employment Agency and Business Leader Forums, with the support by the USAID Sustainable Local Development Project, and the Ministry of Youth and Sports. The program was launched on 13 December and the chief officer of the Information Technology Division took part in speed mentoring, where he, along with the successful managers from other companies, through short, five-minute talks, advised your entrepreneurs who started their businesses, or were preparing to do so. In addition to the representatives of the institutions that supported this action, the event was also attended by the ambassador of the Great Britain, Mr Michael Davenport. A few managers from our company will become business mentors to the your entrepreneurs included in this program during 2012.

## YOUTH AND EDUCATION

### Practical application of knowledge

In this time of rapid changes, especially in the sphere of information-communications technologies where innovations happen almost every day, being aware of the fact that the educational institutions and systems are not able to keep abreast with the speedy development of technologies and that the up-and-coming young professionals represent a driving force of the society, we deem it our obligation and responsibility to open the doors of the company to the students and make it possible for them to adopt the practical knowledge and skills necessary for building up the competent and creative experts and potential managers.

Therefore, Telekom Srbija, as a socially responsible company, has been providing for a few years the students with a possibility of getting familiar with the practical method of application of the knowledge that they acquired at the university, and mastering the skills required for the performance of jobs, whereby they improved their employment opportunities i.e. chances for a finding a better job on the labour market. In the last three years, i.e. in the 2009 – 2011 period, a total of 190 students gained practical knowledge in Telekom Srbija.

In keeping with the company's core activity, the largest number of students coming to the company for practical work are studying telecommunications and information technologies, but some of them are economists, psychologists or lawyers.

Recognizing the need for and the importance of the practical application of academic knowledge and development of certain skills in students building their carriers to become competent young professionals, Telekom Srbija is preparing a new strategy for 2012 for organizing (planning and implementing) professional practice in the company with the aim of establishing a long-term planned cooperation with all the relevant educational institutions that train personnel with the professional profiles relevant for the company's activity. This strategy should contribute to the formation of competent young experts, having all practical knowledge and skills that they need in order that they could adequately respond to the requirements related to the development of markets and new technologies.

## High-school pupils as entrepreneurs

A record number of participants marked the 2011 regional competition of the high school pupils of the South East Europe in entrepreneurship – “Business Challenge” at Niš. A total of 134 pupils from 23 high schools from 12 municipalities in this country had the chance to compete and demonstrate their knowledge in the field of entrepreneurship and business skills. The pupils had a task to design a lucrative company the operation of which is oriented to solving a certain social problem. The teams consisting of 6 members from different schools, with the assistance of business volunteers, had 5 hours to create a business plan in response to the “challenge” posed.

The concept of a company whose employees would be the young, homeless persons taking care of the old won the first place in the competition. The winning team was composed of the pupils from the Trade and Catering School in Leskovac, Bora Stanković High School in Niš, the High School of Knjaževac, Agricultural School in Leskovac, High School in Prokuplje and Art School in Niš, while the jury consisted of Mr Dagfinn Moe (Director of the Danish Program for the support to the production of fruits and berries in South Serbia), Robert Osborne (Osborne Group Vice-President), Vladimir Mladenović (Coordinator of the Regional Youth Office in Niš), Bratislav Stamenković (USAID Agro-Business Project Manager in Niš) and Nikola Pejović (Director of Erste Bank Commercial Centre in Niš).

The Business Challenge Project was initiated by the Serbia Junior Achievement organization with the aim of

encouraging the high-school pupils to use their skills in an innovative way in order to increase their opportunities for employment and improve their entrepreneurship spirit. The competition was funded by the Serbian Ministry of Youth and Sports, Telekom Srbija a.d, the Secretariat for Education of the City of Belgrade and the American International Development Agency (USAID).

The same competition was organized in Belgrade evolving around 90 high school pupils from 25 schools in 11 municipalities of Belgrade and the winning team designed a taxi terminal for providing information to citizens on the position and movement of the nearest vehicle and possible traffic jams on the relevant route.

## Cooperation with the High School of Mathematics

Since the investment in the youth and education represents one of the most important segments of the company's activities in the field of social responsibility. In 2011, we continued the successful cooperation with the High School of Mathematics in Belgrade. This cooperation was officially confirmed by signing a protocol in 2010 and was continued in 2011 by organizing educational workshops for pupils and later on, by announcing a competition for designing the Android application for mobile handsets.

The Android competition was announced with the aim of enabling the pupils to learn more about mobile communications and possibilities offered by the Android Platform, and to acquire practical knowledge in the field of IT technologies and telecommunications. The pupils had

the opportunity to prepare and present their projects in the period from September till the end of December 2011, the quality of which was assessed by the jury consisted of the professors of the High School of Mathematics and Telekom Srbija's experts. The first mt:s Android competition resulted in declaring the winning team which was rewarded by a visit to the Mobile World Congress in Barcelona.

### **Strawberry Energy team**

Recognizing a large potential in the project for the installation of solar mobile phone charger, Telekom Srbija established cooperation with the Strawberry Energy Team, just because this project integrates the contribution to environmental protection, development of mt:s services and mt:s brand and, at the same time, represents support to the youth entrepreneurship.

The first solar mobile charger was installed in front of the Zvezdara Municipality Building in Belgrade in October 2011 as a gift for the citizens of Belgrade.

The 2012 plan envisages installation of solar mobile chargers in other four cities in Serbia and application of the portable charger in the sales outlets.

### **Cooperation with student organizations**

Within the company's cooperation with student organizations and associations, the support to AIESEC (Association Internationale des Étudiants en Sciences Économiques et Commerciales) continued also in this year.

At the Open IT Seminar held from 24 through 28 October 2011, the representatives of our company gave a lecture on the first day of the seminar concerning the basics of Cloud Computing, data security and privacy protection, partner cooperation and Cloud Computing in practice. After the lecture, the attendees had the opportunity to see a demonstration illustrating the access to the Cloud Environment and hear the experiences of other companies that use the Cloud Computing Service.

Beside the participation in this seminar, Telekom Srbija gave a lecture in late October 2011 related to project management for the students, members of ESTIEM (Organisation for European Students of Industrial Engineering and Management), within the Academy of Modern Management. The members of ESTIEM are mostly the students of the Faculty of Organizational Sciences who attended the lectures on project management during their studies, and who are well acquainted with the methodology of project management.

The cooperation with the EESTEC students, (Electrical Engineering Students' European Association) was implemented in 2011 through providing support to the events such as Soft Skills Academy and Brand New Engineers. At the Brand New Engineers Seminar, the colleagues from the Technical Affairs Division shared their professional knowledge in the field of mobile core network, the MPLS network and base station power supply systems with the students, the importance of which was confirmed by the statement given by Miloš Savićević from EESTEC: „Students of the Faculty of Electrical Engineering do not

lack theoretical knowledge. They are thought to learn, to reason in a logical manner and to solve problems. When it comes to the application of such knowledge in practice, a slight problem arises. I think that by way of the lectures of its engineers, Telekom has just pointed to practical implementation of that knowledge. The students have thus gained an insight into state-of-the-art technologies and their further development”.

Likewise, within the cooperation with EESTEC, the students of electrical engineering from the University of Belgrade and abroad, paid a visit to our company during the last week of the year. Students, members of EESTEC from Greece, Slovenia, Switzerland, Turkey, Bosnia and Herzegovina, Cyprus, and the students of the Faculty of Electrical Engineering in Belgrade, were introduced to the operation of NOC (Network Operation Centre), and they had a chance to learn more about our company.

Another example of successful cooperation of the company with students was recorded at the Forum of Students and Businessmen of Serbia, organized by the Student Conference of Serbian Universities – SKONUS, held in Belgrade in early December 2011. Taking part in a panel discussion, the director general Branko Radujko, on behalf of Telekom Srbija, expressed the need for an ongoing and interactive dialogue among the industry, educational system and the state, in order to improve the position of students in the labour market. The company's representatives took part in roundtable discussions, sharing the in-house experience regarding practical training and employment.

As regards all the lectures organized in cooperation with student organizations, a common conclusion was reached that they represented the best way to promote knowledge and achievements among the young population, since the students, members of these organizations, were very interested in adopting new knowledge and its respective application in professional environment.

With regard to organization of these lectures and participation of the company representatives at the seminars held by student organizations, a productive cooperation with colleagues from other organizational units should be emphasised, as well as their willingness to share their professional knowledge with students.

### **2012 goals**

Continuous investment in community development, raising public awareness of the importance of investing and encouraging civil activism in resolving the problems in the surroundings

Enhancing relations with the community with a special focus on the cooperation with the youth in the field of education and encouraging entrepreneurial spirit

### **Continued cooperation with student organizations**

#### **m:tel BiH**

The company m:tel BiH traditionally takes part in the promotion of knowledge and education, as well as the values of importance for the overall development



and progress of society. In the past year, we were friends of many projects promoting such ennobling and constant values – knowledge, talent and competence.

By virtue of the project "Android League" we rewarded the talents in the field of computer science, and the competition was aimed at inviting those young people to share with us their ideas, to discover the power of new technologies, and to take part in the creation of the first Android phone applications, customized for the users on the local market.

In the past year we supplied the second generation of m:scholarships – 25 students of electrical engineering faculties in BiH, the best students with high average grades, but also with recognized results in extracurricular activities. A friendship with these young people resulted in m:tel's satisfaction for being able to promote knowledge and to provide them with better conditions for achieving even better results.

In the past year, m:tel supported a number of projects related to education in BiH, as well as the activities promoting knowledge. Such examples are entrepreneurial contest for high school students organized by the British Council throughout BiH, and participation in the implementation of the first educational reality show program "My Business" for encouraging entrepreneurial potentials of citizens. We were partners to the "Debian Conference" – support to young IT experts, as well as "ComTrade Summer School of Programming", related to the education in the field of Android application development. Likewise, the last year

within the project "Volontiraj kreditiraj", young volunteers spent a day in our company, and the best students of the Faculty of Electrical Engineering in Banjaluka received from m:tel valuable gifts on the occasion of a jubilee – 49th anniversary of the faculty.

Within "Mediafesta", m:tel decided to reward students who produce the best paper elaborating the topic "The Internet on the Move", under the umbrella of the project called "m:tel talent colony".

### **m:tel Montenegro**

We constantly try to encourage young people in the educational process, and with that goal we rewarded the recipients of recognition awards "Lučal" and Lučaz" in 2011 – graduates of "Stojan Cerović" High School from Nikšić.

## **SUPPORT TO MARGINALIZED SOCIAL GROUPS**

### **Telekom Srbija**

Several actions were carried out in 2011 for the purpose of de-marginalization and inclusion of children with disabilities or some other social or health disability in social activities and facilitating their autonomy in future work.

At the year's end, by distributing New Year gifts in the Foster Care Centre "Rada Mladenović Đulić - Crna" in Miloševac, Telekom Srbija delighted more than 150 children, with the intention to make them merrier in the ensuing

season's holidays.

Besides, over the past period, the company has donated funds to the Centre in Miloševac for the construction of a day-care house for children with special needs, which will facilitate better conditions for children's daily activities.

For several years now, our company has been supporting the work of the Centre for Integration of Youth, through participation in a few different projects. Among the supported projects of the Centre for Youth Integration is the "Drop-in Centre for Street Involved Children" whose beneficiaries welcomed the new 2012 with the presents provided by our company.

In 2011, Telekom Srbija carried on supporting the issuance of magazine "Face of the Street", which, by featuring the topics from the perspective of marginalized groups, contributes to raising general public awareness of the existence of these groups and their problems.

In cooperation with the Ozon gallery, in late May 2011, sales exhibition of works was organized for the trainees in the art workshop "Tribute to the Hand", which involves persons with the Down syndrome. The sales exhibition was organized in order to support the work of this art workshop where persons with the Down syndrome have a chance to express, through various painting techniques, their emotional world and to develop motor skills, which improves the quality of their lives.

As a UNICEF partner in a number of projects, in 2011 Telekom Srbija supported the program "School without

violence" – the purpose of which is eradication of peer violence and reducing aggressive behaviour in schools, and it supplied presents for children in foster families in the area of Belgrade.

Support to certain number of medical institutions in Serbia when it comes to procurement of modern equipment for medical treatment, as well as the support to individuals undergoing medical treatment, which is the tradition of Telekom Srbija since its foundation, was continued in 2011. In cooperation with the National Association of Parents of Cancer-Stricken Children, Telekom Srbija provided new medical equipment for haemato-oncology ward of the Clinical Centre in Nis and thus enhanced conditions for the treatment of children in this institution.

### 2012 goal

Enhancing cooperation with the civil society organizations dealing with marginalized social groups

### m:tel BiH

Numerous humanitarian actions throughout BiH have been carried out with our support, either when it comes to supplying infrastructure for allocation of short humanitarian numbers or monetary donations. For the past 12 months last year, we have accommodated 89 applications for the allocation of short humanitarian numbers, via which we have reconnected our philanthropic users and the institutions to whom pecuniary aid was

necessary.

Each cured child, purchased medical device, built-up hospital or institution, represent a step towards a better future to us.

Blood donors from the company m:tel, gathered in an activist group, have been donating, for several years now, something which is priceless – precious liquid saving lives. During 2011, the The activist group of m:tel blood donors organized three blood donation actions, where more than 200 units were collected. A large number of employees of m:tel took part in these actions. Active blood donors from the company, currently 220 of them, regularly give their blood every third month.

For years now, m:tel has been providing unselfish support to children and their needs. An ongoing partnership with Unicef BiH is the best example of our desire to make the youngsters' childhood prettier, and to alleviate the fight with illness and poverty to the ones who need it. In 2011, owing to the cooperation of m:tel and Unicef BiH, projects of opening another integrated centre for early childhood development were implemented, this time in Kiseljak, and the book "Our Child's Diary" was promoted.

Likewise, in the spirit of years-long cooperation with Unicef and the US Chamber of Commerce, which was the organizer of this humanitarian event this year as well, m:tel was the golden donor for the action "A thousand Small Smiles". A PR campaign "From the wall of desires to actions" was implemented where our users took part as

well, but also the company's media partners. As a result of this action, a part of children's desires will become reality by means of the construction of indoor play centres, kindergartens, playgrounds...

In addition to cooperation with Unicef, m:tel opened its door during 2011 to many humanitarian organisations and projects. The donation to the Organization SOS Children's Villages of BiH, we provided support to children without parental care, as well as to the children facing the risk of losing parental care in BiH. We were involved in the action of building a playroom for children, within the Children's Ward of the Institute for Physical Medicine and Rehabilitation "Dr Miroslav Zotović" in Banja Luka, with the aim of creating a more natural and beautiful environment for work with children than the hospital offices offered, this making the children's hospital days easier.

By having an Open Door Day, the m:tel company also gave its contribution to the first celebration of the International Day of Girls in Information and Communication Technologies, at the initiative of the Gender Centre of the RS Government and the RS Agency for Information Society. The project for children's safety on the Internet is implemented by the Ombudsman for Children and the RS Agency for Information Society, and m:tel company joined the action by supporting the project in the segment related to organizing workshops for education of children, parents and teachers about the dangers of the Internet. An educational internet portal, djecanainternetu.org, was launched during the action.

Last year as well, m:tel delighted the youngest in the Institute for Physical Medicine and Rehabilitation "Dr Miroslav Zotović", the wards of the Children's Home "Rada Vranješević," as well as the children in the day care under the Diocese of Zahumlje-Herzegovina and the Littoral, with gifts for St. Nicholas Day.

Within the Francophonie Days, the National and University Library of RS in Banja Luka opened a humanitarian exhibition entitled "Paris&Paris," the earnings from which were intended for "Marija Mažar" Centre that works with special needs children. The m:tel company participated in this action, by purchasing a part of photos.

### **m:tel Crna Gora**

When it comes to supporting projects of social inclusion, m:tel continued the practice started by donating school supplies to PI Centre for Education and Training "1. jun", as well as donating 10,000 euros to the same Centre on the anniversary of the m:tel company. Likewise, late last year it was agreed to equip the playroom of the Resource Centre for Children and Youth "Podgorica", and the project was implemented in early 2012.

We also participated in the SMS donation actions, by repeatedly opening 14683 line for donors - along with citizens of good will, we enabled aid to arrive where it is needed most. We helped the population of Japan threatened by consequences of the catastrophic earthquake, and in the action "Gift from the Heart"

the funds raised through a donor line helped three women from Cetinje to continue the necessary medical treatment in Russia.

Since its foundation m:tel Montenegro has contributed to the affirmation of voluntary blood donation, so in 2011 we supported the campaign "Our 5 minutes – somebody's whole life". In addition, we provided support to the first Congress of Dermatologists of Montenegro.

## **ART AND CULTURE**

### **Telekom Srbija**

In times of crisis, when both the state and business are in a sensitive position, culture is an area where the negative effects and consequences of reduced spending are first noticed. Since the support from economy represents an important element in stimulating the development of culture and art, we are of the opinion that it is essential for companies to recognize the importance of promoting true values by supporting projects in these areas, as Telekom Srbija does, cultivating a strategic approach and long-term cooperation with all its partners.

For Telekom Srbija, corporate philanthropy is a long-term investment and, in accordance with one of the corporate philanthropy principles of our company, socially responsible projects are chosen, with large numbers of users, so the effects of our donations are available to many people. As a leading national company,

Telekom Srbija is investing in projects that are of particular national importance. For years, we have supported a large number of theatres and local projects that nourish cultural values of a given region. These events are also of a broader significance, such as "Zmajevе dečje igre" (The Zmaj Children Games), "Mokranjčevi dani" (The Days of Mokranjac), "Dani Zorana Radmilovića" (The Days of Zoran Radmilovic), "Vukov sabor" (Vuk Karadzic Festival).

Recognizing the importance of supporting literary work in Serbia and culture in general, in 2011 Telekom Srbija for the second time sponsored the NIN award, first established 56 years ago. A total of 124 novels published in Serbia in 2010 entered the contest. For the best novel in 2010, this most prestigious literary award in Serbia was presented in the City Hall to Gordana Ćirjanić for the novel "What You Have Always Wanted", and a check for one million dinars was presented to this year's laureate on behalf of Telekom Srbija as the award donor by Milica Marković, manager of the PR Department.

High quality and dedicated work of Telekom was awarded in early 2011 with the second prize of the Serbian Chamber of Commerce for socially responsible operating in the category of large business entities for the project "Digitalization of Chilandari Monastery". This project not only provided the most advanced telecommunications infrastructure for Mount Athos, but also enabled the professional community to have a more systematic inspection of documents, charters and other art objects that are kept in the monastery's treasury. What granted a special importance to the project were the efforts invested by our employees who volunteered to perform all tasks

related to digitalization and restoration of infrastructure.

## m:tel BiH

We are proud when we may enter in the calendar of events a cultural event which we had the opportunity to support and which we have been a part of. The previous year we were not just friends of theatre and film arts, and other cultural events in BiH, we have designed and implemented ourselves a project with which we wanted to show commitment in our efforts to connect and promote art, talent and knowledge.

"The Art of connectivity" is a project that we created, and the competition we announced included students from all departments of the Academy of Fine Arts in BiH, as well as other young artists with the academic degree, up to 35 years of age. Almost 300 works of art arrived at m:tel's address, among which the expert committee chose top 46 to be shown at the exhibition that took place at the Banski dvor in Banja Luka, 12 of which were awarded cash prizes and got a space in the corporate company calendar for 2012. Our goal was to symbolically link cities, people and ideas. Last year, the Museum of Contemporary Art in RS celebrated its 40th birthday in an appropriate manner, with an open exhibition on the streets of Banja Luka. Billboards with 40 different reproductions of paintings from the museum collection found their place on the city streets. The m:tel company enjoyed participating in such an unusual spectacle.

We are traditionally included in the Theatre Festival

“Petar Kočić”, which brings the best plays from the surrounding countries to Banja Luka. The festival was held for the fourteenth time the previous year, this time under the motto “New Drama - Post-Dramatic Theatre”.

The international film festival “Kratkofil Plus 2011”, fifth in a row, brought 42 films from 25 countries worldwide, and last year m:tel company also supported the festival, which represents a kind of Republika Srpska’s cultural link with Europe and the world.

In the previous year, m:tel aided as well the shooting of a local film “Zduhač Means Adventure”.

We celebrated the World Music Day for the second year in a row, by giving our users in the branch offices a free one-hour concert of our friends from the Academy of Arts in Banja Luka. Among other events, m:tel supported Rade Šerbedžija’s concert in Sarajevo. We were the main sponsors of Đorđe Balašević’s concert in Sarajevo, and the premiere screening of his film “Like the Early Frost”. Last summer as well, m:tel continued its friendship and support to both young unknown bands and the famous names of the music world at the biggest regional demo festival - “Demofest” in Banja Luka.

### **m:tel Montenegro**

During 2011, the m:tel Montenegro company sponsored literary events of the eminent artists from Serbia, organized by the Embassy of Serbia and the “Nove knjige”.

## **CONNECTED TO NATURE**

### **Telekom Srbija**

In making all strategic decisions, Telekom Srbija takes into account the provisions of the applicable law regulating environmental protection, as well as any potential risks of its operations and impacts that may reflect on the natural environment, particularly given the specific characteristics of the telecommunications sector operations. In this sense, the environmental protection category is a big challenge for us and an area of continuous improvement. In 2011, programs in the field of energy efficiency and management of electronic waste were continued, and activities on recycling and disposal of waste materials in Telekom Srbija yielded positive results.

The internal initiative of more cost-effective spending of resources, launched within the company in 2010, continued in 2011 as well. During the action “Let’s Clean Up Serbia”, about 10,000 kg of paper was collected and handed over free of charge at the facility in Takovska and branch offices in Belgrade. In 2011, the company handed over or sold the following types of waste:

In accordance with the obligations laid down by the law, the company has submitted electronic waste in the amount of 70,380.00 kg free of charge

In accordance with the contract 3,000 toner cartridges were collected and submitted for recycling and loading. With a fee, 400 kg of used transformer batteries containing pyralene were handed over, followed by liquidation and sale of written off fixed assets consisting of waste materials

of different configuration (about 25 types) in the amount of 112,500,000.00 dinars or about 1,110,000.00 EUR.

Clearance of waste materials, occurring in the process of dismantling and removal of the written off company assets, is carried out by the companies that obtained Decisions issued by the competent ministry.

In 2011, more than 1,000 employees of Telekom Srbija participated in the clean-up of over 50 sites within the campaign "Let's Clean Up Serbia", of the Ministry of Environment, Mining and Spatial Planning.

Besides Belgrade, the employees of our company have contributed to "cleaning" of Zavojsko Lake, National Park Golija, coast of the Veternica river, Radljevo lake in the municipality of Ub, coast of the Western Morava, coast of the Danube near the university campus in Novi Sad, Sjenica memorial fountain, parks in Kikinda and Negotin, a large terrace in Palic, Park kralja Petra in Leskovac, regional road Leskovac-Tutin, Smederevo Fortress, Bačka channel, Kočin channel, as well as many yards of elementary and secondary schools and landfills.

The aim of the campaign "Let's Clean Up Serbia" is to reduce pollution, increase the capacity of "green industries" and raise citizens' awareness of the importance of environmental protection. By supporting the actions of national importance, as one of the leading companies in our country Telekom Srbija wants to be an example of responsible behavior, contributing to the development of society as a whole.

## The goal for 2012

Improvement of activities in the field of environmental protection through specific actions at the corporate level and with a more active involvement of employees

### m:tel BiH

Another in a series of actions demonstrating a willingness to operate in an environmentally conscientious manner is the last year's action "Recycle and Profit", which replaced old phones for cash bonus equivalent to call minutes, SMS or mobile internet. Old phones were forwarded to the authorized companies which, in line with world practices, then recycled or properly discarded electronic waste.

In accordance with local regulations and environmental standards, during June 2011, 71 assessments of the impact of base stations on the environment and 542 measurements of electromagnetic radiation on the locations of base stations were conducted throughout BiH.

Constant cooperation with the Ministry of Health and Social Welfare of RS, Ministry of Spatial Planning, Civil Engineering and Ecology of RS, Communications Regulatory Agency - CRA, Republic health and sanitary inspection, and municipal communal police, enabled in 2011 consistent performance of the obligations related to protection of the environment and people.

